

Volume 07 Number 20

September 30, 2011

ISSN 1947-3923

Accounting & Disclosure

Revenue Recognition

NORWALK, Conn.—The real estate industry should expect major changes from new revenue recognition guidance currently being crafted by accounting standard-setters, since the guidance will replace rules specific to real estate, a member of the Financial Accounting Standards Board said Sept. 27.

At a liaison meeting of the FASB and members of the Technical Issues Committee (TIC), the private companies practice section of American Institute of Certified Public Accountants, FASB member Marc Siegel said the changes occur partially because all revenue recognition rules (ASC 605) as well as specific real estate guidance such as FASB Statement 66 (ASC 360-20), Accounting for Sales of Real Estate, “will go away.”

FASB is in the final redeliberation phases of revenue recognition guidance being developed jointly with the International Accounting Standards Board for re-exposure this year.

Major Change.

Weighing in, TIC member Phil Santarelli of ParenteBeard agreed that the new guidance would represent a “major change for real estate,” and stated that the health care sector would also be impacted. “We’ve also been encouraging commentators and writers that here’s probably going to be a need for an audit guide for new revenue recognition,” Santarelli said.

FASB member Thomas Linsmeier cautioned that the profession should wait before writing an audit guide “until a few years of the new standard.” That is because “if it's written right away, what will happen is [practitioners would] write in the old GAAP into an audit guide,” he said.

Old GAAP to Be Deleted.

Siegel's comments were in conjunction with those of FASB Chairman Leslie Seidman to clarify a current—and wrong—industry assumption that FASB will keep in place portions of the existing revenue recognition guidance to supplement the new rules. “That is absolutely incorrect,” said Seidman.

The board would not expect, for example, accounting firms to be developing guidance based on old generally accepted accounting principles (GAAP) to supplement the new standard, she said. “So if there's any misunderstanding about that, I hope I clear it up a 100 percent for you right now,” said Seidman.

Backdrop.

Revenue is a crucial number to users of financial statements in assessing a company's performance and prospects. Currently, U.S. GAAP comprises broad revenue recognition concepts and requirements for particular industries or transactions, which can result in different accounting for economically similar transactions, according to a FASB written summary.

On June 24, 2010, the Boards published, for public comment, an Exposure Draft, Revenue from Contracts with Customers, but made substantive changes during redeliberations to that viewpoint.

The boards therefore plan on re-exposing a public comment document during the third quarter on the new revenue recognition guidance. Following that, the boards will focus on education and outreach.

By Denise Lugo