

BREAKING NEWS ON REVENUE RECOGNITION

THIS ARTICLE UPDATES OUR PRIOR CLIENT ADVISORY on this crucial area. In May 2006, Joan Lebow and Suzanne Ritzler presented to the Chicago chapter of the Association of Corporate Counsel on "Extreme Contracting challenges." One of the topics highlighted was revenue recognition, including the effect of contract provisions on revenue recognition and the Revenue Recognition Project underway as a joint effort of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB).

As we highlighted in the 2006 presentation, FASB has for years identified revenue recognition as its top issue, and in May 2002 began a project designed to develop a comprehensive statement that applies to all industries and gives general guidance on revenue recognition issues. The standard for revenue recognition to be developed will be based on recognized changes in assets and liabilities of an entity.

As part of the project, the approach being developed by FASB and IASB had been to measure assets and liabilities at "fair value." Using that method (now referred to as the "Measurement" model), performance obligations would be measured at fair value, or "the price that the reporting entity would have to pay an unrelated party to assume legal responsibility for performing all of its remaining obligations" under an agreement. Due to concerns with the approach and disagreement within the Board, FASB/IASB agreed to develop another model focused on "customer consideration," measuring performance obligations based on an allocation of the customer consideration for the obligations (performance value rather than fair value), an approach now referred to as the "Allocation" model.

In October 2006, the Boards decided to develop both models on a preliminary basis, in order to gain a fuller understanding of each model and to compare them prior to evaluating them. The Boards had earlier stated a goal of releasing a due process document containing this analysis by the end of 2007. The schedule has now been pushed back. The staff presented an overview of both models at the October 22 joint FASB/IASB meeting, with more detailed presentations analyzing each model to follow at the November and December Board meetings. Following feedback received from the Boards, the staff intends to present the draft due process document in early 2008.

The Revenue Recognition Project updates (including meeting minutes) are available at www.fasb.org/project/revenue_recognition.shtml. If you would like a copy of the handout from our ACC presentation, please contact Yamila Chiquito (ychiquito@lmtlaw.com) or call Joan Lebow or Suzanne Ritzler at 312 698 5900.

A DRAFT ANALYSIS OF THE TWO KEY APPROACHES TO REVENUE RECOGNITION IS EXPECTED FROM FASB AND IASB EARLY IN 2008.

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