



**Review Paper**

# Review of U.S. GAAP and IFRS Convergence: Revenue Recognition Aspects

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## Abstract

*Revenue recognition has always been a cardinal convergence topic. Many scholars have been discussing about it for decades. This paper draws upon various accounting theories, published papers, comment letters, precedent IFRS, U.S. GAAP standards on revenue recognition, and CPA firm releases. Past researches mainly focused on differences between IFRS and U.S. GAAP and called for convergence. The paper not only discusses the history, necessity of convergence, principles applied for the new revenue recognition standard, but also cast light on the efforts and achievements formulated on the new revenue recognition standard - IFRS 15(ASU)2014-09(Topic 606) by the two Boards. Evaluations on the Boards' success are presented and suggestions to entities in transition are also illuminated in the paper.*

**Keywords:** revenue recognition, IFRS 15, ASC 606, IASB, FASB, convergence, asset and liability approach, SFAC 5, IAS 11, revenue recognition model, transaction price, performance obligation, construction contracts, early adoption, variable considerations, comment letters, compliance.

## Introduction

Revenue is a crucial financial statement element which shows company's performance index for stakeholders to make investment evaluations and judgments. It is the core factor that managers consider the most and outsiders ponder the most. Although they are always the most notable numbers on financial statements, they are often the least well explained<sup>1</sup>. Both International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (U.S. GAAP) have their pros and cons in instructing and requiring revenues reporting.

However, none of them formed a single complete set of scientific revenue recognition treatments for preparers. Since 2002, the two Boards, Financial Accounting Standard Board (FASB) and International Accounting Standard Board (IASB), have formally been working collaboratively towards the ultimate goal of convergence: the development of a unified set of high-quality international accounting standards that companies worldwide would use for both domestic and cross-border financial reporting.

The reason is simple. The globalization of economy boosts the cross-border flow of capital investing. Different national accounting systems make it difficult and costly to make financial decisions. The U.S. or EU cannot go alone in development of accounting standards while the world's major capital markets require both EU and the U.S. to be active participants in the process<sup>2</sup>. After Norwalk Agreement was reached and the Memorandum of Understanding (MoU) was published, IASB and

FASB made superb work in creating the new revenue recognition standard<sup>3</sup>. The project which seeks to improve financial reporting by developing a single, principle-based revenue standard for global financial information users, issued a final standard in May 2014.

**Statement of the Problems and Objectives:** Primarily, this paper will concentrate on the comparisons of revenue recognition standards under U.S. GAAP and IFRS in theory and in applications, and bring about the necessity for the convergence project. Secondly, the study summarizes the achievements made in convergence for revenue recognition. Lastly, current study will also highlight the possible influences of the brand new revenue recognition standard on U.S. enterprises.

This paper will shed light on the following concerns: Why is the revenue recognition project of paramount importance?, How long it took the two accounting standard setting Boards to fulfill the project?, What methodology did the Boards execute? The asset-liability approach or earnings approach?, What are the achievements of the two setting bodies made on the project?, What were the most controversial topics that the Boards went through?, What are the implications for U.S. enterprises – that is, the notable changes that companies need to be aware to embrace the new standard?

## Definition of Revenue

Revenue is defined as inflows or other enhancement of assets of an entity or settlements of its liabilities from delivering or

producing goods, rendering services, or other activities that constitutes the entity's ongoing major or central operations by SFAS No.6<sup>2</sup>. According to SFAC 5, the specific guidance as to recognition of revenues and gains, revenues are recognized when realized or are realizable (When related assets received or held are readily convertible to known amounts of cash or claims to cash) and earned<sup>3</sup>. Revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues<sup>4</sup>. "Revenue is realized or realizable and earned when all of the following criteria are met:

Persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered. The seller's price to the buyer is fixed or determinable; and collectability is reasonably assured<sup>3</sup>."

### **Why Revenue Recognition Convergence Was Indispensable? Comparisons between Revenue Recognition Rules before Convergence**

**When revenue is recognized: accrual basis-point of sale or service is performed:** Under the accrual basis of accounting, revenue is generally recognized at the point of sale or as the service is performed. The point of sale occurs when a title passes, generally when a seller ships (FOB shipping point) or when a buyer receives (FOB destination). Three exceptions exist to the general revenue recognition rule: during production, at the point where production is complete, and at the point of cash collection<sup>5</sup>.

**Recognize during production Exception 1:** One example for revenue recognized during production includes the percentage-of-completion method. The criterion to utilize this approach is the dependable estimates of extent of progress cost to complete and reasonable assurance of collectability of contract price. It departs from the general sales basis because it can better measure periodic income, and better avoid fluctuations in revenues, expenses and income, and availability of evidence of ultimate proceeds<sup>5</sup>.

**Recognize when production is complete Exception 2:** When revenue is recognized at the basis of completion, as an example the net realizable value can be used. A reason for departure from the general sales basis is that known or determinable revenues and inability to determine costs defer expense recognition until sale<sup>5</sup>.

**Recognize at the point of cash collection Exception 3:** An example of a method used for revenue recognized at cash collection basis is the installment and recovery method. This basis departs from the general sales basis because of the level of uncertainty with respect to collection of the receivables precludes recognition of gross profit before cash is received<sup>5</sup>.

As we can see from different accounting methods for revenue recognition under different circumstances, it is difficult to shape all transactions with a single rule or principle. Furthermore, both U.S. GAAP and IFRS had its own pros and cons<sup>6</sup> (refer to table 1 in appendices). Henceforth when making accounting principles, both FASB and ISAB found it difficult to decide where to draw the line; where to set clear but also not too detailed accounting standards.

**What Differences the Revenue Recognition Rules Brought to A Company's Financial Statement? - Exemplified with Thyssen Krupp AG Case:** Before any convergence work was done by FASB and IASB, the differences in the accounting methods under different systems lead to diversified outcomes for financial statements' preparers. Especially for those companies which adopted IFRS for the first time, extensive reconciliation work had to be done to reconcile the differences caused by different accounting methods. We can see the differences through the following IFRS reconciliations and interim financial statements by ThyssenKrupp in the 3rd quarter of fiscal year 2005 (refer to table 2 in appendices).

**History and introduction of Thyssen Krupp AG:** ThyssenKrupp AG is a German multinational conglomerate corporation based in Duisburg and Essen, Germany. 670 companies constitute the group worldwide. Whilst ThyssenKrupp is a global giant steel producer, the company also provides components and systems for the automotive industry, elevators, escalators, material trading and industrial services. Current ThyssenKrupp come into being after the merger of two German steel companies - Thyssen AG founded in 1891 and Krupp founded in 1811. As early as the 1980s, the companies initiated negotiations on a merger and inaugurated cooperation. Two companies blended flat steel operations in 1997, and finally merged in full-fledge in March 1999. For the fiscal year of 2014, ThyssenKrupp had total sales of €41,304 million, total income of €242 million, and 160,745 employees till September 30, 2014<sup>7</sup>.

**First Time Adoption of IFRS-Thyssen Krupp AG:** The European Parliament and the Council legalized the application of International Accounting Standards (IAS) on July 19, 2002. The regulation demands that companies that publicly traded and domiciled in the European Union (EU), be prepare their consolidated financial statements to comply with International Financial Reporting Standards (IFRS) starting on or after January 01, 2005. Correspondingly, ThyssenKrupp AG, a publicly corporation domiciled in Germany, was mandated to prepare its consolidated financial statements for the fiscal year 2005-2006 under IFRS.

ThyssenKrupp AG hence decided to harness the recommendation of the Committee of European Securities Regulators (CESR) in preparing its interim reports within the 2005-2006 fiscal year to abide by IFRS. The company applied IFRS 1 "First time adoption of International Financial Reporting

Standards". The date of transition to International Financial Reporting and Accounting Standards was since October 01, 2004. An interpretation on the transition impacts on forthcoming reported financial position, financial performance, and cash flows of the Group was provided thereafter, encompassing reconciliations of equity and profit or loss for comparative periods reported under U.S. GAAP (precedent GAAP) to those reported under IFRS<sup>8</sup>.

**Conclusion drawn from the ThyssenKrupp AG example:** After the initial adoption of IFRS, ThyssenKrupp AG went through the painstaking procedure to reconcile its net income in the 3<sup>rd</sup> quarter of 2005. As a result, the number changed from €154 million under U.S. GAAP to the €258 million (underlined) with IFRS. In addition, huge difference occurred regarding to earnings analysis (see appendices for table 2 for IFRS adjustment and table 3 for elucidation of financial line items involved).

For instance, the net income attributable to stockholders expanded from €0.31 million to €0.48 million. What a substantial amount of adjustment that is! Without reconciliation, it is extremely difficult for financial information users to compare one with another. Therefore we could view the importance of reducing deviations and variances between U.S. GAAP and IFRS revenue recognition methods. The commencement of the project surely benefits investors with its ease of comparability.

**Goal of the New Standard:** A new standard which includes the fivefold objectives was anticipated to be established: firstly, remove many inconsistencies and weaknesses in existing standards; secondly, provide a more robust framework for addressing revenue recognition issues; thirdly, improve comparability of practices across entities, industries and capital markets; fourthly, provide more useful information to users of financial statements through improved disclosure requirements; lastly but also importantly, simplify the preparation of financial statements<sup>9</sup>.

**Historical Timeline of the Convergence Process:** FASB and IASB made significant strides in developing a single revenue standard for financial reporting. Dated back to 1999, FASB already outlined its support for the dual goals of converging global accounting standards while continuing to improve U.S. GAAP. The two Boards defined convergence and tactics in two different documents-the Norwalk Agreement issued in 2002 and the Memorandum of Understanding (MoU), originally issued in 2006 and updated in 2008 and 2010. The timeline of the convergence that the two Boards accomplished is listed in the table 4..

**Revenue recognition model:** New revenue recognition standard applies to all contracts with customers, except for special topic contracts, such as lease, insurance and financial instruments<sup>10</sup>. A brief five-step revenue recognition model is summarized, as shown with the framework picture in figure 1 and the detailed steps from identifying contract to recognize revenue<sup>11-13</sup>..

**Comparison of the Revenue Recognition Standard Setting Principles: Assets and Liability Approach and Earnings Approach:** Generally, there are two possible ways of revenue recognition: the earnings process model and the assets and liability approach model. The earning process is used in the Statement of Financial Accounting Concepts No.5 (CON5). Guidance for recognizing revenues and gains is based on their being:

**Realized or realizable:** Revenues and gains are generally not recognized as components of earnings until realized or realizable.

**Earned:** Revenues are not recognized until earned. Revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. This led to over 140 pieces of guidance on revenue recognition in the US GAAP before the codification. However, these concepts were neither defined, concise, or applied consistently across all the revenue recognition principles, thus their applicability were in doubt.

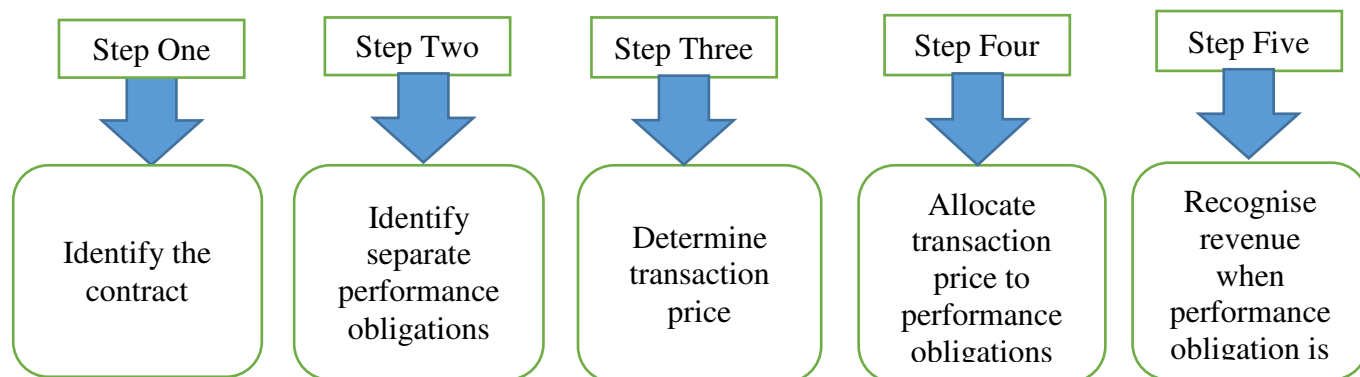


Figure-1  
 Revenue Recognition Model<sup>11</sup>

**Asset liability approach definition:** In Hepp and Brady's opinion, the asset and liability approach is a two-step process<sup>14</sup>. It starts with effective recognition of the contract assets and performance obligations arising from a contract and ends with de-recognition of the performance obligation. A contract with a customer conveys rights to an entity to receive consideration from the customer and imposes obligations on the entity to transfer assets (in the form of goods and services) to the customer. The combination of the rights and obligation in the contract gives rise to a net contract position. In this approach, revenue is recognized when the contract asset increases and contract liability decreases. There are two changes in a contract position that could lead to revenue recognition:

When an entity enters into a contract with customer and the contractual rights exceed the contractual obligation.

When an entity satisfies an obligation in the contract – thus the net contract position changes by entity's performance.

**Two approaches of performance obligation measurement:** There are two approaches of performance obligation measurement: current exit price and original transaction price. Current exit price is the price that the entity would be required to pay for its obligations to an independent third party. The original transaction price is the amount of economic substance that a buyer gives up for an asset or the price that a seller offers in exchange for goods or services to the customer.

**Concepts defined with asset and liability approach:** The concepts defined with asset and liability approach is Statement of Financial Accounting Concepts No.6 which states "Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities from delivering or producing goods, rendering services, or other activities that constitutes the entity's ongoing major or central operations<sup>15</sup>." According to IAS 18, revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants. The above standards were all based on the asset and liability approach<sup>16</sup>.

Reasons why asset-liability approach is better than earnings approach: As per CON5, revenue is not recognized until earned, and revenue is recognized with the earnings approach<sup>5</sup>. The characteristics of asset-liability approach include: revenue is recognized based on assets and liabilities, and it does not recognize deferred debits and deferred credits. This approach leads to a more faithful and consistent depiction of transactions. Asset-liability approach is based on original transaction price while the earning approach is based on fair value. The asset-liability approach implements no special measurement method for construction contract recognition, whereas the earnings approach does. Whether it is FASB and IASB's opinion, or from the point of view of how to better depict a contract

performance of an entity, it is always a more preferable choice to set the standard using the asset-liability approach for revenue recognition. Within the asset and liability model, revenue is defined in terms of changes in assets and in liabilities. As reported by asset-liability approach, in agriculture industry, biological assets such as timber could already report revenue recognition as they grow.

Conforming to the methodology, users of the financial statements are more interested in the growth and changing value of assets, so that they can predict the value of the assets and make investing decisions. Consequently, for FASB and IASB, it is safe to form an opinion that this model is a more suitable, faithful, and consistent depiction of the underlying economics of transactions than the earnings model. It is also consistent with the existing definition of revenue under the IFRS and U.S. GAAP.

**Vibrant Discussion Arose from Heterogeneous Industries Comment letters regarding the last version of revenue exposure draft:** It took more than a decade for FASB and IASB to put efforts towards the revenue recognition project. Fierce debates and arguments played essential role in the standard setting process. A summary of the major comments with regard to the updated version of 2011 exposure draft are listed in table 6 (refer to appendices) to shed light on the hottest controversies that triggered current revenue standard<sup>17</sup>:

**Respondents of the exposure draft:** For the last version of Exposure Draft of the Proposed Accounting Standards Update issued in June 2011, "Revenue from Contracts with Customers", there were more than 300 comment letters from all over the world and most of the industries. The majority of them were standard setting organizations, such as Accounting Standard Board of Japan, AICPA/FINREC, AICPA/TIC/PCPS, Canadian Accounting Standards Board, CAS International/IFRS working group, IAASB, Australian Accounting Standards Board, Singapore Accounting Standards Council, Ministry of Finance/China Accounting Standards Committee, Indonesian Accounting Standards Board and so on. CPA firms were also the most zealous respondents among all of the organizations. CPA firms such as Deloitte Touche Tohmatsu Limited, Weisermazars LLP, Ernst and Young, and Grant Thornton International Ltd. also issued their opinions for the revised exposure draft<sup>17</sup>.

**Issues Resolved by the Boards Successfully:** In the convergence process, the Boards appropriately resolved several issues that raised the most concern, which can be seen from the following:

**Elucidated the applicability of onerous performance obligations:** A critical concern that most organizations listed out is the onerous performance obligations. The onerous performance test was raised in the exposure draft "Revenue from Contracts with Customers". The Boards proposed that an

onerous test should be included in the revenue recognition model because the test “is a necessary component of a revenue recognition model in which the initial measurements of performance obligations are not routinely updated” to ensure that those performance obligations are not understated. The exposure draft proposed that “a performance obligation is onerous if the present value of the probability weighted costs that relate directly to satisfying that performance obligation exceeds the amount of the transaction price allocated to that performance obligation<sup>3</sup>”.

**Board's reasoning for the onerous test:** The Board's rationale for requiring entities to conduct the onerous test using performance obligations as the unit of account is that it would provide transparency for margins on each performance obligation. Transparency is achieved because margins on loss-making performance obligations will not be offset against margins on other profitable performance obligations. This is consistent with the objective of identifying separate performance obligations. Timely information by recognizing “adverse changes in circumstances affecting a separate performance obligation as soon as they result in that separate performance obligations being loss-making<sup>18</sup>.”

**Opponents' argument for the onerous test:** However, many protests of this draft claimed that if the onerous test is included in the revenue standard, “it should be conducted at the contract-level rather than the performance obligation-level”. Ernst and Young postulated that “Separating the transaction price (which is estimated for the contract as a whole) based on distinct margins is an allocation exercise, not a recognition issue. Recording a loss for a performance obligation in an otherwise profitable contract could confuse financial statement users because it would not reflect management's strategies for pricing different elements in a contract<sup>19</sup>.” Indonesian Accounting Standard Board posited that “We disagree with the proposed scope limitation of the onerous test because it might not properly present possible material onerous liability and expense that might present within the one year period<sup>20</sup>.” Likewise, The Hong Kong Association of Banks also theorized that “It is inconsistent to assess onerous obligations at the individual performance obligation level even though the obligation meets the criteria to be bundled for recognition and measurement purposes. The practical exemption introduced in the revised ED does not relieve this concern<sup>21</sup>”.

**The Boards' action after the oppositions:** Because of related concerns and opponent opinions similar as above, FASB decided to remove the proposed disclosure requirements for onerous performance obligations in paragraphs 122 and 123 (and the reference to onerous performance obligations in paragraph 127) from the 2011 ED<sup>3</sup>.

**Clarified the requirement of interim disclosure, disclosure of credit risk, and expected impairment:** For banks and financial

industry organizations, the two issues that most of them raised are as follows:

**Dissenting opinion: annual disclosure is sufficient and interim disclosure should be curtailed:** Interim Disclosure should be reduced because annual disclosure is sufficient. HSBC suggested that “The proposed list of additional mandatory disclosures for interim financial statements would undermine the principle of IAS 34 which requires reporting entities to provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Excess disclosure could reduce the focus of the disclosures on key information. The cost of preparing those disclosures for many entities would outweigh their benefit<sup>17</sup>.” Accounting Research and Development Foundation in Taiwan proposed that “Except the disaggregation of revenue, we recognize the Boards' intention of requiring such disclosures and therefore generally agree with proposal to require entities to disclose other information regarding revenue in interim financial statements. However, we strongly recommend that the Boards reconsider the cost and benefit of providing required information in the interim financial statements. In accordance with paragraph QC32 of Conceptual Framework, financial reports are presented for users who have a reasonable knowledge of business and economic activities and who review and analyze the information diligently. Consequently, for disclosures that may lead to boilerplate description and are not particularly helpful (for example, the requirements in paragraph 118 and 125) should be avoided<sup>22</sup>.” Financial institutions such as Canadian Banks Association raised similar concern for the massive requirements of interim disclosure reporting.

**Objection: Eliminate the requirement “to present uncollectible amounts due to credit risk in a line item next to revenue” and “expected impairment”:** The rule “to present uncollectible amounts due to credit risk in a separate line item next to revenue” and “expected impairment needs to be presented” were totally or partially called into question by financial institutes such as HSBC Bank, The HK Association of Banks and Deutsche Bank Group<sup>17</sup>.

**The Boards' final resolution on interim disclosures:** Since tentative disclosure requirements triggered numerous acoustic debates, the Boards finally explicated the ultimate goal of disclosure: to require entities in disclosing sufficient information to enable financial information users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Interim disclosures requirements remain to be necessary, however the requirements yielded different under IFRS and U.S. GAAP. Even though IASB revised IAS 34 to add disaggregation of revenue information, no extra requirements are claimed for interim reporting. In contrast, FASB modified ASC 270 to demand entities the same quantitative disclosures about revenue in

interim reporting as annual reporting. Generally speaking, the disclosure requirements aggregate in contents such as disaggregation of revenue, information on contract asset and liability balances and performance obligations. To assure that the disclosures are not immense and wasteful, the Boards also included qualitative disclosures<sup>23</sup>.

**The Boards' final settlement on credit risk and separate impairment reporting:** The Boards ruled in the final standard to remain disclosure requirements with regard to credit risk and impairment. They have rationales for retaining credit risk and impairment assessment: because the initial measurement of a financial instrument is at fair value, a difference between measurement of the receivable and the corresponding revenue may occur. Therefore reporting credit risk and evaluating impairment are regarded necessary. Furthermore, entities probably have already recorded other assets; the separate reporting of impairment could clear the doubts of information users<sup>23</sup>.

### **Generated effective refinements on construction contracts rules**

**Difficulty of setting standard for construction contracts:** Another great and critical point that the new FASB exposure draft was extensively focused on were the construction contracts. Construction contracts are one of the most essential yet troublesome issues to tackle, because of the continuous, overtime, uncertain characteristics of these types of contracts. As before mentioned, the Boards are using the asset-liability approach to set accounting standards. However, the asset-liability approach does not apply to construction contracts. The current revenue recognition model in use requires most construction contracts to be accounted for by measuring the percent complete and applying percentage toward the contract price to determine how much revenue should be recognized in the period<sup>24</sup>.

Boards reaction - the involvement of "performance obligation": New concept "Performance obligations" brought in for the construction contracts. A significant change in the new revenue recognition model is that it introduces the concept of "performance obligations". Entities need to account for a promised good or service as a separate performance obligation if the promised good or service is distinct and the customer can benefit from it separately or with other goods and the promised good or service is distinct within the context of contract because the good or service is not highly dependent on other promised goods or services in the contract. Therefore, if the construction contract contains a lot of separate performance obligations, then it also contains a lot of subcontracts. As per the new rule, in construction contract with a lot of performance obligations, installing equipment is considered a performance obligation. If the equipment is sold and delivered to the customer, but

has not been installed, then the part of revenue for the installation equipment obligation cannot be recorded as realized. Therefore, a very high standard of conservatism is applied through the new rule on control of substance within the contract. Until customers have control of the structure and substantial completion is realized, the contractors will not be able to recognize the revenues. In this way, no matter how many pay checks the contractors have received, contractors have not delivered any value to the customer during the construction if the contractor retains control of the project assets during the construction and prior to completion<sup>24</sup>.

**More brief principles apply for the renovation work:** For renovation work, performance of the contract obligations is measured over time for revenue recognition purposes because the work will enhance an asset that the customer already owns. Revenue can be recognized at intervals over the course of the contract. Revenue can be recognized based on units installed or hours of direct labor if the contractor bills with these factors. Work in process would not need be calculated, and the materials used, hours spent or units installed can be directly recorded as revenue<sup>24</sup>. To conclude, the new standard made the preparers' work simpler by making the calculation method briefer.

**Boards' achievement: settled the contradiction regarding to early adoption: Concerns raised about early adoption:** Many organizations, such as Australian Government, Australian Accounting Standards Board, and Swedish Financial Reporting Board, proposed that earlier application should be allowed. They cast light on the statement that allowing early application of new standard will facilitate adoption of standards in an assimilated way, with earlier adopters identifying issues and their advisers sharing with others lessons learned in the process of adoption. Likewise, entities such as the Swedish Financial Reporting Board and Communication Group such as Rogers Communication In., and TELUS Corporation hold the opinion that if the Boards choose full retrospective application, the effective date should be at least three years after the final IFRS is issued<sup>17</sup>.

**The Boards' final decision: early adoption permitted under IFRS 15, whilst not permitted for public adopters under ASC 606:** Under IFRS 15, the standard applies to annual periods beginning on or after 1 January 2017. Early adoption is permitted for IFRS preparers, as long as it is disclosed and the first-time adoption of IFRS<sup>25</sup>. Under U.S. GAAP, public entities should abide for the new revenue recognition standard beginning after December 15, 2016, containing interim reporting periods within that reporting period. Earlier adoption is forbidden. All other entities shall apply beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018 (see table 7 in appendices for

comparison). Nonpublic entities may elect for early adoption if the following happens:

An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning after December 15, 2017. An annual reporting period beginning after December 15, 2017, encompassing interim reporting periods within that reporting period<sup>26</sup>.

**Personal opinion about the Board's different solutions on early adoption:** In my points of views, the two Boards derived divergent solutions for effective date due to their individual concerns. U.S. public companies only constitute a small share of the U.S. firms. According to Forbes, less than 1% of the 27 million businesses in the U.S. are publicly traded on the major exchanges<sup>27</sup>. Early adoption of the revenue standard incur substantial amount of resources for enterprises, which impose huge burden on all firms, especially the small private firms. The ASC 606 effective date has its rationale for dividing U.S. firms depending upon the ownership type of the firms. Private firms with less public disclosure responsibility could elect for early adoption or one year later adoption, in contrast of the public entities. Unlike ASC 606, IFRS 15 has its own reasoning of allowing early adoption as well. IFRS is widely adopted worldwide, a less stringent effective date benefits organizations that fit into different categories; a more flexible effective date can also boost the application of IFRS 15 globally, and henceforth augment world accounting information comparability.

### **Resolved the constraints of revenue recognition, variable consideration topic**

**Arguments regarding to revenue recognition and variable consideration:** Many organizations, such as Construction Financial Management Association (CFMA), proposed that the final principle for the accounting for variable consideration reflects an appropriate amount of flexibility to allow for the use of well-reasoned and supportable judgments which are consistent with prevailing accounting practices in the construction industry. FEI's Committee on Corporate Reporting (CCR) recommends that the standards require an evaluation of various factors including all of the following: The risk and potential magnitude of subsequent reversals of amounts previously recognized as revenue; The ability of the entity to prevent the amount of consideration to which it will be entitled based on its expense or other relevant evidence; The susceptibility of the amount of consideration to factors outside the entity's influence. The amount of time until the uncertainty is expected to be resolved<sup>17</sup>.

**Boards' final ruling on variable consideration:** Accounting Standard Codification 606-Revenue from Contracts with Customers states: "If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer<sup>26</sup>."

"An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled: The expected value- the expected value is the sum of probability- weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimates of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

The most likely amount-the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not)." Additionally, the method to estimate the amount of variable consideration should always been consistent for an enterprise.

However, the utilization of variable consideration has its constrains: "an entity shall apply the above variable consideration rule when to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with it is subsequently resolved. Attributes that can lead to the increase of revenue reversal likelihood embodies: The amount of consideration is highly susceptible to factors outside the entity's influence. Those aspects may constitute volatility in a market, the judgment or actions of third parties, weather conditions, and a high risk of obsolescence of the promised good or service; The uncertainty about the amount of consideration is not expected to be resolved for a long period of time; The entity's experience with similar types of contracts limited, or that experience has limited predicative value; The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances; the contract has a large number and broad range of possible consideration amounts<sup>26</sup>."

**Personal opinion about the Board's work centers on variable consideration:** As far as the final standard outlines, the new standard fully granted the views from various organization respecting to the issues on variable consideration. The final standard clearly and concisely decreed the procedures of measuring variable consideration and fully factored in the attributes such as time, entity's

ability and experience and outside influence on the entity that might cause revenue reversal.

**Conclusion on the standard setting process:** The final standard is a marvelous piece of work underwent numerous public comments, abundant roundtables, and spacious deliberations. Assisted with bountiful interpretations that embrace applications in exhaustive specific, usual and unusual circumstances, adopters are authorized with ample freedom in selecting methods. For instance, entities are free to elect between a full retrospective approach and a modified retrospective approach. The modified approach allows the standard to be applied to existing contracts beginning with the current period. Restatement of the comparative periods isn't demanded, once comparative, quantitative and qualitative disclosures on current period's revenues with existing IFRS are included<sup>23</sup>.

Even for the retrospective application under IFRS 15, entities are waived for certain reporting: they are only required to supply the effect of adoption revenue standard on basic and diluted earnings per share for the year prior to the date of initial application. Entities could, but aren't mandated to report this information for earlier and current comparative periods<sup>10</sup>.

The selection of approaches allowed professional accountants for generous freedom in compliance. When FASB and IASB were creating principles, comment letters were seriously and carefully considered by the rule makers, and FASB always adopted and canceled provisions conservatively. FASB and IASB held the opinion that financial statements users may still benefit from the information disclosed, although it may be not cost effective, debates and lobbying of the implementation of the rules globally were in full scale. Regarding to those principles that caused a lot of objections and remonstrations, FASB and IASB prudentially took into considerations and rescinded the rules if not applicable.

## Impacts on Various Entities in Assorted Industries

**Software and Cloud Service Industries:** Concerning the software and cloud services industries, intensive adjustments are mandatory with the issuance of new revenue recognition standard. ASC 605-25, Revenue recognition: Multiple-Element Arrangements and most of the ASC 985-605, Software: Revenue Recognition are abolished and substituted by ASC 606.

**No more VSOE, more performance obligations may apply:** Under the precedent U.S. GAAP, entities were obligated to verify whether vendor-specific objective

(VSOE) of fair value stands for at least the undelivered element to determine if elements can be enumerated individually. Elements were not subjected to in-depth assessment for segregation if VSOE of fair value doesn't subsist. In comparison, ASC 606 stipulates that entities should evaluate performance obligations for separation relying upon the distinct benchmarks, thereupon may account more performance obligations than the previous U.S. GAAP.

**Recognize assets rather than record expenses for contract fulfillment costs:** In addition, ASC 606 particularized that entities should recognize an asset regarding contract fulfillment costs and the incremental costs correlated with acquiring a contact when conditions are met. The revision may cause enterprises to recognize the asset, although they are still expensing the costs such as sales commissions.

**Allocate contact price based upon performance obligations:** Rather than applying the hierarchy of VSOE of fair value, entities will have to use standalone selling price technique to allocate contract price if distinct performance obligations are present.

**Residual method applies even for undelivered elements:** Unlike the antecedent principle which forbade the residual method for allocation of undelivered elements, the residual method could be applied under the ASC 606 even with undelivered elements.

**Record revenue over a span of time and more disclosures entailed:** Furthermore, implementing ASC 606, entities must decide whether to recognize revenue at point of time or over a period of time; they also are compelled to disclosure more comparing with the anterior standard<sup>28</sup>.

## Sales and Retail Industry

**Right of Return may result in earlier recognition of revenue:** Considering entities that were not able to reliably estimate returns, ASC 606 postulates that a probability-weighted approach or most likely outcome method should be adopted, given the fact that no significant reversal is estimated. Therefore, revenue that were constantly deferred might be recognized earlier than ever with new standard.

**Sell-through approach is replaced by transfer of control:** New guidelines demands entities to record revenue only when transfer of control occur, whilst the previous U.S. GAAP insisted upon sell-through approach, which specified that the transfer of risks and rewards is the symptom to record revenue. The new standard emphasis on the transfer of control, even when the goods/services have the right of return. The new standard may trigger earlier recording of revenue comparing with prior standard.



**Table-1**  
**Comparisons on U.S.GAAP and IFRS Standards before Convergence<sup>6</sup>**

U.S. GAAP	IFRS
U.S. GAAP had intensive guidelines in diversified industries but lack an integrated standard.	IFRS Guidance was too broad and vague: IFRS had no multiple-element revenue arrangements addressed.
More than 140 standards, SEC Staff Accounting Bulletin (SAB) No. 104 Topic 13 or other industry guidelines such as SFAS 51- Financial Reporting by Cable Television Companies and SOP 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts, which may lead to confusion and confliction when using all the standards.	IAS11-"Construction Contracts", and IAS 18-"Revenue". IAS 11 details the accounting for narrow scope kind of transaction. IAS 18 is a general, broad, and vague document. It causes confusion in real life application <sup>6</sup> .
Level 1 - guidance in Concepts Statements, Concepts Statement No.6, Elements of Financial Statements, Concept Statement No.5, recognition and measurement in Financial Statements of business enterprises, where basic criteria for revenue recognition is described.	Nil
Level 2 - Guidance for revenue recognition in certain industries and economically different transactions (Accounting Principles Board (APB) Opinion No.29, Statement of Financial Accounting Standard (SFAS) No.48, Emerging Issues Task Force Consensus (EITF) 00-21, SEC Staff Accounting Bulletins (SAB) no.104 etc.) <sup>2</sup> .	Nil

**Table-2**  
**Reconciliation of the Consolidated Statement of Income for the 3rd Quarter Ended June 30, 2005 (In million €)<sup>8</sup>**

	U.S. GAAP 3rd quarter ended June 30, 2005	IFRS 5 adjustments	Other IFRS adjustments	IFRS 3rd quarter ended June 30, 2005
Net sales	11,191	102	(40)	11,253
Cost of sales	(9,339)	(62)	127	(9,274)
Gross margin	1,852	40	87	1,979
Selling expenses	(640)	(16)	1	(655)
General and administrative expenses	(602)	(4)	47	(559)
Other operating income	49	1	(1)	49
Other operating expenses	(104)	3	(9)	(110)
Gain/(loss) on the disposal of subsidiaries, net	1	(45)	36	(8)
Income from operations	556	(21)	161	696
Income from companies accounted for at equity	12	0	(1)	11
Other financial income/(expense), net	(37)	(2)	(91)	(130)
Financial income/(expense),net	(25)	(2)	(92)	(119)
Income from continuing operations before income taxes	531	(23)	69	577
Income tax expense	(218)	6	(21)	(223)
Minority interest	(18)	0	18	-
Income from continuing operations	295	(17)	66	344
Discontinued operations (net of tax)	(141)	17	38	(86)
Net income	154	0	104	258
Thereof: ThyssenKrupp AG's stockholders	154	0	88	242
Minority interest	-	0	16	16
Net income	154	0	104	258
Income from continuing operations (attributable to ThyssenKrupp AG's stockholders)	0.59	(0.03)	0.10	0.66
Net income (attributable to ThyssenKrupp AG's stockholders)	0.31	0.00	0.17	0.48

**Table-3**  
**Financial Line Items Explanations in the Consolidated Statement of ThyssenKrupp AG<sup>8</sup>**

<p><b>Explanation of term “IFRS 5 adjustment” in the financial statement</b></p>	<p>“IFRS 5 adjustments”: Based on the differences in the definition of a discontinued operation under US GAAP and IFRS, the following disposals qualified for reporting as discontinued operations under US GAAP but not under IFRS: Segment Steel (structure until Sept. 30, 2005) Edeltahl Witten-Krefeld GmbH and Hoesch Contecna Systembau GmbH. Segment Automotive: Alu Castings, European truck spring businesses, ThyssenKrupp Stahl Company. Segment Technologies: ThyssenKrupp Stahlbau business and Turbine components operation group. Segment Services Hommel group and Krupp Druckereibetriebe GmbH. In addition, expenses resulting from disposals of discontinued operations incurred in fiscal year 2003/2004 qualified for reporting as discontinued operations under US GAAP but do not under IFRS. As a result, only the disposals of the Metal Cutting business unit and of the Residential Real Estate business qualify for reporting as discontinued operations under US GAAP and under IFRS as well. The adjustments to present the disposals as part of continuing operations under IFRS are disclosed in column “IFRS 5 adjustments<sup>8</sup>”.</p>
<p><b>Description of “Other IFRS adjustment” in the financial statement</b></p>	<p>“Other IFRS adjustments: These adjustments primarily result from the roll forward of the corresponding adjustments due to the transition from US GAAP to IFRS as of October 01, 2004<sup>8</sup>.”</p>
<p><b>Interpretation of “Net Sales”</b></p>	<p>“Net Sales”: A1 Foreign currency embedded derivatives: “Under IFRS, for several transactions denominated in foreign currencies separate accounting for embedded derivatives is not required because they are denominated in a currency that is commonly used in such business transactions. As a result, net sales decreased by €21 million due to the elimination of the foreign currency embedded derivative effects.”                  B1 Construction contracts: “The extended application of the percentage-of-completion method resulted in a decrease of net sales by €19 million.”                  As we could see from ThyssenKrupp's interim reporting disclosure, the ThyssenKrupp AG had to decrease its net sales at the amount of €40 million because of the elimination of foreign currency embedded derivatives effects and extended application of the percentage-of-completion method. The total changes adjusted within all the other IFRS adjustments amount up to €430 million in absolute value. The total change of €40 million net sales takes the part of 9.3 percent of total changes within all of the other IFRS adjustments at the amount of €430 million in absolute value<sup>8</sup>.</p>

**Variable consideration applied in sales incentives:** When sales prices are ambiguous due to sales incentives such as discounts, rebates, price concessions, refunds, returns, credits, incentives, performance bonuses and royalties, a professional level of judgment is anticipated to be involved in the variable consideration process. Sales incentives were recorded as a reduction of revenue later when the when the incentive is realized or at the time of sale based on estimates, as per precedent U.S. GAAP and IFRS, separately.

**Multiple-element model measures loyalty programs:** The old U.S. GAAP allows two models for loyalty programs: the incremental cost accrual model and multiple-element revenue model, while the previous IFRS designates only the multiple-element revenue model. The new standard is in favor of multiple-element model, which spread between the product and loyalty reward performance obligations relying upon relative stand-alone selling price. The portion shared by loyalty is recorded as a liability, which could turn into revenue if the loyalty is redeemed or expired.

**Singular breakage recording method is enforced:** Breakage occur when the entity sell gift certificates that are forfeited, which

potentially become income for retailer. Antecedent U.S. GAAP allows for recognition of breakage with proportional model, liability model, remote model or no recognition if the income is escheatable to a third party. In comparison, under the new revenue recognition, assumed breakage is estimated and recognized as revenue. Variable consideration guidance applies for estimation of breakage amount. If the revenue belong to a third-party, then it shouldn't be recognized, neither. No matter what, the recording method is not anticipated to be supplied with variable models anymore.

**Warranty price may be difficult to estimate if it is not distinctively priced:** Warranty is always recognized in each phase when customers' purchase forfeited or satisfied. However, if the warranty price is bundled with some other services and not separately priced, it is required to be allocated basing relative standalone selling price instead of contract price, which may be difficult in practice.

**Entities should separate transaction price between goods and custody service in bill-and-hold arrangements:** The new standard do not need “fixed schedule for delivery” to discern whether the bill-and-hold arrangements rules are applicable. The

transfer of control of the goods is the substantial condition for the identification. As long as the below yardsticks are met: reason for arrangement is substance; the produce has been identified separately as belonging to customer; the product is ready for delivery in accordance with the terms of the arrangement; the vendor does not have ability to use or sell the goods anymore. An entity that meets the above criteria have to figure out if additional services such as custody is also supplied. If yes, then custody service is also accounted for as an individual performance obligation, which takes up a part of the contract price<sup>29</sup>.

**Impacts on All Transition Entities:** As for all the entities, they are conjectured to confront all the below shifts: A choice among full retrospective, retrospective with certain practical expedients, or cumulative effect approach; more disclosures and more revenue in detailed divisions. More expenditures on system updates, and personnel trainings; the adoption of term” transaction price” and determination of transaction price by

factoring into various fees in practice; refinements of internal audits and audit controls; new divergences between book revenue accounting and tax revenue accounting<sup>30</sup>; revisions about internal policies and procedures such as current bonus structures and remunerations policies; forecasts on sales and KPIs are also subjected to change at financial department<sup>31</sup>.

**Companies Possible Responses to the New Revenue Recognition Standard:** Encountering the extensive changes on excel sheets regarding to almost all revenue impacted financial line items, entities that lack self-sufficient accounting human capitals could potentially seek assistances from their auditors, or purchase revenue recognition update software for guidance<sup>32</sup>. For example, SAP Revenue Accounting and Reporting 1.0 and Oracle E-Business Suite are the enterprise financial management software designed to confront the transformations on revenue recognition<sup>33</sup>. However, the costs and upcoming side-effects are still the problematic issues that entities are doomed to tackle.

**Table-4  
 Convergence Timeline History for Revenue Recognition Project<sup>3</sup>**

January 2002	FASB discussed the objective and scope of a potential major project on the recognition of revenues and liabilities in financial statements. The Board issued a project proposal with a 60-day public comment period.
May 2002	After considering 32 comment letters on the project proposal, FASB started the technical agenda project to develop a comprehensive revenue recognition standard and to amend the related guidance on revenues and liabilities in some FASB Concepts Statements. Both "top-down" approach and the "bottom-up" approach were used. In the top-down approach, the staff developed conceptual guidance for the recognition and measurement of revenues that would form the basis of a new standard. In bottom-up approach, the staff analyzed existing authoritative guidance and the revenue recognition principles and practices related to that guidance.
June 2002	IAS added the revenue recognition project to its technical agenda.
September 2002	FASB and IASB formally agreed to work jointly on revenue recognition project.
September 2002-May 2005	The Boards were developing a revenue recognition model that measures assets and liabilities at fair value. The Boards tentatively agreed performance obligations should be measured at fair value-the price that the reporting entity would have to pay an unrelated party to assume legal responsibility for performing all of its remaining obligations. After concerns of reasonably estimating the prices when they are not observable, board members developed an alternative model, the customer consideration model in which performance would be measured at an allocated customer consideration (transaction price) amount.
October 2006-October 2007	The Boards decided to further develop both the fair value model and the customer consideration model. The initiative was undertaken by the staff using two small groups of Board advisors drawn from both Boards and was completed in July 2007.
October 2007-May 2008	The Boards discussed the two models from October 2007 to May 2008. The Boards coalesced around a single contract-based revenue recognition model. The Boards reached a preliminary view in favor of the allocated customer consideration approach of measuring performance obligations.
December 2008	The Discussion Paper "Revenue Recognition in Contracts with Customers" was issued and it contained the Boards' preliminary views on allocated customer consideration approach.
June 2010	More fully-developed proposals were issued for public comment in the Exposure Draft "Revenue from Contracts with Customers" (FASB 2013)
November 2011	Revised exposure draft issued and opened for discussion until March, 13, 2012
January 4, 2012	The Board published, for public comment, exposure draft "Revenue from Contracts with Customers-Proposed Amendments to the FASB Accounting Standards Codification".
October 2013	Topics on constraint on estimates of variable consideration, implementation guidance, and collectability were further discussed.
May 28, 2014	The converged standard on revenue recognition from contracts with customers, Accounting Standards Update (ASU) 2014-09 (Topic 606) and IFRS 15 was issued.

**Table-5**  
**Revenue Recognition Model and Explanations<sup>13</sup>**

Step 1: Identify the contract with a customer.	Contracts may be “written, oral, or implied by an entity's customary business practices <sup>12</sup> .” The contract(s) could be single contract, or two or more contracts combined into one, or segment single contract as two or more contracts. A contract is an agreement between two or more parties that creates enforceable rights and obligations. The contract applied should meet the benchmarks: Approval and commitment of the parties, identification of the rights of between parties, verification of the payment terms, the contract has commercial substance, it is probable that the reporting organization will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer <sup>13</sup> .
Step 2: Identify the performance obligations (promises in the contract).	Performance obligations may be explicit or implied. Performance obligations in the contract are enforceable as promises in a contract to deliver the goods or services for which the customer contracted. The entity should consider each promised good or service as performance obligation if it is: Distinct- capable of being distinct; distinct within the context of the contract or a series of distinct goods or services that are substantially the same have the same pattern of transfer <sup>13</sup> .
Step 3: Determine the transaction price.	Transaction price is defined as “the amount of consideration to which an entity anticipate to be entitlements in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.” Several considerations for transaction price are notable: Variable consideration, constraining estimates of variable consideration, any non-cash considerations, the existence of a significant financing component, noncash consideration and consideration payable to the customer <sup>13</sup> .
Step 4: Allocate the transaction price to the performance obligations in the contract.	Allocate transaction prices to separate performance obligations, use the respective stand-alone selling prices of each performance obligation. Stand-alone selling price is the price a firm separately sells a good or service for. Stand-alone selling prices can be estimated. Record recognition or reduction of revenue once the transaction price changes <sup>13</sup> .
Step 5: Recognize revenue when (or as) the reporting organization satisfies a performance obligation.	Performance obligation must be satisfied, requires the transfer of control to customer, recognize revenue over time if one of the following circumstance happen: customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs; the entity’s performance creates or enhances an asset that the customer controls; the entity’s performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performances completed to date. Recognize revenue at point of time if any of the bellowing occur: The entity has a present right to payment for the asset; the customer has legal title to the asset; the entity has transferred physical possessions of the asset; the customer has the significant risks and rewards of ownership of the asset; the customer has accepted the asset <sup>13</sup> .

**Table-6**  
**Project: REVREC-12 Unsolicited Revenue Recognition<sup>17</sup>**  
 Unsolicited Revenue Recognition 2012-2014

Submitter	Suggestions
CFMA(Construction Financial Management Association)	Provide a framework whereby the accounting for variable consideration is both operable and practical and allows for use of well-reasoned and supportable judgments which are consistent with prevailing accounting practices in the construction industry.
E&Y(Ernst &Young)	Provide more guidance in regards to the two exposure drafts: Provide more guidance in the two exposure drafts "revenue from contracts with customers" issued in June 2010, as well as the revised version, which was issued on November 14, 2011. Examples: For instance, Revised ED does not include as many illustrative examples for issues such as consideration payable to customer as Accounting Standards Codification (ASC) 605-50 did. Secondly, guidance on evaluating the substance of bill-and-hold

	<p>arrangements should be more clarified. Thirdly, the guideline for "recognizing revenue over time or a point in time" isn't clear for the real estate industry, automotive manufacturers and the software industry. Fourthly, more guidance is needed to help entities to identify separate performance obligations. Fifthly, additional barter transactions implementation guidance should be explained.</p> <p>Proposed implementation guidance methods: By embedding the guidance in the proposed new standard; Through implementation groups led by or subject to oversight of the Boards; By the staff of the Boards; By industry groups in cooperation with the Boards.</p>
BELL, TELUS, ROGERS (BCE, Rogers Communications Inc., and TELUS Corporation)	<p>Effective date of the final standard: If the board chooses full retrospective application, the effective date should be at least three years after the final IFRS is issued.</p>
Patent and Technology Licensing Companies (Inter Digital Inc., Qualcomm Incorporated, Rambus Inc., Tessa Technologies)	<p>Evaluate license transfers: Rights conveyed in patent portfolio license are created over the term of the agreement rather than at the outset. Financial statement preparers should evaluate when concluding whether the license transfers at a point in time or over time. If over time, revenue should be recognized as over time.</p>
Media and Entertainment (NBC universal, News Corporation, Viacom Inc, CBS Corporation, Walt Disney Corporation)	<p>Recognize revenue upfront in entertainment industry: In the media and entertainment industries, intellectual property licensing, revenue should be recognized up front rather than over time after the user has full access of the license.</p>
Automobile Industry (BMW Group, Chrysler Group LLC, Daimler AG, Fiat S.P.A, Ford Motor Company, General Motors, Nissan North America, PSA Peugeot Citroen)	<p>Propose less compliance requirements: The cost of compliance is substantial. Three expedients are proposed: A material right, defined as "inconsequential products or services", Allocation of price based on relative selling price of all performance obligations to provide more flexibility in the use of residual method. Pre-sale and post-sale incentives to account for subsequent changes in an offer to customer as a revenue reduction, without re-performing a reallocation of the transaction price.</p>
ARDA (American Resort Development Association)	<p>Few Proposals: Credit losses should be presented as an operating loss rather than reduction of sales revenue.</p> <p>Clarify how the revenue recognition ED or the update on financial instruments-Credit Risk will require the value of inventory estimated to be foreclosed/revoked.</p> <p>Clarify Relative Sales Value Method, application as related to determination of revenue components.</p>
FEI (Financial Executives International)	<p>Constraining estimates of variable consideration: The Board specify a single objective based on the degree of confidence that an entity has in its estimates of variable considerations and the resulting amount revenue based on estimates.</p> <p>Licenses: Draft the guidance with the simple objective of determining whether the nature of the license is a right or access.</p> <p>Identifying separate performance obligations: Clarify the principle of one of the separation criteria. Describe the criteria as "largely separable risks in the context of the contract" and then adding the "highly interrelated" wording as an indicator.</p> <p>Time value of money: Clarify that a significant financing component is not expected to be common in most contracts with customers. A financing component would be significant only if: The amount of consideration promised in the contract differs significantly from what the cash selling price would be if the customer paid cash at the time of transfer of promised goods or services.</p> <p>The difference is due primarily to the intended purpose of financing rather than another purpose.</p>
AASB (Australian Government Australian Accounting Standards Board)	<p>Concerns on impact of credit risk and rule-based principle guidance: Expressed concerns with how the impact of credit risk was proposed to be recognized in the model and disagreed with the proposal to include credit risk in the measurement of revenue. Not appropriate to include rule-based principle guidance, as the concept of materiality is already addressed in the Framework IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.</p>
AASB (Australian Government Australian Accounting Standards Board)	<p><i>Allow early application of new standard:</i> Permitting early application of standards has facilitated adoption of standards in an assimilated way, with earlier adopters identifying issues and their advisers sharing with other lessons learned in the process of adoption.</p>

<p>KEIDANREN(Committee on Corporate Accounting, Sub-Committee on Corporate Accounting)</p>	<p>Suggestions on reducing requirements and extend application period: The scope of the disclosure of disaggregated revenue information the tentative decisions require is limited to the information the entity has for business management purposes. Whatever is disclosed should be determined by the entity's management based on the information the entity has for business management purposes, and accordingly there may be cases where segment information is sufficient. As an entity's disaggregated revenue information is based on the same categories used for the segmenting information, it should be sufficient for the entity to explain the correlation qualitatively. Disclosure of tabular reconciliations and opening and closing balances of contract assets and liabilities should not be required. Not appropriate to demand individual disclosures, deviating from the principles set in IAS 34. Reduce requirements for interim disclosure requirements. Contracts requiring restatement be limited to those having a material effect on the entity's financial statements. Instead of requiring all financial statement line items affected to be disclosed, it should be required to disclose material effects on the financial statements. First time IFRS adopters should be permitted to apply the new revenue standard early.</p>
<p>Telecommunications Industry Group                  (Vodafone Group Plc, France Telecom Orange, Deutsche Telekom AG, TELEFONICA,S.A., Vivendi, Belgacom SA, Bouygues Telecom, BT Group plc, JT Group Limited, KDDI CORPORATION, Millicom International Cellular S.A.,NTT Docomo Inc, SoftBank Corp., Sunrise Communications AG, Swisscom AG, Telecom Italia S.P.A)</p>	<p>Amendments suggested for portfolio approach and contract modifications: If a portfolio approach is to be both practicable and properly understood by all interested parties. Clarification that a portfolio approach can be applied without the need to generate extensive evidence that the outcome is the same as contract by contract accounting as a practical expedient for preparers. Clarification for when a portfolio approach is applied. Make necessary use of certain estimates and assumptions. Revenue adjustments for contract modifications should be applied prospectively where services, such as mobile airtime services, are delivered over period of time. Wherever such wording is not included in the main body of the standard or an illustrative example, sufficient discussion in the basis of conclusion to enable preparers, supervising authorities and other parties to understand the above to mitigate the risk that contract by contract calculations will effectively be required to demonstrate the accuracy of portfolio accounting.</p>

**Table-7**  
**Boards' Final Decision on Early Adoption Guidelines<sup>10</sup>**

	IFRS	U.S.GAAP
Public entities	Annual reporting periods beginning on or after January 1, 2017, including interim periods therein	Annual reporting periods beginning after December 15, 2016, including interim periods therein
Nonpublic entities	Annual reporting periods beginning on or after January 1, 2017, including interim periods therein	Annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018
Early adoption permitted?	Yes	No, for public companies, Yes, for nonpublic companies, but no earlier than the effective date for public entities

**Conclusion**

Primarily, revenue recognition is of paramount value for accounting profession by virtue of its wide application and high relevance to the financial wellbeing of the entities. The convergence process was deemed necessary for the sake of inconsistent comparisons of revenue items under two accounting standards. Any accounting standards newly promulgated, once implemented, will have tremendous effect on the world economy and the global financial reporting system. The convergence between Financial Accounting Standards

Board and International Accounting Standards Board is imperative and will surely escalate the comparability and consistency of financial statements within industries. Moreover, the asset-liability approach is closest to the economic substance of revenue recognition process. It is the best fit for revenue recognition when trying to depict the contract performance of an entity.

Furthermore, throughout the whole revenue recognition convergence process, FASB and IASB put great efforts over more than a decade towards creating a revenue standard that

improved consistency and minimized the differences for revenue recognition across various industries and geographies. Organizations around the world are satisfied overall and supportive of the Boards' objectives and are acknowledged about the challenges associated with developing a single revenue recognition model that can be applied to all industries and transactions. The Boards called for feedback from preparers and users through numerous forms, comment letters, and multiple Board meetings and their work are highly appreciated and ascertained. Generally speaking, the Boards simplified the past complicated accounting rules across various industries and made the new standard a more concise and comprehensive instructed one to implement, and also emphasized the conservatism principle when recognizing revenue.

Lastly but also importantly, entities and organizations should prepare as soon as possible for the adoption of new revenue recognition standards because it will be very time consuming and costly to apply the new rules starting from January 2017 or December 15<sup>th</sup>, 2016. Most entities are envisaged to get through amendments from almost all areas. After all, the compliance work for most industries is not minimal; it involves dedication derive from various personnel, special attention rise from management, and supports stem from auditors/consultants.

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