

Revenue Recognition for Contractors: Clarifications Still Needed in FASB's Exposure Draft



March 2012

In late 2011, (and again in January 2012) the Financial Accounting Standards Board (“FASB”) took the unusual step of reissuing an Exposure Draft, *Revenue from Contracts with Customers*. In response to almost 1,000 comment letters received by the FASB, the Board essentially rewrote its original Exposure Draft which was issued in June 2010. The current exposure draft proposes the introduction of a 5-step process in order to meet the revenue recognition threshold. The five steps are as follows:

- › Identify the contract with the customer
- › Identify the separate performance obligations in the contract
- › Determine the transaction price
- › Allocate the transaction price
- › Recognize revenue when a performance obligation is satisfied

Significant questions in the current Exposure Draft still remain for construction contractors including:

- › How will performance obligations be measured? The standard remains vague in this area.
- › How will the input method of measuring performance obligations account for overhead and other soft costs versus the widely-applied “cost-to-cost” method of percentage-of-completion accounting?
- › Will the standard, in its final form, indicate a preference for the output method?
- › How will the standard’s concept of “reasonably measure the outcome of a performance obligation” affect issuers of financial statements? Could this new concept lead to abuse by delaying the recognition of revenue until the final stages of a project when the outcome is “reasonably measured”?
- › Will the standard require contractors to present -value-discount all contracts which exceed one year? Will this unnecessarily complicate the valuation of accounts receivable, under/overbillings, accruals, etc?

The Exposure Draft was open for public comment through March 13th, 2012. The FASB is currently evaluating the responses and expects to begin roundtable discussions during the 2nd quarter of 2012. A final standard is expected by the end of 2012 with effective dates beginning in 2015 or 2016. The effective dates are expected to differ for public and private entities, with some relief in the form of non-retrospective adoption for non-public issuers.

A summary of the Exposure Draft’s highlights can be found [here](#).

The full Exposure Draft can be downloaded [here](#).

The Construction Financial Management Association’s response letter dated March 13, 2012 can be found [here](#).

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