Fall 2012

The Convergence of U.S. GAAP and IFRS: Revenue Recognition

Colleen A. Steele

University of New Hampshire - Main Campus

The Convergence of US GAAP and IFRS: Revenue Recognition

By Colleen Steele
Faculty Advisor: Le (Emily) Xu
12/15/2012

I. Contents

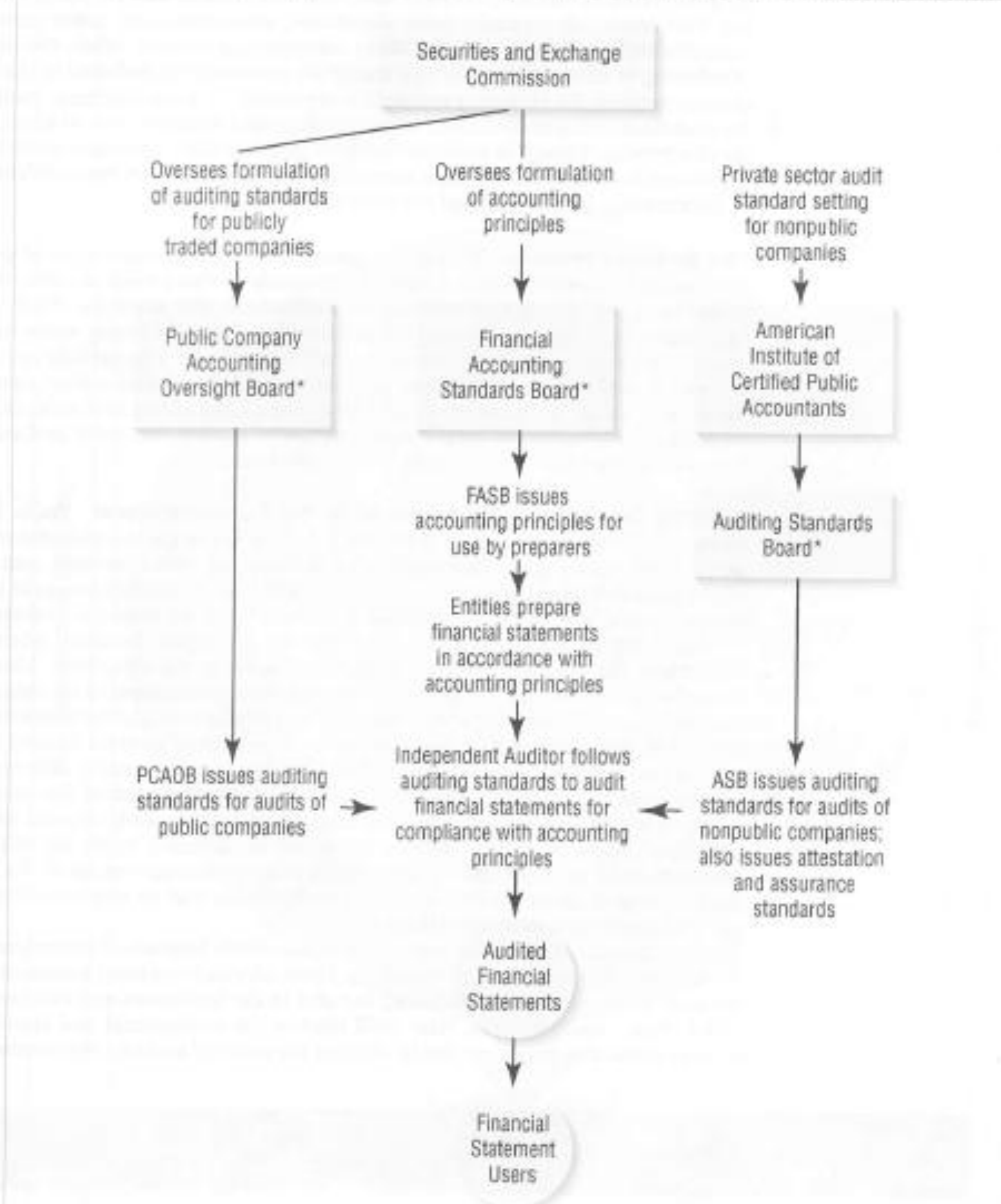
The FASB and the IASB (the Boards) are attempting to converge international and U.S. financial accounting standards in order to create a single joint set of standards that companies can apply consistently across various industries and capital markets. There are currently several projects underway including revenue recognition, impairment, leases, and accounting for financial instruments. This paper will focus primarily on the convergence of revenue recognition from contracts with customer which was started in June 2010 and since then has been developed using extensive due process procedures into a nearly finished product. The final set of accounting standards is expected to be released in the first half of 2013 (Financial Accounting Standards Board, 2012).

I. Background

A. Regulatory Organizations

There are several American and international organizations that govern the public accounting profession. It is important to understand how all these organizations and their various rules are interconnected in order to understand their role in the convergence projects. Four American organizations that will be discussed are the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), and the American Institute of Certified Public Accountants (AICPA).–The two most noteworthy international standard setting bodies are the International Auditing and Assurance Standards Board (IAASB) and the International Accounting Standards Board (IASB). The diagram below depicts the relationships of the four U.S. organizations (W. F. Messier, 2012).

FIGURE 2-2 **Organizations Affecting Financial Statement Audits in the United States.**



The IAASB is sponsored by the International Federation of Accountants (IFAC), and is self-described as “the global organization for the accountancy profession” (W. F. Messier, 2012). The IFAC develops international standards regarding ethics, education, and public sector accounting standards. Another international organization that is sponsored by the IFAC, the IASB, is essentially the international counterpart to FASB. They are responsible for the development and publication of the *International Financial Reporting Standards* (IFRS) and for approving the interpretations of IFRS. The IASB is an "independent, not-for-profit private sector organization working in the public interest. Its principal objectives are to develop a single set of high quality, understandable, enforceable and globally accepted international financial reporting standards (IFRSs) through its standard-setting body, the IASB, and to promote the use and rigorous application of those standards" (International Financial Reporting Standards). Since the IASB has no enforcement authority, compliance with these standards is voluntary. By late 2009, however, 117 jurisdictions either required or permitted the use of IFRS and more were on track to adopt IFRS. This may be because the organization works closely with stakeholders around the world in order to create high-quality global standards. For example, since 2002, the organization has hosted an annual conference for the world's financial reporting standard-setters in order share IFRS convergence, adoption, and implementation and application experiences. Progress towards the adoption of IFRS around the globe has been steady; nearly all major economies such as the European Union, China, Japan, Canada, Russia, and Australia have either already implemented or are working towards implementing one set of financial principles.

The SEC oversees the US capital market, using the framework provided by the Securities Act of 1933, the Securities Exchange Act of 1934, Investment Company Act of 1940, the Sarbanes-Oxley Act of 2002, and the Dodd-Frank Act. The Securities Act of 1933 had two main goals 1) to ensure more transparency in financial statements and 2) to establish laws against the misrepresentation and fraudulent activities in the securities market. One way these goals are maintained is to require companies to register with the SEC. One of the major regulations established by the Securities Exchange Act of 1934 was the ongoing reporting from companies on the stock exchange or companies that possess assets greater than $1 million and have equity securities held by 500 or more persons. The Investment Company Act regulates the organization of companies that engage primarily in investing, reinvesting, and trading in securities, and sell their own securities to the public. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was intended to enhance consumer protection, trading restrictions, credit ratings, regulation of financial products, corporate governance and disclosure, and transparency. In 2002 the Sarbanes-Oxley Act was signed in order to reform "corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and create the 'Public Company Accounting Oversight Board,' to oversee the activities of the auditing profession" (U.S. Securities and Exchange Commission).

After the high-profile collapse of companies such as Enron, WorldCom, and Xerox, there was an increased pressure on lawmakers to enhance the credibility and investor confidence in the financial reporting process. The Sarbanes-Oxley Act was their solution, and one of the provisions listed within the Act was the transfer of authority for standard setting, inspection, investigation, and enforcement for public company audits from the AICPA and SEC. Instead, a five-member board called the PCAOB would be created to establish standards dealing with auditing, quality control, ethics, independence, and other activities relating to the preparation of audit reports, or they can choose to delegate these responsibilities to the AICPA.

The AICPA is a private professional association of over 370,000 CPAs from 128 different countries. It is the role of the AICPA is the "promulgation of rules and standards that guide audit and related services provided to nonpublic companies, governmental entities such as states, countries, municipalities, and school districts, and other entities such as universities and charities" (W. F. Messier, 2012). This association also supports accounting and audit research, provides a number of important publications, and holds many continuing education programs.

Since 1973, the Financial Accounting Standards Board (FASB) has been the organization in charge of establishing and adapting the standards that dictate the preparation of financial reports by nongovernmental entities. It is their mission to create and improve accounting standards so that they provide useful decision making tools for investors and other users of financial reports. This mission is "accomplished through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and is subject to oversight by the Financial Accounting Foundation's Board of Trustees" (Financial Accounting Standards Board, 2012). The FASB's Accounting Standards Codification is recognized as the source of U.S. Generally Accepted Accounting Principles (GAAP) by the SEC, PCAOB, and AICPA.

B. Background of Convergence

The FASB believes there is a demand for international convergence primarily because investors' want high-quality, comparable financial information that will make decision-making easier in our increasingly global capital markets. Due to this demand for more comparable financial statements, FASB and IASB started working together in 2002 in order to unite the two accounting methods. The Boards have defined what convergence means to them and have identified their tactics to achieve it in two different documents—the Norwalk Agreement and the Memorandum of Understanding (MoU) (Financial Accounting Standards Board, 2012). "The phrase *international convergence of accounting standards* refers to both a goal and the path taken to reach it." They have decided that the ultimate goal of the convergence is a single set of high-quality, international accounting standards that both domestic and international companies can use. Their path towards that goal will be achieved through the collaborative efforts of the FASB and the IASB to improve U. S. GAAP and IFRS and eliminate the differences between them. In 2007 the SEC eliminated the requirement for foreign companies who issue stock in the United States to include a reconciliation of IFRS to U.S. GAAP in their financial statements, and in 2008 the Boards outlined their plan to accelerate the convergence of U.S. GAAP and IFRS. Also in 2008, the SEC proposed a *Roadmap* that set forth milestones the Boards should aim to achieve in order to put in place one set of standards. This *Roadmap* planned to have a completed project by 2015, but due to complications which will be discussed later, has been delayed.

One problem is that U.S GAAP uses a rules-based approach for their accounting standards, while IFRS uses a principles-based, also known as an objectives-oriented, approach. A rules-based approach sets very specific rules that must be followed precisely in order to comply with the regulations. The IFRS' principle-based method, however, has a few specific rules but little guidance on how to implement them. It requires ethical professionals to make sure the financial statements fairly and accurately represent the principles (Principles-Based Accounting Definition, 2012). In the case with revenue recognition, US GAAP consists of several industry-specific and transaction-specific requirements that can result in different accounting for economically similar transactions. IFRS, by contrast, has fewer requirements that can be difficult to apply to complex transactions as they provide little guidance on difficult topics.

An example that helps compare the two approaches is accounting for leases. A long-term lease can be classified as either a capital lease or an operating lease. U.S. GAAP requires that for a capital lease the leased property be recorded as an asset along with a liability to pay for that asset. An operating lease does not require an asset or liability to be recorded. A problem arises from this standard because companies try to avoid reporting debt. Therefore, companies will stretch the rules in order to bypass FASB's four criteria for identifying capital leases that will result in a recorded liability. The FASB implemented the four criteria in order to help aid the accountant in deciding whether ownership of the asset has been transferred. IASB's lease accounting standard allows an accountant to use their professional judgment in order to determine if "risk and reward" of ownership has been transferred. Since the FASB's criteria is designed to help the accountant decide whether the risks and rewards have been transferred, some professionals believe that this has allowed accountants to avoid using their professional judgment altogether and simply focus on the rules. Proponents of the objectives-based approach claim that since it focuses primarily on professional judgment, there are fewer rules to sidestep; thereby allowing accountants to arrive at an appropriate accounting treatment. Others argue that no rules will result in a large amount of abuse. Even in the absence of abuse, however, reliance on professional judgment may result in different interpretations for similar transactions which increases fears about comparability.

An example of an American company that avoided using their professional judgment is Global Crossing. They were a communication services company who filed for bankruptcy protection in the middle of an accounting scandal in which they were being charged of dishonest accounting, fraudulent swapping of assets and liabilities, falsely misleading shareholders, and the enrichment of top executives as other employees lost millions along with shareholders (Ackman, 2002). They did this by inflating earnings using capacity swaps which deals with the exchange of telecommunications between carriers that is recorded as revenue without the occurrence of a monetary exchange (Global Crossing). Since U.S. GAAP permits a company to record revenue for a sales-type lease, Global Crossing purposely structured the contracts for these capacity swaps to meet one of the its criteria. In order to be classified as a sales type lease, the contract needs to meet one of the following four criteria: 1) the agreement specifies that ownership of the asset transfers to the lessee; 2) the agreement contains a bargain purchase option; 3) the noncancelable lease term is equal to 75% or more of the expected economic life of the asset; and 4) the present value of the "minimum lease payments" is equal to or greater than 90% of the fair value of the asset. In addition to meeting one of previous criteria, the contract must also meet both of the following statements: 1) the collectability of the minimum lease payments is predictable; and 2) no important uncertainties surround the amount of reimbursable costs to be incurred (Spiceland, 2012). Although their contract may meet the criteria for a sales-type lease, since there is no monetary substance being received, it is not economically sound to record revenue. This is an example where a rules-based accounting approach allows a company to disregard their professional judgment and make an inappropriate entry because the "rules" allow it. Due to U.S. GAAP's framework, Global Crossing was able to incorrectly record revenue without being detected for several years until they went bankrupt. In 2005, they settled with the SEC, after it was determined that it did not comply with numerous accounting laws. This well-known scandal demonstrates that U.S. GAAP's principles for revenue recognition has several flaws and needs to updated.

Since the convergence commencement in 2010, there have been several setbacks and differences of opinion that have prevented the completion of the new standards. Many participants see this convergence as a power struggle between the IASB and the FASB (Hoffelder, 2012). In July 2012, the SEC came out with a 137 page report describing all possible ways to align IFRS standards with U.S. GAAP standards. The report made it clear that putting the IASB in control would be out of the question, and it stated that "it became apparent to the staff that pursuing the designation of the standards of the IASB as authoritative was, among other things, not supported by the vast majority of participants in the U.S. capital markets" (Hoffelder, 2012). The report also mentioned concerns about preserving FASB's role in accounting standards setting, especially since “a robust FASB hedges against IASB’s failure to develop high-quality standards appropriate for U.S. capital markets” (Hoffelder, 2012). Another issue is the significant expense that companies could incur from the switch from GAAP to IFRS. The report states that “Many of the issuers indicated that the costs of full IFRS adoption easily could be among the most significant costs ever required from an accounting perspective” (Hoffelder, 2012). Other professionals think the long run savings will outweigh the initial costs needed to implement the new accounting principles. “The resources needed to keep each location in compliance with local regulatory and financial reporting requirements are significant. Despite some upfront planning and training expenses, I think we’ll benefit from lower financial reporting and tax compliance costs following our convergence to IFRS. The hurdles for doing business in a different country will appear significantly less daunting when compliance standards are the same” (Westervelt, 2011). The SEC has stated that they are planning to issue two other progress reports soon. One will provide an analysis of the remaining differences between U.S. GAAP and IFRS. The other will describe how IFRS is being applied around the world and what can be learned from the creation of the financial statements (Cohn, 2011)

C. The due process

FASB follows the due process before issuing a new standard. This process also applies to all the convergence projects with IFRS. Every convergence project starts with two Exposures drafts; one created by FASB and another created by IFRS. These documents are essentially the same except for basic differences in formatting. In conjunction with the creation of these documents are press releases introducing the Exposure Drafts. The Exposure Drafts are then summarized in the form of a podcast and two other documents entitled FASB in Focus and IASB

Snapshot. The summaries discuss the objectives, basic elements, and expected impact of the proposals outlined in the Exposure Draft.

After the release of the Exposure Draft, are a series of outreach and field work during which a broad range of users, preparers and auditors of financial statements give their feedback regarding the documents. FASB hosts public roundtables, workshops, webcasts, and conferences about the Exposure Drafts. FASB's goals for these outreach activities are to understand if the proposals are clear and can be applied in a way that effectively communicates the economic substance of transactions, identify any unintended consequences, ensure the staff is aware of significant changes to current practice, and educate constituents about the proposals and basis for the Boards conclusions. Those who want to give their opinion write comment letters which can be viewed by others on FASB.org. These comment letters can also be found in a summarized form. After a specified amount of time, the Exposure Drafts are closed for comment, and if necessary a new, updated Exposure Draft is released. This process can be repeated multiple times until FASB is confident enough with the proposed regulations to create a final document.

FASB tracks at which stage each convergence project is on using a table which can be found on their website. This table depicts an agenda of when an aspect of the due process will be completed. For example, revenue recognition is expected to be completed in the first half of 2013. In the following sections of this paper, there will be a discussion of Revenue Recognition's due process as it has developed from its first exposure draft to a nearly finished product.

II. Revenue Recognition Convergence

A. Existing Revenue Recognition Standards

Revenue recognition is among the most difficult issues that standard setters and accountants must deal with regularly (Schipper, Schrand, Shevlin, & Wilks, 2009). The current U.S. GAAP model provides industry- and transaction- specific guidance that has been developed on an ad hoc basis and therefore is not very consistent. This method allows revenue to be recognized when two conditions are met: revenue is both realized or realizable and earned. The FASB's Concepts Statement No. 5, paragraph 83(b), states in more detail that "an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and 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." The SEC believes revenue is realized or realizable and earned when the following four criteria are met: 1) persuasive evidence of an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the seller's price to the buyer is fixed or determinable; and 4) collectability is reasonably assured. It is apparent, that there are several definitions that dictate when revenue can be recognized using U.S GAAP.

This standard has numerous flaws. In particular, FASB named the following five reasons for undertaking the revenue recognition project. 1) Evolving business models make choosing among industry- and transaction- specific guidelines confusing; several industries such as entertainment, airlines, and software have their own revenue recognition guidelines, but these three industries also have transaction- specific guidelines. Differentiating when to use which guideline can be confusing for companies. This relates to FABS's second reason for the revenue project. 2) The current model consists of more than 100 pronouncements by various standard setting bodies which can be hard to retrieve and can be inconsistent. As mentioned in the above paragraph, the SEC and the FASB have different requirements for the basic revenue recognition definition. 3) Despite the numerous pronouncements, there is little guidance for service activities; the only specific guidance for service activities are for these situations: ‘Separately Priced Extended Warranty and Product Maintenance Contracts’, ‘Commissions from Experience-Rated or Retrospective Insurance Arrangements’, ‘Fees for Guaranteeing a Loan’, ‘Services for Freight-in-Transit at the End of a Reporting Period’, ‘Advertising Barter Services’, and ‘Long-Term Power Sales Contracts’ (FASB, 2012). The remainder of service activities must rely on general principles in order to determine revenue recognition. 4) Revenue recognition is a primary source of restatements because of application errors and fraud; Figure 1 below demonstrates that revenue recognition is the second most frequent reason for companies restating their financials. 5) The last reason is that revenue data are highly aggregated, and users say they would like more details about specific revenue-generating activities (Schipper).

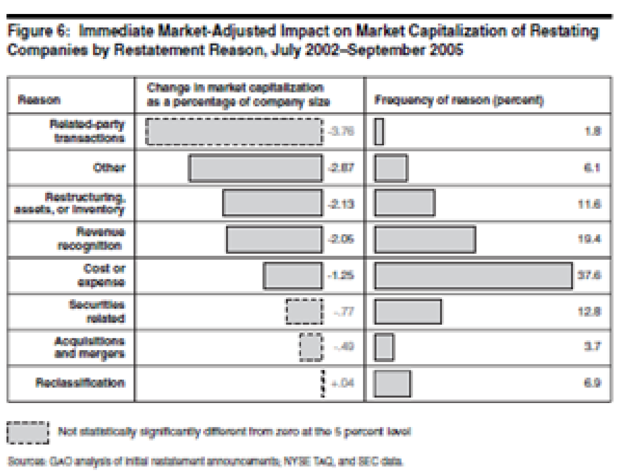


Figure 1

IFRS has a different framework for revenue recognition which is defined by the IASB as: “the gross inflow of economic benefits (cash, receivables, other assets) arising from the ordinary operating activities of an entity (such as sales of goods, sales of services, interest, royalties, and dividends) [IAS 18.7]” (International Financial Reporting Standards). Under IFRS, it is allowed to be recognized when it meets the following criteria: 1) it is probable that any future economic benefit associated with the term of revenue will flow to the entity, and 2) the amount of revenue can be measured with reliability.

Although the basic foundation of U.S. GAAP and IFRS appear to be similar, they produce differing results for economically similar transactions. One of the most common revenue recognition issues relates to the determination of when transactions with multiple deliverables should be separated into components (PWC, IFRS and US GAAP: similarities and differences, 2012). For example, US GAAP requires consideration to be allocated based on relative selling prices. A hierarchy is in place which requires fair value to be used in all circumstances in which it is available. When it is not available, third-party evidence should be used. When third-party evidence is not available, the last option is to use a best estimate of the selling price. Although the residual method of allocating consideration is no longer allowed for U.S. GAAP, it is still permitted under IFRS. Under the residual method, “the amount of consideration allocated to the delivered items equals the total arrangement consideration less the aggregate fair value of the undelivered items” (PWC, A look at current financial reporting , 2011). IFRS also allows fair value to be estimated using a cost plus a margin approach to which U.S. GAAP does not consent.

Revenue Recognition is an important topic because it is one to the most important and complex challenges facing companies today. Due to its complexity, it is considered to be one of the top accounting and auditing areas of risk and is found to be one of the most significant causes of material weakness in internal control over financial reporting. Therefore, the Boards have substantial motivation to work together in order to produce one set of refined standards (PWC, IFRS and US GAAP: similarities and differences, 2012).

B. Due Process

The revenue recognition project became the Boards' mission to improve financial reporting in the following four ways: "removing inconsistencies in existing standards and providing a more robust framework for addressing issues, improving comparability across companies, industries, and capital markets, requiring enhanced disclosures, and clarifying the accounting for contract costs" (Financial Accounting Standards Board, 2012). If put into effect, the new proposal will be applied to all contracts that provide goods or services to customers, except for leases, insurance contracts, and financial instruments.

The proposal was developed from research the boards had worked on in 2007 when they were in the preliminary stages of trying to develop revenue recognition models. During this time, they created the customer consideration model which records, at contract inception, the total amount of customer consideration that is allocated to each performance obligation. When a performance obligation is satisfied, the amount of consideration originally allocated to that obligation is recognized as revenue. An obligation is typically satisfied by delivering goods and/or rendering services, and therefore the timing of revenue recognition is very similar to the current U.S. GAAP model which was discussed in the previous section.

The amounts to allocate using the customer consideration model are determined using a hierarchy of most reliable to least reliable estimations. The best way to allocate an individual contract element is to use its sales price. The next best way is to use the sales price of a company's competitor. The last way to determine the allocation amount is to estimate it using inputs that reflect the entities internal assumption; for example, the cost of the item plus an estimated margin. This model does not allow any changes to be made to the originally allocated amount unless the contract is determined to be onerous in which case the contract will be tested to ensure the performance obligations are not understated.

Another element of the customer consideration model is the acknowledgement that part of the performance obligation may be delivered on or before the contract inception date. Think about a sales demonstration. Any pre-contract costs and any post-contract overhead costs are already incorporated into the amount of consideration that the customer promises to pay. Therefore, no assets or liabilities relating to the contract are recognized at contract inception, and furthermore, no revenues can be recorded at contract inception.

The second model under consideration is called the measurement (fair value) model. The first step to implement this model is to measure the remaining performance obligations at contract inception at the amount a third party would charge to assume all those obligations. This is known as the exit price. If the total exit price is less than fair value, then the firm recognizes revenue at the inception date. The second step for implementation is to re-measure the remaining performance obligations at each reporting date in order to determine their current exit price. Since most responders had issues with the possibility of revenue being recorded at inception and the ability of the exit price to change, the model published in the first exposure draft was more similar to the customer consideration model.

In June 2010, the Boards issued the first Exposure Draft for the Revenue Recognition from contracts with customers' project. This exposure draft contained proposals on when to recognize revenue, how to measure it, and what to disclose. It was the result of in depth discussions between the Boards regarding input they received from interested parties such as preparers, auditors, investors, and regulators about how to improve the current standards.

1. Comment Letters

After publishing their proposals in the exposure draft, the Boards set aside a period of time for involved parties to give their input. Following a substantial amount of public roundtables, workshops, and webcasts explaining the contents of the exposure draft, the Board collected nearly 1,000 comment letters from companies and organizations wishing to share their opinions.

From the sample of comment letters reviewed, most respondents generally supported the revenue recognition prepositions. The following complaints, however, were addressed by multiple responders and therefore, are considered to be substantial issues. For example, there were several concerns about the identification of separate performance obligations only on the basis of the timing of transfer of the good or service to the customer. Some respondents urged the boards to consider nontraditional transactions that may be fulfilled prior to the actual delivery of the good or services. A good example for this situation is foreign mining firms which currently recognize revenue when the mineral is "delivered to the ship for export to the customer" instead of when the mineral actually changes hands at its destination (Colson, et al., 2010). This industry will have to restructure their contracts to permit the continuous transfer of goods, and some companies within this industry will be forced to delay revenue recognition.

The construction industry is also noted to have complaints against this proposed standard since they will not be able to recognize revenue prior to the completion their construction projects. Some respondents asked that the percentage-of-completion method be incorporated into the new standard for certain circumstances since analysts found it was not subject to significant abuse and it better reflects the verifiable economic substance of a company's operations. Another suggestion was to allow the customer to specify benchmarks during the construction process that the customer would be able to inspect and verify their acceptance of the intermediate performance obligations. "We advocate a model in which revenue is recognized in relation to the costs incurred to produce that revenue as long as there is a contract in place and the measurement of the revenue can be made with some threshold of reliability" (Colson, et al., 2010). This would base revenue recognition on the creation of value to the customer rather than simply the legal transfer of the asset.

Auditors, as well as some other interested parties, believed the proposal contains too many disclosure requirements for both the annual and interim financial statements. They worry that with so many disclosures, the useful information will be hidden. Therefore, they recommend the disclosures be simplified and reduced in order to save themselves time and money. Others argued that the disclosure notes seemed too much like a "checklist" and are too prescriptive for a topic as broad as revenue recognition.

Many preparers of the financial statements were concerned with the time and costs associated with a retrospective application of the proposed changes. Large firms could have thousands of contracts at any time so requiring the publicly traded companies to restate their revenue for the past five years is impractical. Therefore, many comment letters recommended a prospective treatment of the proposed changes.

Due to the complexity of the revenue recognition convergence, the Boards chose to publish a second exposure draft in December 2011 before issuing a final standard in order to avoid unintended consequences arising from the final standard. Leslie Seidman, the chairman of FASB, announced before the release of the second exposure draft that "Because this proposed standard would affect companies across a wide range of industries, we are taking this additional quality control step to ensure that the final standard is well understood by companies, auditors, and investors before it is issued as a final standard." Hans Hoogervorst, chairman of the IASB, also commented on the exposure draft stating: "Our proposals will give analysts and investors the confidence that revenue is being presented on a consistent basis, across industries and continents."

In the 2011 exposure draft, the Boards have clarified many of the principles contained in the 2010 exposure draft. In particular, they added an expedient that permits an entity to recognize costs of obtaining a contract as expenses; they removed the proposed requirement to discount the transaction price when the period between payment and transfer of the promised goods or services will be one year or less; they added criteria to help companies determine when a performance obligation is satisfied over time as well as guidance on how to determine when a good or service is transferred over time; they simplified how an entity would determine a transaction price, including collectability, time value of money, and variable consideration; they simplified the criteria for determining whether a good or service is distinct when identifying separate performance obligations; they simplified the proposals on warranties; they eliminated the proposed requirement to adjust the transaction price for collectability and replaced it with a requirement to present an estimate of uncollectible amounts adjacent to revenue; and they are permitting a company to use a "most likely amount" approach when estimating variable consideration. These principles will be discussed in more detail in later sections of this paper.

As mentioned above, the Boards removed the proposed requirement to discount the transaction price when the period between the payment and the transfer of goods or services is one year or less. This is because the time value of money does not fluctuate during a short time span. The transaction price will be affected by the time value of money, however, if the contract has a significant financing component. Factors to help evaluate when the financing component is significant is included in the proposed model.

In the second exposure draft, the Boards also clarified how to account for the costs of obtaining a contract. They proposed that an entity would recognize an asset for incremental costs of obtaining a contract with a customer if the costs are recoverable. These capitalized costs would be amortized in unison with the transfer of goods or services to which the asset relates. These capitalized costs would be subject to impairment testing. If the amortization period is one year or less, an entity can decide to expense the costs instead of capitalize them.

A third clarification in the new exposure draft related to collectability which is defined as the risk that the entity will be unable to collect contract consideration from the customer. This is also known as credit risk. Some guidelines related to collectability include: there is no recognition threshold for expectations about collectability, revenue is recognized based on the amount the entity expects to be entitled to without regard to collection risk, if collectability is significantly in doubt a contract may not exist, and any impairment losses will be presented as a separate line item adjacent to revenue.

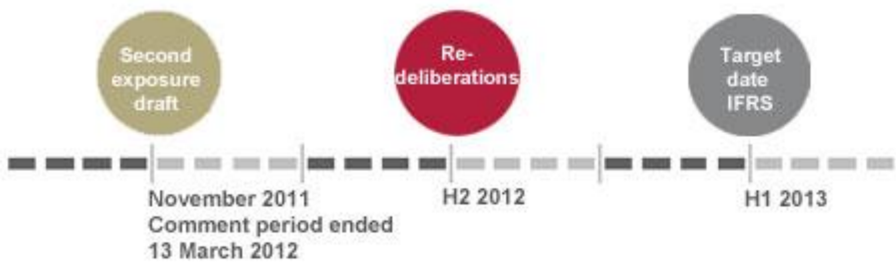
Also included in the 2011 exposure draft are details about how the proposed standards would apply to private and not-for-profit organizations. One differentiation is that these organizations do not have to disclose most of the proposed quantitative requirements. Another is that not-for-profits have been granted an exception from having to apply onerous performance obligation tests for contracts that have been entered into primarily for charitable or social benefit purposes. Also, private and not-for-profit organizations will have at least one extra year to implement the new revenue recognition standard.

The 2011 exposure draft was open to stakeholders' comments until March 2012. The Boards commented that they received significantly less responses from this exposure draft which they attribute to the fact that they addressed the construction company's concerns from the last exposure draft regarding the criteria for identifying separate performance obligations and for determining performance obligations that are satisfied over time.

FASB has created a summary of the comment letters which recognizes their responders'' major concerns. After this exposure draft they discovered that many users and preparers support the principles of the model that bases revenue recognition on the transfer of control of goods or services. "However some thought that, in addition to assessing the transfer of control, some transactions (e.g. when there is significant seller financing) may require an additional assessment as to whether risks and rewards have been transferred" (Financial Accounting Standards Board, 2012).

In addition to this concern, a minority of responders requested that, due to the complexity of the proposed standard, additional "field testing" be completed prior to its implementation. Others suggested that the Boards create educational implementation workshops in order to address questions that will help create the consistent application of the final standard.

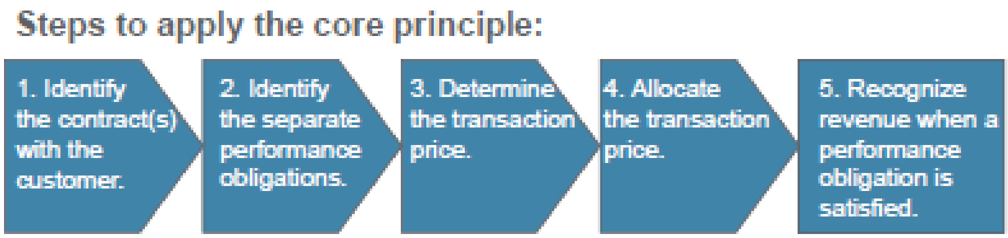
The Boards are currently in the process of looking over and discussing the feedback from the second exposure draft and are expected to publish a final standard during the first quarter of 2013.



(International Financial Reporting Standards)

III. New Proposed Model

The process of recognizing revenue while conforming to the proposed principles requires following five key steps that together depict the "core revenue recognition principle" which states: "A company must recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration the company expects to be entitled to receive in exchange for those goods or services" (Spiceland, 2012). Therefore, in order to recognize revenue, the customer must obtain control of the asset. The following diagram depicts the five step process that should be followed in order to recognize revenue under the new model.



(Financial Accounting Standards Board, 2012)

In order to gather a better understanding of the proposed regulations, this paper will go into more detail about each of these five steps as well as use the following example: Comcast Corporation is an American company that provides cable television, broadband internet, and telephone services. All three services can be sold as a bundle deal for $79.99/month. These services can be split up, however, so that a customer can buy cable television for $39.99/month, internet for $49.99/month, and telephone services for $29.99/month. Richard just purchased the bundle deal for $79.99/month on May 10, 2013. The contract with Comcast stipulates that Richard will start receiving bills 30 days after Comcast comes to set up his cable, phone and internet services. Until Comcast sets up their services, for which they will charge a $19.99 installation fee, either Comcast or Richard can cancel the contract without penalty. Comcast sets up their services in Richard's house on May 20, 2013.[1]

A. Identify the contract

The first step a company would take in order to achieve the core principle of the revenue proposal is related to price interdependence and requires the company to identify the contract(s) with the customer. The proposal states that "a company would account for two or more contracts together if the prices of those contracts are interdependent. Conversely, a company would account for a single contract as two or more contracts if some goods or services are priced

[1] This example has been modified from its original form (Spiceland, 2012).

independently of other goods or services" (Financial Accounting Standards Board, 2012). In the proposed model, a contract is defined as an agreement that creates legally enforceable rights and obligations. The following characteristics must be met in order to recognize revenue for a contract with a customer: the contract has commercial substance, the parties have approved the contract and are committed to perform, the rights are identifiable, and the payment terms are identifiable. The contract may be oral, written, or implied by customary business practices. This differs from the current guidance which states that persuasive evidence of an arrangement must exist. In this case, persuasive evidence refers to the final understanding between parties about the specific nature and terms of an agreed-upon transaction, and it must be consistent with customary business practice in that it includes a contract, purchase order, etc. Compared to the current guidance, the new proposal has more stringent guidelines.

Using the example from above, one can determine if the contract between Richard and Comcast fulfills the five requirements necessary to be considered enforceable. The contract has commercial substance because cash will be exchanged between Richard and Comcast. It has approval since both involved parties would have signed the contract. Each parties' rights are specified which fulfills the "rights" criteria. The payment terms are also clarified in the contract which states Richard will pay Comcast $79.99/month starting 30 days after the services are started. Finally, the performance requirement has also been stated since the contract allows either party to cancel the order without penalty prior to Comcast coming to set up Richard's home. Once Comcast comes, they have performed their contractual obligation, so the contract exists as of that date for purposes of revenue recognition.

B. Identify the Performance Obligation(s)

The second step is to identify the separate performance obligations which is a promise included in a contract to provide goods or services to a customer. This separation of distinct goods or services proposal requires a company to account for a performance obligation separately only if the good or service is distinct. Therefore, it can be accounted for separately if the good or service is sold separately or it could be sold separately because it has a distinct function and a distinct profit margin. Sometimes, a bundle of goods and services is treated as a single performance obligation if the following two criteria are met: 1)"the goods or services in the bundle are highly interrelated and the seller provides a significant service of integrating the goods or services into the combined item(s) delivered to a customer; 2) the bundle of goods or service is significantly modified or customized to fulfill the contract." This proposal allows a company to separate a contract into different units of accounting from those identified in current practice.

Prepayments, rights of return, warranties and customer options for additional goods or services are aspects in contracts that can make it difficult to separate performance obligations. In general, prepayments are not separate performance obligations because they are not a promise to transfer a good or service to a customer. The fee paid upfront is instead allocated to the different performance obligations from the contract and it then recognized as revenue after each performance obligation is satisfied. A right of return is also not considered its own performance obligation since it is a failure to satisfy an obligation. Warranties are not separate performance obligations either. They are viewed as a cost of satisfying the performance obligation at an acceptable quality. If a customer has the option to receive additional goods or services at no cost or discount, then they can be considered separate performance obligations provided that the option is a material right that the buyer would not have otherwise. Software upgrades, customer loyalty programs, and contract renewal options are all examples of customer options for additional goods or services. In the Comcast example, the three services, telephone, cable, and internet, are three separate performance obligations because the Comcast can sell the services separately and because the Richard could use one service, such as the telephone, on its own. The setup fee is a bit more complicated. Undercurrent GAAP Comcast recognizes setup fees as a separate form of revenue, however, will it still be a distinct service using the new proposal? Since the setup relates to the other three services, there may be an argument for it being part of a bundle. It is, however, still a distinct performance obligation because it is a promise to the customer to provide a service, and it has a distinct function with its own identifiable profit margin.

C. Determine the Transaction Price

The third step is to determine the transaction price using the probability-weighted expected amount proposal guidelines which states that the "transaction price would reflect the company's probability-weighted estimate of variable consideration (including reasonable estimates of contingent amounts) in addition to the effects of the customer's credit risk and the time value of money (if material)" (Financial Accounting Standards Board, 2012). The transaction price is formally defined as the amount of consideration a company expects to receive from the customer in exchange for transferring goods or services. Comcast's example is straightforward in this case as the transaction price would be $79.99/month for the cable, telephone and internet services plus the setup fee of $19.99.

The time value of money is material if the delivery and payment of a good or service are over a span of one or more years. This can often occur due to a prepayment where the good or service is paid in advance or in the form of a receivable where the good or service has been delivered, but the money has not been collected yet. This differs from current GAAP that generally accounts for the time value of money for long-term receivables but not for customer prepayments. If the time value of money is considered material, the sales transaction includes a delivery component for goods or services and a financing component which would consist of the interest. In general, sellers can assume the financing component is not significant if the period between delivery and payment is less than one year.

To help illustrate how to use the probability-weighted amount, assume TruTV is a cable network and Sharpest Knives paying them to run their information advertisement. They have an agreement that Sharpest Knives will pay TruTV a fixed amount of $300,000 for six months of advertising. If at least 15,000 knives are bought during the six month period, TruTV will receive a $200,000 bonus. They estimate a 75% chance that they will earn the bonus. A probability-weighted transaction price would be calculated as follows: ($300,000+$200,000) x (75%) + ($300,000+0) x (25%) = $450,000. This would be the expected price at inception.

To increase the complexity of this example, assume that Sharpest Knives and TrueTv's contract states that in addition to the $300,000 TruTv will receive for the six months of advertising, they will receive a $200,000 bonus if at least 15,000 knives are bought. This bonus, however, will not be paid to TruTV until two years after they have fulfilled their performance obligation in order to account for returns in the 15,000 threshold. Since TruTv will not receive their bonus within one year of performing their obligation, they must take the time value of money into consideration. Assuming that TruTV uses a discount rate of 6.5%, the discounted amount to recognize for their bonus would be: $200,000* $(1+ .065)^2$= $226,845. Using this new bonus amount, the expected price and inception would be: ($300,000+$226,845) x (75%) + ($300,000+0) x (25%) = $470,134.

D. Allocate the Transaction Price to the Performance Obligations

Allocating the transaction price to the performance obligations is the fourth step which deals with the relative selling price allocation method. It states that a company should allocate the transaction price to its performance obligations in proportion to the standalone selling price of the good or service in relation to each performance obligation..

Using the Comcast example from above, the transaction price can be allocated as follows: Telephone= $79.99 ($29.99/ $119.97) = $20.00; Internet= $79.99 ($49.99/ $119.97) = $33.33; Cable= $79.99 ($39.99/ $119.97) = $26.66; and the setup= $19.99. This allocation is quite simple because Comcast provides the standalone selling price of each performance obligation.

If this selling price was not obvious, a company would have to use the three methods mentioned above to estimate their standalone selling price which could become a difficult and time consuming process. If necessary the selling price can be estimated using the following methods: 1) adjusted market assessment which allows an entity to estimate the price of a good or service based on what they believe customers in their market would be willing to pay for it. One way to approach this method is for a company to research their competitors' prices and adjust their prices accordingly; 2) expected cost plus a margin for which a company estimates the costs they will incur to satisfy a performance obligation and then add a margin onto that estimate; and 3) residual, but only if the standalone selling price is highly variable or uncertain. As mentioned above, GAAP recently disallowed the residual method but are agreeing to use it again as a worst case scenario.

E. Recognize Revenue When (Or As) Each Performance Obligation is Satisfied

The final step is to recognize revenue once a performance obligation is satisfied. "A company would recognize revenue when it satisfies a performance obligation by transferring the promised good or service to the customer which is when a customer obtains control of the promised good or service. The amount of revenue recognized is the amount allocated to that performance obligation in Step 4" (Financial Accounting Standards Board, 2012). The proposal further states that a performance obligation can be satisfied at a single point in time or over a period of time.

A performance obligation is satisfied over a period of time if at least one of the following two criteria is met: 1) The seller is creating or enhancing an asset that the buyer controls as the service is performed; or 2) the seller is not creating an asset that they buyer controls or that has alternative use to the seller, and at least one of the following conditions hold: a) the buyer simultaneously receives and consumes a benefit as the seller performs; b) another seller would not need to re-perform the tasks performed to date if that other seller were to fulfill the remaining obligation; c) the seller has the right to payment for performance even if the buyer could cancel the contract, and it expects to fulfill the contract. The seller can recognize revenue over time only if it can reasonably measure progress towards completion. Therefore, the seller needs to implement a method, such as the percentage-of-completion, to help estimate how much revenue to recognize.

If the seller transfers control of goods to the buyer at one point in time then revenue can be recognized right after the transfer. Some indicators that control of a good or service has passed from one owner to the other are: the buyer has an unconditional obligation to pay, the buyer has legal title, the buyer has physical possession, buyer assumes risks and rewards of ownership, and the buyer has accepted the asset.

We can again use Comcast as an example to help show when revenue can be recognized. Since the service fee has been determined to be its own performance obligation, it can be recorded as revenue after Comcast has completed setting up Richard's house for cable, internet, and telephone on May 20th. The bills for the other three services are sent to Richard after they have been performed; as stated in the contract, Richard is not receive a bill until a month after they have been set up. Therefore on June 20th, after one month of service, Comcast can record $79.99 worth of revenue from their contract with Richard.

Included in the revenue recognition proposal are requirements meant to improve and clarify the disclosures since they are currently viewed as inadequate for users to understand a company's revenues. One recurring comment regarding existing U.S. GAAP was idea that revenue is the largest line item on the income statement but it has the smallest footnote disclosure containing basic information about revenue recognition policies. The new disclosure requirements will help users better understand the amount, timing, and uncertainty of revenue and cash flows with customers. In order to do this, a company would have to disclose qualitative and quantitative information about: "its contracts with customers including a maturity analysis for contracts extending beyond one year, and the significant judgments and changes in judgments, made in applying the proposed standard to those contracts" (Financial Accounting Standards Board, 2012).

IV. Comparison of Current Guidance to Proposed Model

The proposed standards mentioned above would affect the current practices in several ways. When adopted, the proposed standard will replace IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations. In US GAAP , it would replace the guidance on revenue recognition in Topic 605 of the FASB Accounting Standards Codification. The following section will explain some of the differences between the current US GAAP standard and the proposed model.

One of the changes involves the criteria for what is considered the delivery of a product or the performance of a service. This is one of the four conditions needed to be able to recognize revenue under the current model. The condition currently states that revenue should not be recognized until the seller has substantially accomplished what it must do pursuant to the terms of the arrangement where substantial accomplishment of performance usually occurs upon delivery of good(s) or performance of service(s). Risks and rewards of ownership must also pass upon delivery or performance in order for revenue to be recognized. The proposed model considers the delivery of goods or the performance of services to be fulfilled once the control of the contractually promised goods or services has transferred to the customer and that revenue may be recognized. This delivery may occur at a point in time or over time. Indicators of the transfer of control include: right to payment, passage of legal title, physical possession, significant risks and rewards, and customer acceptance.

A fixed or determinable sales price is also one of the four current revenue recognition standards that will be changed under the new proposal. The current guidance defines a fixed fee as a set fee not subject to refund or adjustment. In cancellable arrangements, the sales price is generally not fixed or determinable until cancellation privileges lapse. Once the new model is adopted, a contract's transaction price, which represents the amount of consideration to which an entity is entitled to after the transfer of a good or service, may include variable consideration components. In this case, an entity would estimate variable consideration using either an expected value or the most likely amount. If there is variable consideration, cumulative recognition revenue may be constrained to the amount that is reasonable assured. A performance obligation is considered reasonably assured, if the entity has evidence with similar types of performance obligations or if the entity's evidence is predictive of the amount of consideration to which the entity will be entitled for satisfying its performance obligations.

The amount of revenue that can be recognized is currently constrained to the amount that is fixed or recognizable. Certain industries provide additional guidance about the constraint considerations. In the new model, revenue can be considered even if it is variable as long as the amount is "reasonably assured." In addition to being reasonably assured the entity must have experience, or other evidence, with similar types of performance obligations, and the entity experience is predictive of the amount of consideration to which the entity will be entitled for satisfying its performance obligations.

Under the current model, revenue from an intellectual property, licensing agreement or similar arrangement cannot be recognized before the inception of the license term. Once the term begins, however, revenue should be recognized consistent with the nature of the transaction and the earnings process. This differs from the proposed model which will allow revenue from a license or similar arrangement to be recognized when the customer obtains control of the rights. The model still does not allow revenue to be recognized before the beginning of the period that the customer can use and benefit from the license property. In general, revenue is recognized at a single point in time, however there are several exceptions. These exceptions include: fees that are sales-based, fees that are constrained by the reasonably assured criterion that was discussed above, and the right to use is combined with other performance obligations.

The existing guidelines for deliverables require the deliverables within an arrangement to be identified as a separate unit of accounting (also known as a performance obligation) or account some/all of the deliverables as a single unit of accounting. The criteria for determining whether a deliverable is a separate unit of accounting are: the deliverable must have standalone value to the customer and if there is a general right of return relative to the delivered item, delivery or performance of the undelivered item or items is considered probable and substantially in control of the vendor. The future model requires all goods or services promised in a contract to be evaluated to determine which are distinct and should be accounted for as a separate performance obligation.

In general the current guidance dictates that once all four revenue recognition conditions are met for service deliverables, service revenue should be recognized on a straight-line basis, unless there is evidence that revenue is earned over a contractual term of service period. To recognize revenue over a period of time, the percentage of completion method can be applied if the following criteria are met: 1) reasonably dependable estimates of progress toward completion, 2) revenues and costs can be made; 3) the contract stipulates enforceable rights, consideration, and settlement; 4) they buyer expects to satisfy all obligations; and 5) the contractor is expected to perform. The new model proposes that control of a promised good or service is transferred to a customer over a period of time if one of two criteria is met which are: 1) the customer controls the asset as it is created or enhanced and 2) the asset created has no alternative use to the entity. In addition to meeting the second criteria stated above any of the following three criteria needs to be met: a) the customer receives a benefit, b) another entity would not have to re-perform, or c) the entity has right to payment. If these criteria are met, then the performance obligation is considered to be satisfied over a period of time.

The current model for contract modifications contains industry-specific guidance. For example construction-type and production- type contracts, contract revenue and costs must be adjusted for approved contract modifications that involve scope and price. The incoming model accounts for contract modifications depending on the type of modification. It contains specific guidance to account for the following types of contract modification scenarios: 1) scope change with pending price change also known as un-priced change orders 2) price change only 3) price and scope changes that constitute a separate contract 4) price and scope changes that constitute a termination of the original contract and the creation of a new contract 5) price and scope change that constitute part of the original contract.

Disclosures under the proposed model will also differ from the way they are currently completed. There are currently disclosure requirements included in industry-specific and general recognition standards. The SEC also has certain revenue disclosure requirements for publicly traded companies. Three categories for requirements are: 1) general requirements for example accounting policies, seasonal revenue, segments, and related parties; 2) specific requirements like multiple-element arrangements, nonmonetary revenue transactions, bill-and-hold, fees for services; and 3) industry requirements such as construction, contractors, and franchisors. These disclosures differ from the model depicted in the exposure draft which wants annual disclosures to be expanded to include information about contracts with customers, significant judgments and changes in judgments in applying the proposed model and assets recognized from costs incurred to obtain or fulfill a contract. The disclosures in relation to contracts with customers will include a disaggregation of revenue, a reconciliation of contract balances and descriptions of performance obligations. It should also be noted that nonpublic entities are allowed to provide more qualitative, in contrast with quantitative, information for some disclosures, and they may elect not to include some disclosures. The objective of these more descriptive disclosures is for users of financial statements to understand the nature, timing, amount, and uncertainty of revenue and cash flows from contracts with customers.

Guidance under the existing accounting model only provides industry and transaction-specific regulations for repurchase agreements. For example for sales of real estate, "if the seller retains an obligation or option to repurchase the property or the buyer can compel the seller to repurchase the property, then the transaction does not qualify for sales accounting. It would instead be treated as a financing, lease, or profit-sharing arrangement" (International Financial Reporting Standards). The proposed model takes into consideration which party holds the obligation or right and the relative purchase price as compared to the original selling price. For example a forward or call option would be accounted for as a lease if the repurchase price is less than or equal to the original selling price and would be accounted for as a financing arrangement if the repurchase price is greater than the original selling price. If the repurchase agreement is dealing with a put option then it can be recorded as a lease, a sale with a right of return, or a financing agreement. In order to decipher which type to use, it is necessary to consider whether the customer has a significant economic incentive to exercise the options.

There are several other accounting topics that may be affected by the proposed model including: allocating a discount entirely to one (or some) separate performance obligations, loyalty programs, noncash consideration, right of return asset, uninstalled materials, and customer's unexercised rights. This paper, however, will not go into detail about how these accounting models will be altered.

It will be interesting to see in the final standard what changes the Boards make to the proposed model based on the comment letters from the second exposure draft. For example, although most respondents supported that model that revenue should be recognized based on the transfer of control of goods or services, some asked the Boards to develop a definition of control issuing a revenue standard based on the transfer of control (Financial Accounting Standards Board, 2012).

In regards to a performance obligation being satisfied over time, some responders had industry-specific questions and therefore requested some more guidance. The aerospace and defense industry, in particular, wanted to know whether it would be acceptable to use a units of delivery method to measure progress in a production contract that is accounted for as a single performance obligation satisfied over time. This method would allow revenue and costs of goods sold to be recorded as the company delivers parts of their work to the customer over time.

Another comment that organizations responded with related to the definition of bundled goods. Many requested clarification about such terms as 'highly interrelated', 'significant service of integration', and 'significantly modified or customized'. Some industries, such as the software industry, also expressed difficulty determining how much modification or customization would be considered 'significant' especially for contracts that require software plus some customization.

Many responders were also opinionated about the proposal that would constrain the amount of revenue recognized when the amount of consideration is variable. As mentioned above, the proposal constrains the amount of revenue allowed to be recognized to the amount of variable consideration that is reasonably assured, and that their estimations should be based on predictive experience. Most users supported this proposal; some, however, mentioned they would like the Boards to define what they consider 'variable', 'reasonably assured', and 'predictive experience'. It is apparent from the comments mentioned above, as well as other comments not mentioned, that responders want as much information as possible available to them in order to correctly record revenue.

V. Conclusion

Anderson and Yohn (2002) concluded through their research that "when there are problems in a company's financial statements, investors are more concerned about revenue recognition than any other reporting issue" (Colson, et al., 2010). See figure 1 which demonstrates their conclusion that revenue recognition is at a high risk for manipulation and improper treatment. For this reason, as well as many others discussed throughout this paper, revenue recognition is considered one of the most important, yet most difficult accounting concepts. Therefore it is crucial to take the necessary time to adhere to the convergence's due process and thoroughly reflect upon the implications that will result if the new proposal in enacted. After the publication of two exposure drafts that were accompanied by several roundtables, numerous discussion boards, thousands of comment letters and other forms of communication the Boards are finally content with the information they have gathered from investors, preparers and users of financial statements. Therefore, they have announced that in the beginning of 2013, they will publish the final revenue recognition with contracts from customers' international standard. The next and final step is to implement this standard, as well as the other convergence standards in publicly traded companies around the globe.

As an accounting student about to enter the professional world, it is daunting to know that after only a couple years of work experience, the methods I have spent my educational career learning are going to be altered. On the other hand, I realize that accounting standards are frequently updated so that they can continuously improve. Therefore, it seems logically that this change needs to occur in order for financial statements to be comparable. Although the costs required by companies to implement this change will be substantial, the benefits will eventually outweigh these initial costs. Companies are becoming more and more international; therefore, it is time to make accounting standards international as well. The costs and problems associated with the new standards are going to be extensive if the principles are put into effect this year or 20 years from now. The SEC has to realize this and agree to withdraw some of their control in order for accounting to become more international. The Boards have thoroughly researched revenue recognition from contracts with customers and spent several years perfecting the new standard. They have taken this due diligence with all the convergence projects. It is time to make use of their hard work, as well as all other stakeholders who contributed to the project.

VI. Works Cited

(2012). Retrieved from Financial Accounting Standards Board: http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176154526495

Ackman, D. (2002, March). *House Committees To Investigate Global Crossing* . Retrieved from Forbes: http://www.forbes.com/2002/03/13/0313topnews.html

Cohn, M. (2011, September 20). *FASB's Convergence Timeline Moves to Next Year*. Retrieved from Accounting Today: http://www.accountingtoday.com/news/FASB-Convergence-Timeline-Moves-Next-Year-60035-1.html

Colson, R., Bloomfield, R., Christensen, J., Moehrle, S., Ohlson, J., Penman, S., . . . Watts, R. (2010). Response to the Financial Accounting Standards Board's Joint Discussion Paper Entitles Preliminary Views on Revenue Recognition in Contracts with Customers. *American Accounting Association*, 689-702.

FASB. (2012). Retrieved from Accounting Standards Codification: asc.fasb.org

Global Crossing. (n.d.). Retrieved from Investopedia: http://www.investopedia.com/terms/g/globalcrossing.asp#axzz2EKjGsJyK

Hoffelder, K. (2012, July 16). *CFO*. Retrieved from SEC Staff Pulls Back on Accounting Convergence: http://www3.cfo.com/article/2012/7/gaap-ifrs_gaap-iasb-fasb-convergence-grant-thornton?currpage=0

International Financial Reporting Standards. (n.d.). Retrieved September 2012, from IFRS: http://www.ifrs.org/The-organisation/Pages/IFRS-Foundation-and-the-IASB.aspx

Principles-Based Accounting Definition. (2012). Retrieved from Ventureline: http://www.ventureline.com/accounting-glossary/p/principlesbased-accounting/

PWC. (2011, May 12). *A look at current financial reporting* . Retrieved from PWC: http://www.pwcrevrec.com/datalines/2011-02.pdf

PWC. (2012). *IFRS and US GAAP: similarities and differences*. Retrieved from PWC: http://www.pwc.com/us/en/issues/ifrs-reporting/publications/ifrs-and-us-gaap-similarities-and-differences.jhtml

Schipper, K., Schrand, C., Shevlin, T., & Wilks, J. (2009). Reconsidering Revenue Recognition. *American Accounting Association*, 55-68.

Spiceland. (2012). *Internmediate Accounting.* mcgraw-hill; 7 edition.

U.S. Securities and Exchange Commission. (n.d.). Retrieved October 2012, from What We Do: http://www.sec.gov/about/whatwedo.shtml

W. F. Messier, J. S. (2012). *Auditing & Assurance Services: A Systematic Approach.*

Westervelt, M. (2011). *The End Is Near: IFRS Convergence*. Retrieved from Larson Allen, LLP.: http://www.larsonallen.com/EFFECT/New_International_Accounting_Standards_Prepare_for_IFRS_Convergence.aspx