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## The Leading Financial Changed of Revenue Recognition by Business Enterprises under FASB vs. IASB

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**Abstract-** The purpose of this research study is to provide a relevant position about the emergence and adoption process of the revenue recognition project under Financial Accounting Standard Board (FASB) and International Accounting Standard Board (IASB) and its crucial financial reporting performance by business enterprises. In 2014 the Financial Accounting Standard Board (FASB) developed a conceptual framework in relation to the joint revenue recognition project. As a result, the Financial Accounting Standard Board (FASB) in an early announcement this year stated that the revenue recognition project will take place as early as 2015 as noted by Lemus (2014). However, the revenue recognition project will change its reporting perspective from historical cost value to fair value measurement. For example, the International Accounting Standard Board (IASB) noted that more than 95% of Small and Medium-sized Entities (SMEs) are allowed to use EFRS. Therefore, it is expected (as cited in Kieso, Weygandt, & Warfield, 2013) that the optional adoption process of International Financial Reporting Standards (IFRS) in the United States will take place as early as 2017.

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# The Leading Financial Changed of Revenue Recognition by Business Enterprises under FASB vs. IASB

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## I. INTRODUCTION

This research paper introduces the most relevant standards that exist under revenue recognition principles and these are: (1). IAS 1, (2). IAS 18, and (3). IAS 20. Additionally, the joint revenue recognition project will increase the financial transparency and comparability among industries in the United States capital market. It was expected that by 2014 the Financial Accounting Standard Board (FASB) would have to develop a conceptual framework in relation to the joint revenue recognition project. Therefore, the main objective of the joint revenue recognition project is to consolidate the financial reporting inconsistencies that exist between the

Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB).

The FASB codification in terms of treating revenue recognition consists of 100 pieces. The most relevant standards that exist under revenue recognition are IAS 18 and IAS 11. As a result, the main conceptual aspect adequately presented in the literature review demonstrates how to record revenue under United States GAAP and IFRS. In 2009 the International Accounting Standard Board (IASB) decided to clarify current existing issues between IFRS and the agency. Executives and business enterprises should be aware of the new accounting changes in the accounting and finance sector during the next five years as the United States continues the convergence effort toward adopting optional IFRS. Also, it is well noted that IFRS will help increase the cash flow of a company as well as improve the quality financial reporting position of business enterprises. Therefore, the first groups adopting IFRS in the United States are SMEs.

## II. LITERATURE REVIEW

In 2010 the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) began a joint project effort towards revenue recognition. In addition, the joint project revenue recognition addresses four crucial principles in relation to customer contract. Moreover, the joint project effort of revenue recognition is considered to pass from United States GAAP to IFRS. Furthermore, the four crucial principles of the project promulgate the following steps:

*Step No. 1:* Allocate the differences and obligation performance in a contract.

*Step No. 2:* Illustrate in the contract the importance of transaction price.

*Step No. 3:* Identify the performance transaction price in the contract.

*Step No. 4:* Comprehend and understand the rationale of the stipulated information in the contract.

As a result, this researcher noticed significant differences in the joint revenue recognition project. For instance: (1). Dealing with percentage contract

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completion, (2). The impact of sales and goods services changes in the market, (3). The importance of revenue recognition, and (4). The specific time and place where to recognize the revenues. Therefore, the most relevant standards that exist under revenue recognition principles are: (1). IAS 1, (2). IAS 18, and (3). IAS 20 (Dickins & Cooper, 2010).

The main importance of the joint revenue recognition project is to bring financial clarity to the financial market. In addition, the joint revenue recognition project is a simple language that can be used among accounting firms. Moreover, the main financial objective of the FASB and the IASB is to understand the similarities and differences that exist in the joint revenue recognition project. The number of existing industries under United States GAAP is 200 industries. Also, the Financial Accounting Standard Board (FASB) noted that the recording position of revenue recognition under International Financial Reporting Standards (IFRS) is quite complex to measure. For example, throughout the revenue recognition process between the FASB and the IASB five principles must be met:

1. Remove inconsistencies and weaknesses in existing revenue requirements.
2. Provide a more robust framework for addressing revenue issues.
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
4. Provide more useful information to users of financial statements through improved disclosure requirements.
5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer (FASB, 2014, "Project Objective and Summary of the Proposed Model").

Therefore, the joint revenue recognition project will increase financial transparency and comparability among industries in the United States market (FASB, 2014).

In 2011 the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) issued a new revised proposal plan to clarify the main objectives of the financial revenue recognition project. In addition, over the last decade the two standard setters have proposed extensive guidance in relation to the joint revenue recognition project. Moreover, the two standard setters are in the process of understanding the financial position of recording gains and losses in the real estate industry. Furthermore, revenue recognition has been a major issue in the United States as well as internationally. Therefore, by 2014 it is expected that the Financial Accounting Standard Board (FASB) would

have to develop a conceptual framework in relation to the joint revenue recognition project (Weiss, 2012).

The conceptual framework of the joint revenue recognition project between the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) is important to financial readers. In addition, researchers claim that reporting revenue under United States GAAP is quite distinctive from reporting revenue under IFRS. Moreover, both boards have accomplished a milestone in the joint revenue recognition project. Therefore, the main objective of the joint revenue recognition project is to consolidate financial reporting inconsistencies between the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB) (Bohusova, & Nerudova, 2011).

### III. UNITED STATES GAAP: REVENUE RECOGNITION

The promulgated Statement No. 6 by the Financial Accounting Standard Board (FASB) provides a definition under generally accepted accounting principles (GAAP) of how to treat revenues. In addition, the definition under Statement No. 6 indicates that the inflows of producing goods, creating operational services, and rendering services in a triangular position as recording revenue is applied. Moreover, the revenue recognition under United States GAAP must be met by two criteria. Furthermore, FASB Statement No. 5 properly highlights the criteria of revenue recognition. For example, the FASB states that in order to realize revenue the revenue must be earned. However, the statement SAB 104 states how public traded companies can recognize their income. Therefore, the FASB codification in terms of treating revenue recognition consist of 100 pieces (Bohusova, & Nerudova, 2011).

### IV. IFRS: REVENUE RECOGNITION

The conceptual framework of the IAS and the IFRS provide a definition for income and expenses when dealing with revenue recognition. In addition, the researcher promulgates two standards that presently exist under revenue recognition and these are: (i). IAS 18 and (ii). IAS11. Moreover, the joint revenue recognition project provides economic benefit to enterprises. For instance, IAS 18 provides different classification criteria for revenue transactions within the company by rendering services, by illustrating adequate sales of goods and products, the enterprise can yield interest, dividends, and royalties. For instance, the IAS 11 expresses the financial circumstances of construction contracts under revenue recognition. Nevertheless, the two approaches of revenue recognition that exist under IFRS are: (1). A price in a construction contract and (2). The original transaction of

measurement entity performance. Therefore, the most relevant standards that exist under revenue recognition are IAS 18 and IAS 11 (Bohusova, & Nerudova, 2011).

## V. REVENUE RECOGNITION DIFFERENCES UNDER UNITED STATES GAAP AND IFRS

The major similarities and differences that exist between United States GAAP and IFRS is the treatment of revenue recognition. In addition, there are considerable populations that follow revenue recognition under United States GAAP. Moreover, fewer industries appear to be reporting revenue recognition under IFRS. Furthermore, in order to properly measure revenue recognition under IFRS (as cited in Spiceland, Sepe, & Nelson, 2011) two transaction events must occur and these are: (1). Analyze and judge the earnings process and (2). Analyze the collective asset that must be received. As a result, as Spiceland, Sepe, and Nelson (2011) research work indicates, revenue recognition under United States GAAP must meet four aspects and these are: (1). The association cost of revenue that must be reliable, (2). The economic aspect of revenue recognition, (3). Treating sales of goods properly to avoid financial risks and (4). The reliability and measurement of sales services. Therefore, the main conceptual aspect adequately presented in the literature review demonstrates how to record revenues under United States GAAP and IFRS practical guidance (Lin, & Fink, 2013).

## VI. IASB CURRENT PROJECT: FINANCIAL STATEMENTS AND EXPECTED OUTCOMES

The standards setters of both boards, the FASB and the IASB, have decided to issue new proposals in terms of how to treat revenue recognition in financial statements because the appropriate treatment of revenue recognition represents a crucial and significant aspect by meeting the following expectations:

1. Providing a more robust framework for addressing revenue recognition issues
2. Removing inconsistencies from existing requirements
3. Improving comparability across companies, industries, and capital markets
4. Providing more useful information to users of financial statements through improved disclosure requirements
5. Simplifying the preparation of financial statements by streamlining the volume of accounting guidance (Professional Services Close Up, 2011).

In 2007, the IFRIC indicated that IAS 18 revenue will not properly reflect the current existing cost between the agency cost and IFRS standards. In addition, the IFRIC conducted specific interpretation on EITF 99-19 to address the treatment of revenue recognition. As a

result, the IFRIC considered new horizon accounting guidance by reshaping the standard setting of the same. Therefore, in 2009, the International Accounting Standard Board (IASB) determined to clarify current existing issues between IFRS and the agency (Kenny, & Larson, 2009).

Another major issue is the treatment for accounting lease in the IFRS work convergence plan. In addition, the researchers prescribed in the research study that IFRS presents a lack of clarity when dealing with accounting lease under revenue recognition. Moreover, the accounting treatment lease criterion under United States GAAP is estimated by two standards and these are: (1). Predict and estimate the life of the lease stipulated in the contract and (2). Calculate the present value (PV) of the lease by estimating the fair value of the asset. For example, the lease capitalization under United States GAAP requires up to 75% of completion or more when the life of the asset has been estimated. On the other hand, under IFRS the IAS No. 17 is less specific when treating capitalization requirements for lease accounting because the life of the asset is expected to be used at full capacity. As a result, as ASC 840 indicates, if a leased asset exceeds 90% it requires capitalization at present value. Therefore, researchers throughout the research study provide less specific accounting language by encouraging economic demand and at the same time discouraging the financial position in treating accounting lease transactions at present value (Collins, Pasewark, & Riley, 2012).

## VII. FINAL OUTCOME OF REVENUE RECOGNITION

The FASB provided an exposure draft update in relation to Topic 605. In addition, the main objective of the exposure draft revision by the FASB is to replace current existing GAAP guidance in terms of treating revenue recognition. Moreover, the two standard setters with the joint revenue recognition project brought clarity and transparency to the standards of revenue recognition. In 2002, the promulgated exposure draft by the FASB was finalized and concluded by providing three important roles within the market: (1). Customer's contract, (2). Insurance contract, and (3). Lease contract. Therefore, in 2012 the FASB predicated five important provisions and these are: 1. Contract with a customer, 2. The specification performance of the contract obligation, 3. Determination of the transaction price, 4. The transaction performance in the contract, and 5. Recognition of the performed revenue (FASB, 2014).

The FASB, in an announcement early this year, stated that the revenue recognition project will take place as early as 2015. In addition, publicly traded companies that are in the process of adopting optional



IFRS have to follow IFRS principle governance guidance. Moreover, the joint revenue recognition project between the FASB and the IASB will indicate how revenue should be recorded under United States GAAP versus IFRS. As a result, professional accountants have to learn the new accounting treatment

process of revenue recognition. For example, under the new joint project recognition are tax implications that companies must face throughout the adoption process. Therefore, the revenue recognition project will change its reporting perspective from historical cost value to fair value measurement (McKee, & McKee, 2013).

#### Revenue Recognition Bases

<b>Specific Transactions</b>	<b>Accounting Guidance</b>
Point of sale	See Illustration 18–12 (page 1080).
Long-term contracts (construction)	
(a) Percentage-of-completion method	Long-term construction of property; dependable estimates of extent of progress and cost to complete; reasonable assurance of collectibility of contract price; expectation that both contractor and buyer can meet obligations; and absence of inherent hazards that make estimates doubtful.
(b) Completed-contract method	Use on short-term contracts and whenever percentage-of-completion cannot be used on long-term contracts. Existence of inherent hazards in the contract beyond the normal, recurring business risks; conditions for using the percentage-of-completion method are absent.
Completion-of-production basis	Immediate marketability at quoted prices; unit interchangeability; and no significant distribution costs.
Installment-sales method and cost-recovery method	Absence of reasonable basis for estimating degree of collectibility and costs of collection. Collectibility of the receivable is so uncertain that gross profit (or income) is not recognized until cash is actually received.
Deposit method	Cash received before the sales transaction is completed. No recognition of revenue and income because there is not sufficient transfer of the risks and rewards of ownership.

(Kieso, Weygandt, & Warfield, 2013, p. 1079).

The above table illustrates the importance of revenue recognition bases and the applicable principles guidance activities from the departure of sales basis (Kieso, Weygandt, & Warfield, 2013).

#### VIII. IFRS AND UNITED STATES GAAP ON THE FINANCIAL PERFORMANCE REPORTING BY BUSINESS ENTERPRISES

In the near future it is predicted that the financial reporting system in the United States will have a drastic change. In addition, the SEC is in the process of joining more than 100 countries that have already adopted IFRS. Moreover, the researcher attests in the literature review that multinational corporations (MNC) have been using dual reporting language for the last two decades. Furthermore, the FASB is presently working with the IASB to make the convergence project as one universal accounting language. For example, the two standard setters have issued two memorandum of understanding

in dealing with the complexity level in treating revenue recognition and business combination from the financial reporting aspect. As a result, the accounting profession will also have a drastic change. Therefore, executives and business enterprises should be aware of the new accounting changes in the accounting and finance sector during the next five years as the United States continues the convergence effort toward the optional IFRS (James, 2009).

The three boards known as the SEC, the FASB, and the IASB have determined to devote one section in the convergence process to business enterprises. The stockholders equity account cannot be inconclusive under the two standard settings. Therefore, Mr. Francesco Bellandi indicated that the treatment for stockholders equity can be reported as relevant standards (Walters, 2011).

The convergence project from United States GAAP to IFRS raises a lot of questions about the unknown financial reporting expectations under IFRS. In

addition, accountants are concerned about equity based compensation. Moreover, the reporting tax position between United States GAAP and IFRS is quite different. Furthermore, some accountants argued that the tax equity position should be reported under fair value and other accountants claimed that in order for the numbers to have a feasible reporting position they should be reported under the historical cost. As a result, accounting firms are presently comparing the pro-forma income statement and pro-forma balance sheet to understand the reporting results of the tax equity base position. For example, researchers in previous accounting studies have determined that the tax yields under IFRS are less than the tax yields under United States GAAP. Therefore, the researchers concluded that adopting IFRS will help increase the cash flow of the company as well as improve the quality financial reporting position of the business enterprises (Mc Anally, Mc Guirre, & Weaver, 2010).

A business enterprise should prepare the financial statement in accordance with United States GAAP, the "Balance Sheet" by realizing the "statement of financial position", or "statement of financial condition" (Bellandi, 2007, p.32). In addition, the SEC acting as a primary regulator, does not use the term balance sheet but instead prefers to use "statement of financial condition" when treating and dealing with employee stock purchases or savings under section 210.6A-02(d) and 210.6A-02(a). Moreover, the form 20 is primarily used in practice for both the balance sheet and statement of financial position. Furthermore, the term balance sheet, is "applicable under business entities IAS1 as revised on December 2005, The Presentation of Financial Statements (paragraph number 5) (Part 1, Item 5, E2(c), Part 1; General Instructions to Items 11(a) and 11(b), 3C (ii)" (Bellandi, 2007, p.32).

In the European Union, business enterprises in the financial market use the term Balance Sheet for recording purposes. As illustrated by the researcher, in September 2007 the IAS1 was revised and it was moved to "statement of financial position" by focusing primarily on auditing terminology. As a result, the joint project of the FASB and the IASB is moving toward a solid position on each entity's industry. For instance, the discussion of liquidity or mixed bases is illustrated under IAS1, paragraph 60. Nevertheless, the convergence project of United States GAAP and IFRS (as cited in Lemus, 2014) brings transparency, relevance, and reliability and these are: (1) the liquidity of the financial institution should be displayed in the financial statements, because it is simply recorded in the industry sector and there is a liability test that is applicable under (IAS1, paragraph 63); (2) A business that is running multiple lines of business uses the mixed basis under (IAS1 paragraph 64); (3) When the residual income is not applied correctly the originality of the operating cycle cannot be

identifiable. Another example, the mixed guidance accounting method under United States GAAP does not exist; therefore, the convergence project from United States GAAP to IFRS needs to adopt the optional emerging position of liquidity-based position, or a mix-basis in the balance sheet and also should be noted on section of IAS1, paragraph 61 (Bellandi, 2007).

The United Kingdom and the United States investors acting as corporate issuers are familiar with the reporting position of a principles based standard. In addition, both Multinational Corporations (MNCs) and large enterprise companies have implemented a dual reporting system as a parallel reporting position in the market. Moreover, the embracement of the Extensible Business Reporting Language (XBRL) and IFRS has become a main priority to regulators in the United States market. However, as research studies indicate, the adoption of IFRS is arriving sooner than expected to the United States capital market. For instance, regulators have to seek global financial sustainability with IFRS. Therefore, it is likely (as cited in Lemus, 2014) that the full adoption process of IFRS in the United States will take place as early as 2016 (Boerner, 2011).

The following five main standards of IFRS simplify the reporting process for SMEs and they are:

1. Some topics in IFRS are omitted because they are not relevant to typical SMEs— including earnings per share, interim financial reporting, and segment reporting.
2. Some options in full IFRS are not allowed, because a more simplified method is available to SMEs—for example, there is no option to revalue property, plant, and equipment.
3. Many of the recognition and measurement principles in full IFRS are simplified—for example, the amortization of goodwill and the expensing of all borrowing and research and development costs.
4. Full IFRS requires more than 3,000 disclosures; IFRS for SMEs requires less than 300.
5. Simplified redrafting provides easier understandability and translation" (Sanders, Lindberg, & Seifert, 2013, p.32).

The IASB noted that more than 95% of SMEs are allowed to use EFRS. In addition, to some extent private United States companies are implementing EFRS, because it serves as a simple approach to understand the full adoption process from United States GAAP to IFRS. Moreover, in terms of cost position in the market EFRS is less costly to implement than IFRS as primary guidance and is more relevant in terms of financial accounting reporting standards. Furthermore, private companies are willing to expand their business horizon and continue obtaining global financing comparability and efficiency by improving the reliability of the financial statement measurement. Therefore, the first group adopting IFRS in the United States is Small

and Medium-sized Entities (SMEs) (Sanders, Lindberg, & Seifert, 2013).

## IX. CONCLUSION

In conclusion, the joint revenue recognition project will increase financial transparency and comparability among industries in the United States market. In addition, the Financial Accounting Standard Board (FASB) would develop a conceptual accounting framework in relation to the joint revenue recognition project. Moreover, the Financial Accounting Standard Board (FASB) has created 100 pieces of codification when treating revenue recognition. Furthermore, the most relevant standards that exist under revenue recognition are IAS 18 and IAS 11. As a result, the revenue recognition project will change its reporting perspective from historical cost value to fair value measurement. For instance, executives and business enterprises should be aware of the new accounting changes in the accounting and finance sector during the next five years as the United States continues the convergence effort toward the optional IFRS. Therefore, the main objective of the joint revenue recognition project is to consolidate the financial reporting inconsistencies that exist between the FASB and the IASB by utilizing at best the six subject areas as a reference point prescribed in the literature review.

### Recommendation for Future Studies

The author of this article suggests that the following aspects should be considered for future studies when studying the emergency revenue recognition process for business enterprises under FASB vs. IASB:

1. The U.S. Securities and Exchange Commission (SEC) needs to improve the revenue recognition practices under the Sarbanes-Oxley Act of 2002 (SOX), because revenue recognition in the United States continues to be a major issue.
2. The U.S. Securities and Exchange Commission (SEC) needs to provide more transparent accounting guidance when United States Multinational Corporations (MNCs) operating overseas are dealing with revenue recognition principle practices.
3. The SEC and FASB need to become familiar with the optional adoption of IFRS in the United States market.
4. Business enterprises from other countries doing business in the United States need to understand the revenue recognition practices under United States GAAP vs. IFRS.

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