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VALUATION NEWS

At last, a single global revenue standard

We hope you had a good summer - as good as it could be considering the many international conflicts and trouble spots. One piece of good news will have a global unifying effect. On 28 May 2014, the Financial Accounting Standards Board (FASB) joined the International Accounting Standards Board (IASB) in issuing a joint document on Revenue Recognition: the Accounting Standards Codification (ASC) 606 for the US and IFRS 15 in Canada and elsewhere.

This pronouncement is based on a single core principle, "allocating the transaction price to the performance obligations". Its application will likely require almost everyone to update their accounting policies, processes and internal controls. The process involves five steps, none of them easy:

1. Identify the actual contract with the customer - *the key gateway step*.

2. Establish the performance obligations - *what has to be done and when*. Those include warranties, future upgrades, free products or services (loyalty points) discounts on further sales, etc.

3. Determine the transaction price – after cash discounts, price concessions, performance bonuses, penalties, rights of return, financing components, etc.

4. Allocate the transaction price to the performance obligation – *the hard one*. Requires skill and judgement; no more vendor specific objective evidence.

5. Recognize revenue. – *when or as promised goods or services are delivered*. This may be at a single point in time or over a period.

Our brief summary of the necessary steps shows that many things have changed, but, fortunately, some remain the same. Revenues and hence profits may vary, but basic net cash flows will not. As a result, values are not likely to be much affected.

The process may even result in the creation of a new asset "deferred contract fulfilment costs" covering expenditures that relate directly to outstanding unfulfilled contracts.

CVS would be delighted to discuss with you or your clients, the effect of those changes.

REVENUES

Although revenues are to be stabilized, there are variations. In Canada we use Fair Value for accounting and Fair Market Value for tax and some securities.

In the US and the rest of the world, Fair Value is the same as in Canada but for tax purposes, Fair Market Value (US) and Market Value (EU) differ.

Even phrases in reports such as estimate, conclusion, and calculation of value now differ from the US; other countries also march to their own drummers, as do various courts.

With otherwise identical facts, interpretations may vary. If you are uncertain, CVS can assist in appraising your clients' situation correctly and advantageously.

James P. Catty, MA, ICVS, CPA•CA (Canada), CBV, CPA/ABV (USA), CFA, CGMA, CFE is the Principal Valuator of CVS. He is also Chair of the International Association of Consultants, Valuators and Analysts (IACVA), a 10,000 member organization with designation-granting authority in 55 countries. Jim compiled "Guide to Fair Value under IFRS", with contributors from 13 nations which was published by Wiley, NY, in 2010. In 2011, he wrote "The Professional's Guide to Fair Value", Wiley, NY. Jim keeps up to date with the requirements of changing standards and would be delighted to assist with any professional question you may encounter.
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