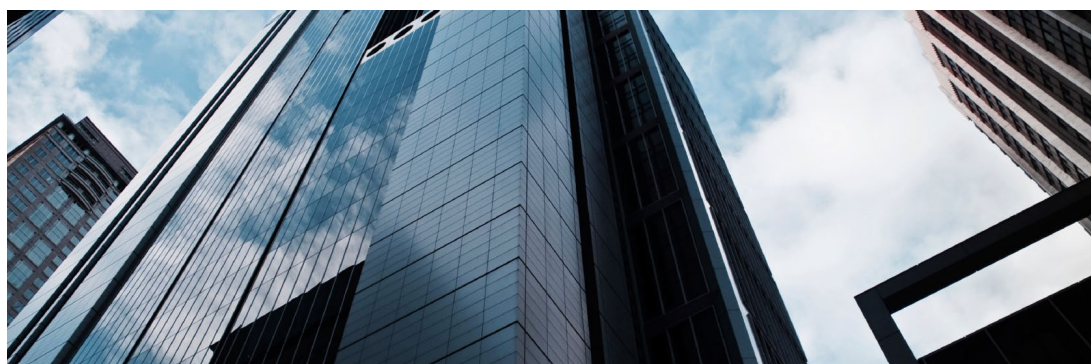


Real Estate Spotlight

E&C Entities Anticipate the Completion of the Converged Revenue Model

In This Issue:

- Background
- Key Accounting Issues
- Challenges for E&C Entities
- Thinking Ahead
- Appendix — *Deloitte Accounting Journal* Entries



The Bottom Line

E&C entities may face challenges in applying the new guidance and should focus on decisions that will directly affect their industry.

- Since jointly issuing their revised exposure draft (ED) on revenue recognition on November 14, 2011, which was released by the FASB as a [proposed ASU](#),¹ the FASB and IASB (the “boards”) have begun redeliberating many of the topics from the ED.
- Engineering and construction (E&C) entities may face challenges in applying the new guidance and should focus on decisions that will directly affect their industry, including those related to:
 - Identifying the contract (combining and modifying contracts).
 - Identifying separate performance obligations.
 - Recognizing revenue over time.
 - Constraining revenue.
 - Accounting for contract costs.
 - Adjusting revenue for the time value of money.
 - Disclosing information about revenue.
- Because the boards are redeliberating many of these topics, their final decisions could differ from those in the revised ED. For summaries of decisions reached at the boards’ recent meetings, see the *Deloitte Accounting Journal* entries in the [appendix](#).
- The final standard is expected to be issued in 2013 and would be effective no earlier than for annual periods beginning on or after January 1, 2015. However, full retrospective application may be required.

¹ FASB Proposed Accounting Standards Update, *Revenue From Contracts With Customers*.

Beyond the Bottom Line

This *Real Estate Spotlight* highlights certain requirements of the proposed revenue recognition model that are likely to have a significant impact on the E&C industry. It discusses both the currently proposed model and aspects of the guidance that are subject to change as the boards finalize the proposed standard.

Background

After receiving nearly 1,000 comment letters on the revenue recognition project, including 30 from entities in the E&C industry, and redeliberating the June 2010 ED, the boards issued a revised ED in November 2011 (changes from the June 2010 ED are discussed in detail in Deloitte's November 15, 2011, [Heads Up](#)). In addition, on January 4, 2012, the FASB issued a [companion proposed ASU](#) for public comment that would codify the revised ED's amendments.

The revised ED states that the goal of the revenue recognition project is to "clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRSs." Since the issuance of the revised ED, the boards have continued to meet and redeliberate many aspects of the project.

The revised ED retains the overall model that was originally proposed, which outlines five sequential steps to recognizing revenue:

1. "Identify the contract with a customer."
2. "Identify the separate performance obligations in the contract."
3. "Determine the transaction price."
4. "Allocate the transaction price to the separate performance obligations in the contract."
5. "Recognize revenue when (or as) the entity satisfies a performance obligation."

The identification of a contract will be a required first step for E&C entities.

Key Accounting Issues

The revised ED clarifies the revenue recognition principles and provides additional guidance on applying the proposed guidance to various revenue transactions. Although the effect of the proposals on some entities is expected to be limited, E&C entities may face certain accounting and operational challenges in applying the guidance in the revised ED. Some of those challenges are discussed below.

Identifying the Contract

The first step in applying the revised ED is to determine whether a contract with a customer exists. An entity would evaluate the specific terms and conditions of an arrangement to determine whether the parties to the arrangement have a supplier-customer relationship or some other relationship (e.g., as collaborators or as partners with other developers in construction arrangements, which are outside the scope of the revised ED). For accounting purposes, E&C entities must assess whether (1) multiple contracts should be treated as a single contract (i.e., "contract combination") and (2) contract modifications (e.g., change orders) should be treated as separate contracts or as part of an existing contract.

Management will have to use judgment in evaluating whether the contract-combining criteria are met for construction and other contracts.

Because the proposed guidance only applies to contracts with a customer, E&C entities would need to consider all relevant facts and circumstances in assessing whether the counterparty to an arrangement is a customer. Contracts with customers would exist if the contract has commercial substance, has been approved by each party, has created enforceable rights and obligations between the parties, and has identifiable payment terms. The existing presumption currently used by many entities that a contract is the “profit center” or “unit of accounting” may not always be the case under the revised ED.

Contract Combination

The revised ED requires entities to combine contracts that are entered into at or around the same time with the same customer (or parties related to the customer) if one or more of the following criteria are met:

- “The contracts are negotiated as a package with a single commercial objective.”
- “The amount of consideration to be paid in one contract depends on the price or performance of the other contract.”
- “The goods or services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation [as defined by the proposed ED].”

E&C entities often enter into multiple contracts with the same customer at the same time and may not currently evaluate whether the contracts are interdependent. Management will have to use judgment in evaluating whether the contract-combining criteria are met for construction and other contracts.

Currently, contract combination is permitted by U.S. GAAP under certain circumstances. In contrast, under the revised ED, contract combination would be required if one or more of the above criteria are met, potentially resulting in more contract combinations. Note that as outlined in the criteria above, contracts with different customers (that are not related parties) would not be combined.

Example

Entity A enters into two separate contracts: one to design a bridge and a second to build the designed bridge. Entity A signs the contracts for both projects on the same day with the same counterparty. In this case, A must consider whether these activities meet the contract-combination criteria noted above. If one or more of the criteria are met, A must account for the contracts together as a single contract and will then need to evaluate whether it has more than one performance obligation (discussed below).

Contract Modifications

The revised ED requires entities to account for contract modifications as separate contracts when the modifications result in (1) a separate performance obligation that is “distinct” (as defined) and (2) additional consideration that reflects the entity’s stand-alone selling price for that separate performance obligation (including any appropriate adjustments). If the entity determines that the modification is not a separate contract, the entity would generally:

- Evaluate the contract modification and allocate the remaining transaction price to the remaining performance obligations in the contract on a prospective basis.
- Update its measure of progress toward completion for performance obligations that are satisfied over time (which could result in a cumulative catch-up of revenue).

However, if the entity determines that the modification is a separate contract, it would apply the provisions of the proposed ED to the modification on a stand-alone basis.

Contract modifications may create additional units of accounting in the form of either separate contracts or separate performance obligations of the original contract. There are established practices in the E&C industry for accounting for both approved and unapproved change orders and claims. It is common for entities in this industry to seek price adjustments for changes in scope or cost for various reasons. Under the revised ED, before recognizing any related revenue, an entity would need to ensure that any change in scope or price meets the definition of a contract (which might not be the case for unapproved change orders or claims). In other situations, if a contract exists, an entity would apply the modification guidance in the revised ED. Consequently, entities in the E&C industry will need to evaluate change orders and claims to determine the appropriate manner in which the related revenue is recognized.

E&C entities will need to evaluate bundled arrangements (e.g., engineering, procurement, and construction services) to determine whether distinct performance obligations exist.

Identifying Separate Performance Obligations

The revised ED's principle for identifying separate performance obligations requires that entities "evaluate the goods or services promised in a contract and . . . identify which goods or services (or which bundles of goods or services) are distinct." This guidance supersedes the segmentation guidance in ASC 605-35² (formerly SOP 81-1³). Contracts for which "distinct" performance obligations have been identified must be treated as separate units of accounting. The revised ED provides criteria for determining whether goods or services represent distinct performance obligations that should be accounted for separately. However, at a recent meeting, the boards revised these criteria and decided that a good or service represents a separate performance obligation if it is:

- Capable of being distinct (i.e., the customer can benefit from the good or service on its own or with other readily available resources).
- Distinct in the context of the contract.

As indicated in their July 19, 2012, joint meeting minutes, the boards further agreed that the final standard should include the following four indicators for determining whether a good or service is distinct in the context of the contract:

1. "The entity does not provide a significant service of integrating the good or service . . . into the bundle of goods or services that the customer has contracted."
2. "The customer was able to purchase or not purchase the good or service without significantly affecting the other . . . goods or services."
3. "The good or service does not significantly modify or customize another good or service."
4. "The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
 - a. The promises to transfer those goods or services to the customer are performance obligations that are satisfied over time
 - b. The entity uses the same method for measuring progress [to assess delivery to the customer]."

Arrangements in the E&C industry often involve a significant service of integrating goods or services into a bundle. E&C entities will need to evaluate bundled arrangements (e.g., engineering, procurement, and construction services) to determine whether distinct performance obligations exist.

² For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

³ AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*.

E&C entities should proactively assess whether the terms of their customer arrangements indicate that a continuous transfer of control has occurred.

Example

A contractor submits two separate bids for the construction of a 10-mile section of highway and a bridge included in the 10-mile stretch. The government has structured the bidding process such that the contract for the highway construction will be awarded separately from the contract for the bridge construction. The contractor wins both bids, and a single contract covering both projects is signed with the government but the costs and revenues attributable to each part of the contract are not modified. In this example, separate proposals were submitted for the highway and bridge constructions. Even if one contractor wins the work on both projects and the terms agreed to with the government for both projects are included in one legal contract, each project (the highway and the bridge) may represent a separate performance obligation under the proposed guidance. The contractor would have to use judgment in weighing the indicators noted above and determine whether there is a single performance obligation or whether there are multiple performance obligations.

Recognizing Revenue Over Time

E&C entities generally use the percentage-of-completion (POC) method to recognize revenue from construction and other long-term contracts; progress toward completion is measured on the basis of input or output measures. Under the revised ED, entities would recognize revenue as control of a good or service is transferred to the customer. Specific criteria must be met for an entity to conclude that control of a good or service is transferred to the customer over time (see the [appendix](#) for the specific criteria). If the control of goods or services (and therefore satisfaction of the related performance obligation) is transferred over time, an entity would measure the obligation's progress toward completion in a manner that best depicts the transfer of goods or services to the customer.

The revised ED provides guidance on when and how the continuous-transfer-of-control model can be applied. Specifically, the revised ED requires an entity that applies the input method of measuring progress toward completion to "exclude the effects of any inputs that do not depict the transfer of control of goods or services to the customer (for example, the costs of wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract)."

The revised ED only permits revenue recognition over time when an entity can reasonably measure the progress toward completion. When entities cannot reasonably measure such progress, revenue would be recognized to the extent that costs are incurred (provided that a loss will not be incurred). Accordingly, the completed-contract method (i.e., no recognition of revenue until the contract is complete) would be prohibited.

Constraining Revenue

Under the revised ED, an entity would recognize revenue from satisfying performance obligations in the amount to which the entity is "reasonably assured" to be entitled. However, the boards tentatively decided to (1) remove the term "reasonably assured" from the revenue recognition constraint and (2) clarify the definition of variable consideration to include instances in which the contractual price of a good or service is fixed but the amount is not fixed as a result of an uncertain event (e.g., an outcome-based or incentive-based fee). The boards asked the staffs to obtain additional feedback on these proposed changes. Certain constituents (primarily those currently applying the guidance in ASC 605-35) have indicated that the proposed changes could significantly defer (compared with current GAAP) the recognition of revenue that is subject to some uncertainty (e.g., a performance bonus). The boards plan to further deliberate this topic at a future meeting.

As a result of the revised guidance, E&C entities applying the percentage-of-completion method of accounting will need to evaluate their long-term contracts to determine which costs should be capitalized as well as the manner in which such costs should be amortized.

Accounting for Contract Costs

The revised ED requires capitalization of certain costs associated with obtaining a contract if those costs are incremental and recoverable. In addition, the revised ED requires capitalization of certain costs of fulfilling a contract if all of the following criteria are met and the costs are not covered by other standards:

1. "The costs relate directly to a contract (or a specific anticipated contract)."
2. "The costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future."
3. "The costs are expected to be recovered."

However, paragraph 93(c) of the revised ED requires that "[c]osts that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (that is, costs that relate to past performance)" be expensed as incurred. Therefore, under the revised ED, the capitalization of costs to fulfill a contract would seemingly only be relevant when an entity recognizes revenue at a point in time. That is, if an entity determines that a performance obligation is satisfied over time, then the costs incurred to satisfy that obligation would be related to past performance. Accordingly, the entity would be required to expense those costs as incurred in accordance with paragraph 93(c) of the revised ED. For E&C entities, this requirement may create significant fluctuations in margins whenever a method other than "cost to cost" is used to measure progress toward completion for recognizing revenue over time.

The revised ED includes guidelines for determining how contract costs (e.g., material, labor, equipment, subcontractor costs, insurance, design, architecture, electricity, service fees, warranties, and depreciation and amortization expenses) should be capitalized and amortized to the extent that they are not within the scope of other standards. Under the proposed guidance, E&C entities would most likely have to reevaluate contract costs for existing construction and other long-term contracts to determine whether certain costs should be capitalized. The new guidance may result in the expensing of costs that were previously capitalized, which may affect the profit profile of a contract as a result of the provisions in paragraph 93 of the revised ED.

Accordingly, E&C entities accounting for long-term contract revenue and related costs under the POC method may change existing practices. An entity would be required to capitalize and amortize certain precontract costs (e.g., certain bid or proposal costs) if such costs represent direct incremental costs of obtaining the contract that an entity expects to recover and that would not have been incurred if the contract had not been obtained.

Example

Entity A enters into a contract with Entity B to facilitate construction of a manufacturing facility for \$5 million. Entity A incurs legal costs related to the requisite preapproval from the government and contract commission costs of \$300,000 to obtain the contract with B.

To account for these costs, A first needs to determine whether they are within the scope of other accounting standards. If they are not, under the revised ED, A would be required to capitalize the costs that it expects to recover that are directly related to obtaining the contract. This accounting may differ from the way in which A had previously accounted for such costs. If the criteria above are met, Entity A would recognize an asset for the incremental cost of \$300,000 at the inception of the contract and would amortize the asset as it satisfies the performance obligation (unless the asset is subsequently impaired).

Data, systems, processes, and controls that do not currently exist may be needed to support the implementation of the revised requirements.

Adjusting Revenue for the Time Value of Money

At a recent meeting, the boards affirmed the revised ED's proposal that an entity should adjust the amount of a contract's consideration to reflect the time value of money when the contract includes a significant financing component. As a result, E&C entities will need to evaluate the payment terms in contracts with customers and identify and adjust for any significant financing components (potentially, milestone or progress payments received other than when the related revenue is recognized). However, the boards agreed to clarify their intent that a significant financing component might not exist for:

- Goods or services paid for in advance when the "transfer of those goods or services to the customer is at the discretion of the customer" (e.g., loyalty points, prepaid phone cards).
- Certain types of payments that are made in advance or arrears that arise for reasons other than financing (e.g., retainages on a long-term construction contract).

In addition, the boards decided to retain and clarify the practical expedient under which an entity would not account for the time value of money when the timing between performance and the payment for that performance is less than one year. The boards also agreed to clarify that this guidance is not intended to preclude interest income from being presented as revenue if it is part of an entity's ordinary business activities.

Disclosures

The revised ED would significantly expand disclosures about revenue recognition, including both quantitative and qualitative information about (1) the amount, timing, and uncertainty of revenue (and related cash flows) from contracts with customers; (2) the judgment, and changes in judgment, exercised in applying the proposal's provisions; and (3) assets recognized from costs to obtain or fulfill a contract with a customer. E&C entities may need to obtain information that they do not currently gather to comply with these proposed disclosure requirements.

Challenges for E&C Entities

Many E&C entities may face significant challenges in applying the revised ED, some of which are discussed below.

Use of Judgment

Management will need to exercise significant judgment in applying certain of the revised ED's requirements, including those related to the identification of performance obligations. It is important for E&C entities to consider how the revised ED specifically applies to them so they can prepare for any changes in revenue recognition patterns.

Retrospective Application

The revised ED proposes retrospective application, with certain optional practical expedients available to entities at their discretion. Because of the long-term nature of many contracts in the E&C industry, this aspect of the proposal may require entities to gather data and assess contracts that commenced several years before the effective date of the proposed standard. The boards are expected to redeliberate the transition guidance at a future meeting.

Systems, Processes, and Controls

Under the revised ED, E&C entities will need to gather and track information that they may not have previously monitored. The systems and processes associated with such information may need to be modified to support the capture of additional data elements that may not currently be supported by legacy systems. In addition, to ensure the effectiveness of internal controls over financial reporting, management will need to assess whether additional controls need to be implemented. Given the long-term nature

of many E&C customer contracts, such as engineering, procurement, and construction; engineering and modernization; design and technology licensing; fabrication; design; supply and construction; decommissioning and commissioning; equipment and services; and planning and management, entities may need to begin aggregating essential data from new and existing contracts since many of these contracts will be subject to the proposed guidance.

Income Taxes

Tax departments need to assess changes in revenue recognition methods to prepare for the tax effects. Federal income tax law contains specific rules on certain types of revenue, such as income from long-term contracts and advance payments for goods and services. Those rules often overlap with a taxpayer's financial reporting policies, in which case the taxpayer often applies, as its tax method, the revenue recognition method it uses in maintaining its books and records. Because the proposed guidance may change the amount and timing of revenue recognition for entities that maintain their books and records under U.S. GAAP or IFRSs, the accounting proposed in the revised ED may have cash tax implications or give rise to new book-tax differences that will need to be captured, calculated, and tracked through tax accounting processes and systems.

If a change in a tax accounting method is advantageous or expedient, including circumstances in which the book method has historically been used, the taxpayer will most likely be required to obtain approval from the tax authorities. Similar implications may arise in foreign jurisdictions that maintain statutory accounting records under U.S. GAAP or IFRSs.

Thinking Ahead

The boards will continue to debate many of the topics discussed above over the next few months. A final standard is not expected to be issued until early in 2013, and the boards have tentatively decided that the effective date will be no earlier than for annual periods beginning on or after January 1, 2015 (with a minimum of a one-year deferral for nonpublic entities applying U.S. GAAP). E&C entities should continue to follow the developments over the upcoming months since many of the decisions could directly affect their industry. In addition, such entities should provide feedback to the boards on the redeliberated issues and begin assessing the impact the revised revenue standard may have on their current accounting policies, procedures, systems, and processes.

E&C entities should continue to follow the developments over the upcoming months since many of the decisions could directly affect their industry.

Appendix — Deloitte Accounting Journal Entries

Revenue — Redeliberations Continue

October 1, 2012 — At their September 27 joint meetings, the FASB and IASB (the “boards”) resumed redeliberating their November 2011 ED *Revenue From Contracts With Customers*. During their meetings, the boards discussed the following topics: (1) constraining revenue, (2) collectibility, (3) the time value of money, and (4) contract issues related to distribution networks.

Constraining Revenue

The boards tentatively decided to (1) remove the term “reasonably assured” from the revenue recognition constraint and (2) clarify the definition of variable consideration to include instances in which the contractual price of a good or service is fixed but the amount is not fixed as a result of an uncertain event (e.g., an outcome-based fee). The boards also asked the staffs to obtain additional feedback on these proposed changes. Certain constituents (primarily those with long-term service or construction contracts) believed that the proposed changes could significantly defer the recognition of certain types of revenue that is subject to uncertainty (e.g., a performance bonus).

Collectibility

The boards did not make any decisions regarding the accounting for or presentation of adjustments related to a customer’s credit risk (i.e., collectibility). However, after extensive discussions, the boards requested that the staffs research the potential implications of including a collectibility threshold for recognizing revenue. (The ED does not include an explicit threshold that must be overcome in connection with a customer’s credit risk for an entity to recognize revenue, such as collectibility being reasonably assured.) In addition, the boards requested that the staffs further evaluate the following two alternatives for presentation of initial and subsequent collectibility impairments in the income statement:

- Remove the ED’s requirement to present these impairments as a separate line item next to gross revenue. Under this alternative, current practice would not change and impairments on receivables from contracts with customers would generally be presented within operating expenses.
- Present impairments resulting from all types of receivables for contracts with customers (i.e., all sales transactions, regardless of whether a significant financing component exists) as a separate line item next to gross revenue. These impairments would be presented differently than impairments of loan receivables that are not part of a sales transaction with a customer.

The boards also tentatively agreed to clarify the criteria in the ED’s contract guidance by providing indicators of when a customer is committed to perform its obligations in the contract (and, therefore, when the guidance can be applied to the contract).

Time Value of Money

The boards affirmed the ED’s proposal that an entity should adjust the amount of a contract’s consideration to reflect the time value of money when the contract includes a significant financing component. However, they agreed to clarify their intent that a significant financing component might not exist for:

- Goods or services paid for in advance when the “transfer of those goods or services to the customer is at the discretion of the customer” (e.g., loyalty points, prepaid phone cards).
- Certain types of payments that are made in advance or arrears that arise for reasons other than financing (e.g., retainages on a long-term construction contract).

In addition, the boards decided to retain and clarify the practical expedient to not account for the time value of money when the timing between performance and the payment for that performance is less than one year. Finally, the boards agreed with the staff’s recommendation to clarify that this guidance is not intended to preclude interest income from being presented as revenue if it was part of an entity’s ordinary business activities.

Contract Issues Related to Distribution Networks

The boards tentatively decided to affirm the ED’s guidance on contract combination and consideration payable to a customer in connection with the accounting for sales incentives offered in a distribution network (e.g., an automobile manufacturer that offers free maintenance to a dealer’s end customer). However, the boards agreed to make the following clarifications to the guidance on accounting for such sales incentives:

- Goods or services granted in a sale to a reseller, when they represent sales incentives that will be transferred to the reseller’s customer, should be evaluated as goods or services in the entity’s sale to the reseller.
- A promised good or service provided to a reseller’s customer after the customer’s performance obligations in a contract are satisfied would not be a performance obligation unless it was an implied performance obligation in the original contract.

Revenue — Boards Kick Off Redeliberations, Decide to Remove Onerous Loss Test From Project

July 23, 2012 — At their July 19 joint meeting, the FASB and IASB began redeliberating their November 2011 ED *Revenue From Contracts With Customers*. During the meeting, the boards discussed the following topics: (1) identification of onerous losses, (2) identification of separate performance obligations, (3) performance obligations satisfied over time, and (4) licenses and rights to use.

Editor's Note: The FASB staff's [Summary of Board Decisions](#) of the July 19 meeting is available on the FASB's Web site. A more detailed [meeting summary](#) from Deloitte observers is available on Deloitte's IAS Plus Web site but should not be regarded as official or final.

Identification of Onerous Losses

Many respondents to the ED were concerned that the ED's onerous loss requirement could have resulted in accounting that was inconsistent with the economics of the contract (e.g., recognition of an onerous loss when the overall contract was profitable or when other factors indicated that the entity did not incur an economic loss). After extensive debate, the boards narrowly agreed to remove the guidance on onerous performance obligations in its entirety from the proposed revenue standard and to maintain the existing guidance on the accounting for onerous losses in U.S. GAAP (e.g., ASC 450, ASC 605-35) and IFRSs (i.e., IAS 37⁴). The FASB plans to consider this topic as a separate project in the future. Several FASB members supported maintaining the proposed guidance and requiring the identification of onerous losses at the contract level. However, a majority of FASB members voted in favor of removing the guidance from the revenue project, observing that the proposals introduced a significant amount of complexity into the accounting for revenue and that they would need additional time to consider unintended consequences that might result from it.

Identification of Separate Performance Obligations

The boards tentatively decided to clarify and improve the ED's language regarding when a good or service in a contract is distinct (and thus is accounted for as a separate performance obligation). The tentative guidance would require an entity to account for a good or service as a separate performance obligation when it is (1) capable of being distinct (i.e., the customer can benefit from the good or service on its own or with other readily available resources) and (2) distinct in the context of the contract. The Summary of Board Decisions notes that the boards tentatively agreed that the final standard should include the following four indicators of whether a good or service is distinct in the context of the contract:

1. The entity does not provide a significant service of integrating the good or service (or bundle of goods or services) into the bundle of goods or services that the customer has contracted. In other words, the entity is not using the good or service as an input to produce the output specified in the contract.
2. The customer was able to purchase or not purchase the good or service without significantly affecting the other promised goods or services in the contract.
3. The good or service does not significantly modify or customize another good or service promised in the contract.
4. The good or service is not part of a series of consecutively delivered goods or services promised in a contract that meet the following two conditions:
 - a. The promises to transfer those goods or services to the customer are performance obligations that are satisfied over time (in accordance with paragraphs 35 of the 2011 ED); and
 - b. The entity uses the same method for measuring progress to depict the transfer of those goods or services to the customer.

The boards also decided to remove the ED's practical expedient that would have allowed an entity to combine two or more distinct goods or services as a single performance obligation when those goods or services have the same pattern of transfer; however, they did note that concurrently transferred goods or services would not be precluded from such a combination. As the indicators above specify, a series of goods or services that is delivered consecutively (e.g., a five-year contract to deliver 500 units of a specific good each month, a three-year contract to supply energy continuously, a two-year contract to provide customer support services on demand) is an indicator that each good or service may not be distinct in the context of a contract (and thus could be accounted for as a single performance obligation).

Performance Obligations Satisfied Over Time

The boards tentatively decided to rearrange the ED's criteria for when a performance obligation is satisfied over time. The Summary of Board Decisions notes that revisions to the criteria include:

- Retaining the criterion in paragraph 35(a) of the ED that a performance obligation would be satisfied over time if the "entity's performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced."

⁴ IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- For “pure services contracts,” creating a single criterion for determining whether a performance obligation is satisfied over time that takes into account whether the customer receives and consumes the benefits of the entity’s performance as the entity performs and whether another entity would not need to substantially re-perform the work the entity has completed to date.
- Creating a closer link between whether an asset has an “alternative use” and whether an entity has a “right to payment for performance completed to date.”

To help address various concerns raised by comment letter respondents, the boards also tentatively agreed to clarify and improve the guidance on when an asset has an “alternative use” and on when an entity has a “right to payment for performance completed to date.” Respondents’ concerns focused on (1) the impact of contractual restrictions and practical limitations on whether an asset has an alternative use, (2) the period to consider in assessing whether an asset has an alternative use, and (3) the conditions to be evaluated when determining whether an entity has a sufficient “right to payment for performance completed to date.”

Licenses and Rights to Use

The boards did not reach a tentative decision regarding changes to the ED’s implementation guidance on licenses and rights to use. Instead, the boards requested that the staffs perform additional analysis related to the impact of certain restrictions on the customer’s use of a license for determining when and how control transfers (i.e., at a point in time or over time) and thus when revenue can be recognized.

Contacts

If you have questions about this publication, please contact the following Deloitte industry professionals:

Robert O'Brien

Partner — US Real Estate Services Leader
Deloitte & Touche LLP
+1 312 486 2717
robrien@deloitte.com

Christopher Dubrowski

Partner — Professional Practice Director
for Real Estate
Deloitte & Touche LLP
+1 203 708 4718
cdubrowski@deloitte.com

Todd Bauer

Partner
Deloitte & Touche LLP
+1 212 436 6482
tbauer@deloitte.com

Christopher Harris

Partner
Deloitte & Touche LLP
+1 973 602 6976
chharris@deloitte.com

Robert Massey

Partner
Deloitte & Touche LLP
+1 415 783 6386
rmassey@deloitte.com

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- [EITF Roundup: Highlights From the November Meeting](#) (November 7, 2 p.m. (EST)).

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