The background of the slide features a series of horizontal grey lines. Overlaid on these lines are several yellow wireframe structures that resemble 3D architectural models or complex geometric shapes. These structures are composed of thin yellow lines forming rectangular and irregular frames, some of which are stacked or layered, creating a sense of depth and complexity. The overall aesthetic is modern and technical.

The Future of Revenue Recognition – Understanding the Complexity

September 13, 2012

**Presenters and Content
for Today's Tensoft
Executive Webcast
Courtesy of:**



TENSOFT

Welcome to Today's Event

- Viewing tips & CPE credit information
- About the webcast sponsor, Tensoft
- Introduction to today's speakers
- Presentation
- Q & A

Viewing Tips & CPE Credit

- For “Full Screen,” go to “View” on the Control Panel
- Submit questions any time using the “Question and Answer” pane
- CPE certificates will be emailed to everyone who is eligible within 1 week
- Hand-outs and slides can be downloaded from Tensoft’s Resource Center at www.tensoft.com

Who is Tensoft?

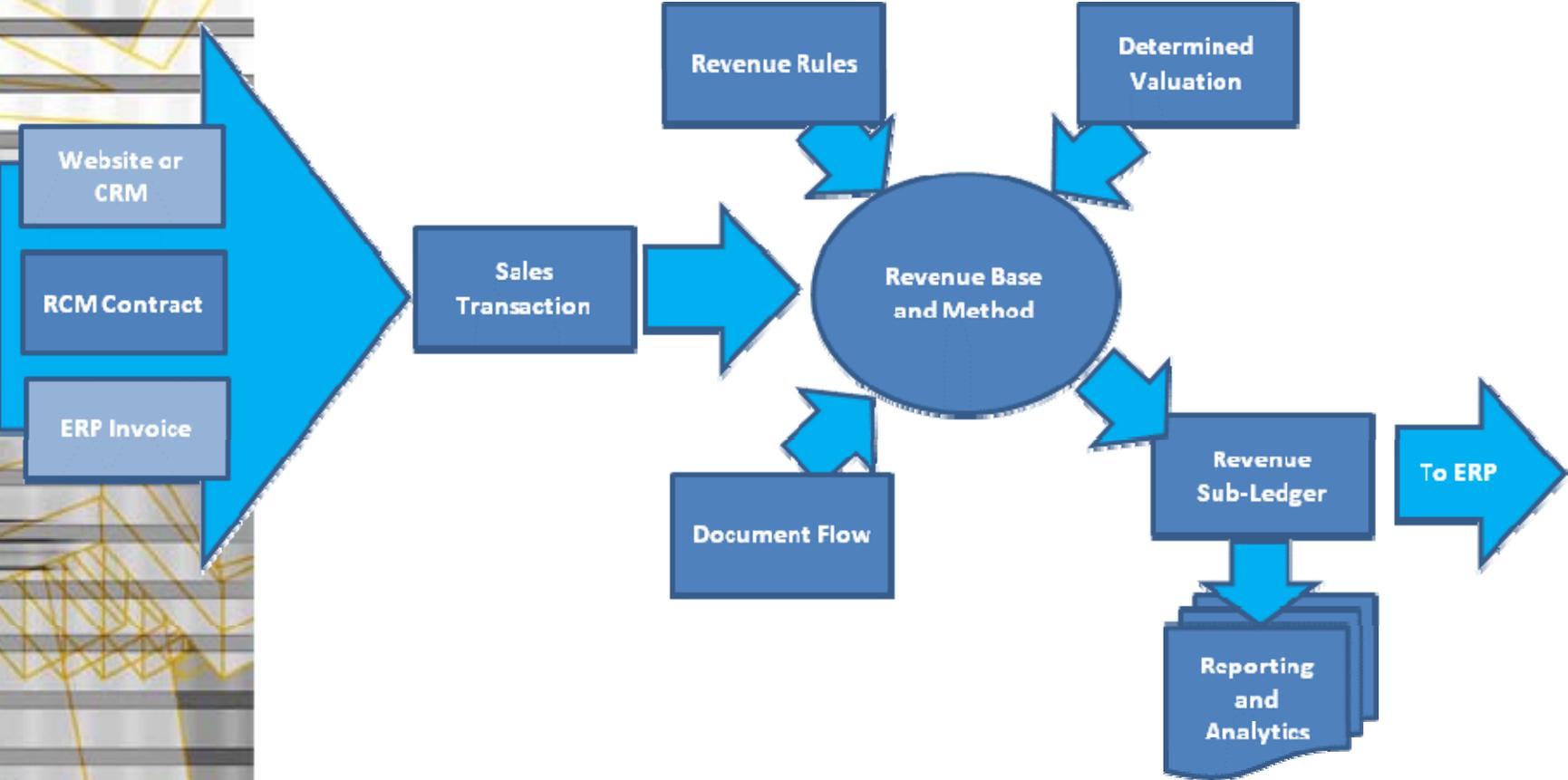
Tensoft, Inc.

- > Business software solutions provider
- > Focus on technology companies
- > Software for revenue management (RCM)

Tensoft RCM Product Line

- > Complete revenue management suite
- > Business model transaction flow support
- > Billing management for contracts
- > Visibility, Productivity, Compliance

Tensoft RCM – Revenue Management



Tensoft RCM - Revenue Management

Sales Transaction

- Generated based on Go-To-Market Model
- Generated from website, ERP, Tensoft RCM Contract

Revenue Basis

- Determination of policy for document type
- Revenue base determination
 - Sales Transaction Based
 - SOP 97.2 based – residual method
 - EITF 08-01 based – relative value method
- Revenue rules, sub-ledger, and analysis

Today's presenters from McGladrey



**Brian Marshall, Partner, National
Accounting Standards Group**



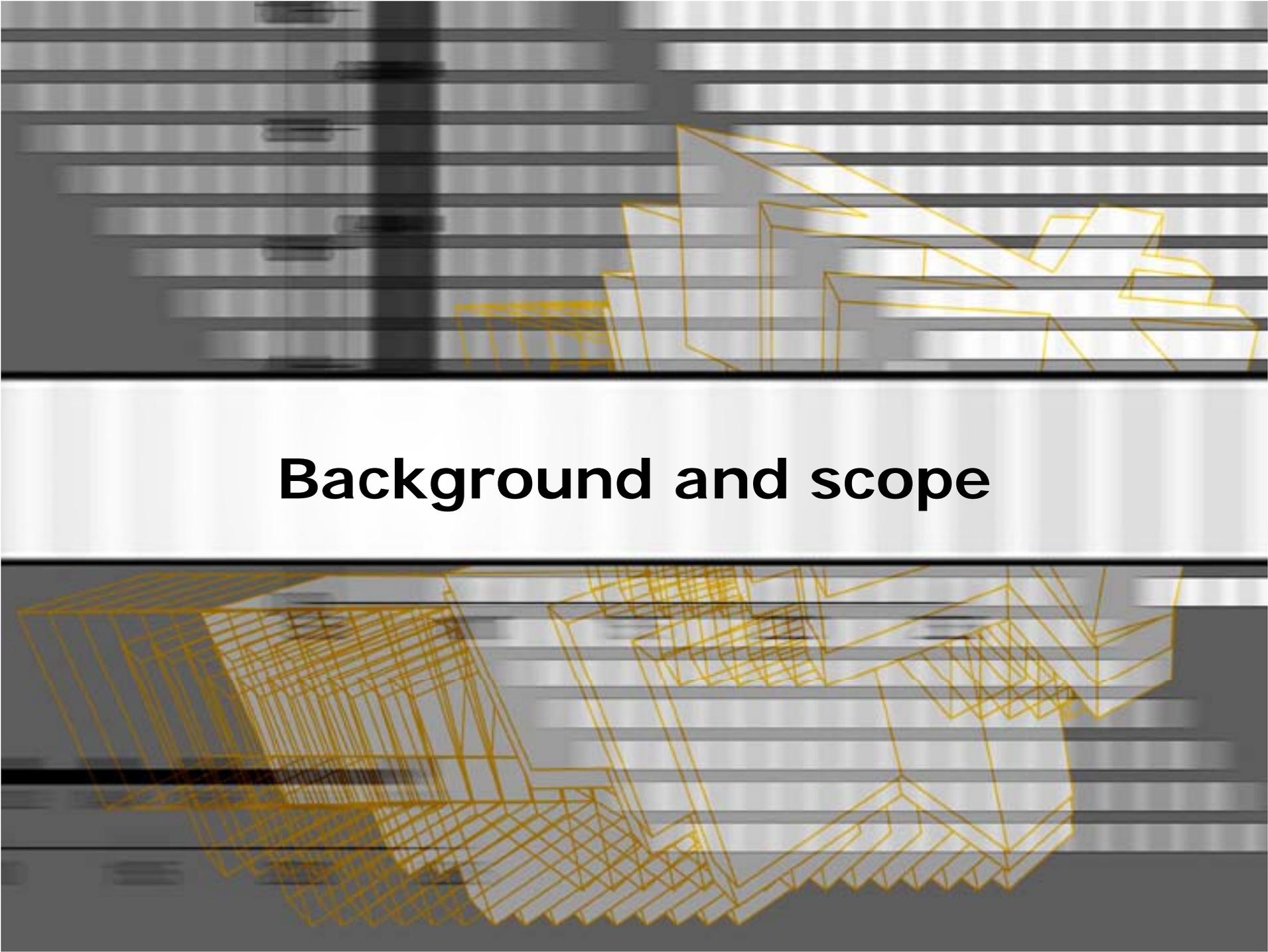
**Richard Stuart Partner, National
Accounting Standards Group**

McGladrey overview

- > Fifth largest U.S. provider of assurance, tax and consulting services
- > Nearly 6,500 professionals and associates in more than 70 offices nationwide
- > US member of RSM International (RSMI) – sixth largest network of independent accounting, tax and consulting firms worldwide
 - > Offices in more than 85 countries with over 32,000 people

Agenda

- > Background and scope
- > Revised proposed revenue model
- > Other revenue issues
- > Closing



Background and scope

Overview

- > Preliminary views document issued in Dec. 2008
- > Exposure draft issued in June 2010
- > Revised exposure draft issued in Nov. 2011
- > Redeliberations began in July 2012
- > Final standard expected in the first half of 2013

Scope

- > Applicable to all industries and entities
- > Specific contracts with customers outside of scope:
 - > Financial instruments
 - > Guarantees (other than warranties)
 - > Insurance
 - > Leases
 - > Certain nonmonetary exchanges
- > Contracts with performance obligations in multiple standards
- > Recognition and measurement principles also applicable to sales of nonfinancial assets that are not classified as revenue

Core principle

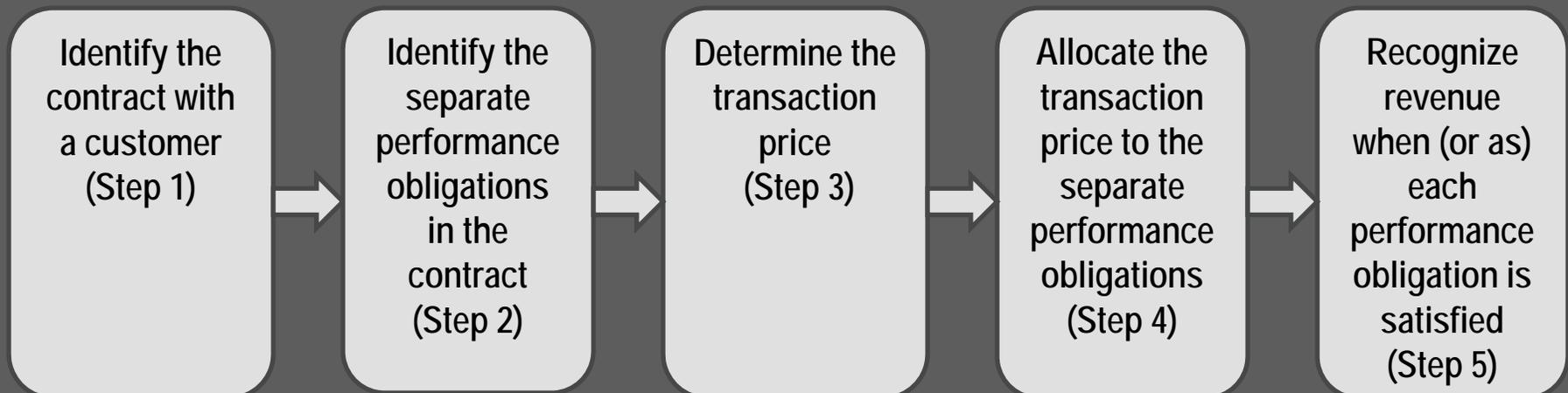
- > Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services



Revised proposed revenue model

Overview

Approach to comply with core principle



1. Identify the contract with a customer

- > Enforceable agreement between parties
- > Can be written, oral or implied
- > Combination
 - > Required for contracts entered into at or near the same time if certain criteria are met
- > Modifications
 - > Treat separately if separate performance obligation is added and the consideration is consistent with its standalone selling price
 - > Otherwise combine with remaining goods or services

2. Identify separate performance obligations

- > Promise in a contract to transfer a good or service
- > Account for good or service separately if distinct based on meeting both of the following criteria:
 - > Capable of being distinct because the customer can benefit from the good or service on its own or together with other resources readily available to the customer; and
 - > Distinct within the context of the contract because the good or service is not highly dependent on, or highly interrelated with, other promised goods or services in the contract
- > Indicators of distinct goods or services:
 - > No significant integration or modification services
 - > Can be purchased without significantly affecting other promised goods or services in the contract
 - > Not part of consecutively delivered goods or services

3. Determine the transaction price

- > Amount of consideration to which an entity expects to be entitled from a customer
 - > Variable consideration
 - > Time value of money
 - > Noncash consideration
 - > Consideration payable to a customer
- > Collectibility not considered in transaction price
 - > Generally record uncollectible amounts adjacent to revenue

4. Allocate the transaction price

- > Generally based on relative standalone selling prices of separate performance obligations
- > Standalone selling price
 - > Observable price when sold separately (best)
 - > Otherwise, estimate based on:
 - Cost plus margin
 - Adjusted market assessment
 - Residual technique allowed if highly variable or uncertain
 - Others?
- > Subsequent changes in the transaction price are allocated on a relative standalone selling price basis unless certain criteria are met

5. Recognize revenue

- > Recognize revenue as performance obligations are satisfied based on transfer of control
- > Determine if satisfied (and revenue recognized) over time, based on whether entity's performance:
 - > Creates or enhances an asset the customer controls; or
 - > Benefits customer as entity performs and another entity would not need to reperform work completed to date (for pure services contracts); or
 - > Does not create an asset with an alternative use and vendor has right to payment for performance to date
- > Select method of progress toward completion (output or input)

5. Recognize revenue

- > If prior criteria not met, then satisfied at a point in time
- > Recognize revenue when customer obtains control based on following indicators:
 - >Entity has right to payment
 - >Entity has transferred physical possession
 - >Customer has legal title and risks and rewards of ownership
 - >Customer has accepted goods or services
- > Recognize amount allocated to performance obligation except for certain variable consideration, which is limited to reasonably assured amount based on:
 - >Experience with similar performance obligations
 - >Whether that experience is predictive of outcome



Other revenue issues

Contract costs

- > Capitalize direct costs of fulfilling a contract or anticipated contract if those costs:
 - >Generate or enhance a resource that will be used to satisfy performance obligations in the future (e.g., setup costs); and
 - >Are expected to be recovered
- > Capitalize incremental costs to obtain a contract if expected to be recovered
- > Practical expedient to expense costs to obtain a contract as incurred if amortization period would have been one year or less

Return rights

- > Defer revenue and record refund liability for goods expected to be returned
- > Adjust refund liability (and revenue) for changes in return expectations
- > Record asset (rather than cost of sales) for right to recover products at former carrying amount less costs of recovery

Warranties

- > Customer option to purchase separately
 - > Separate performance obligation recognized over time (warranty service)
- > No customer option to purchase separately and warranty does not provide an additional service
 - > Recognize revenue and accrue expected costs
 - > Consider following in determination of whether additional service is being provided:
 - Whether warranty is required by law
 - Length of warranty period
 - Nature of tasks to be performed

Other issues

> Onerous performance obligations

Removed from model during July redeliberations

FASB decided to retain existing guidance regarding the recognition of losses from contracts with customers, including ASC 605-35

> Licensing and rights to use

Same guidance as for other goods or services

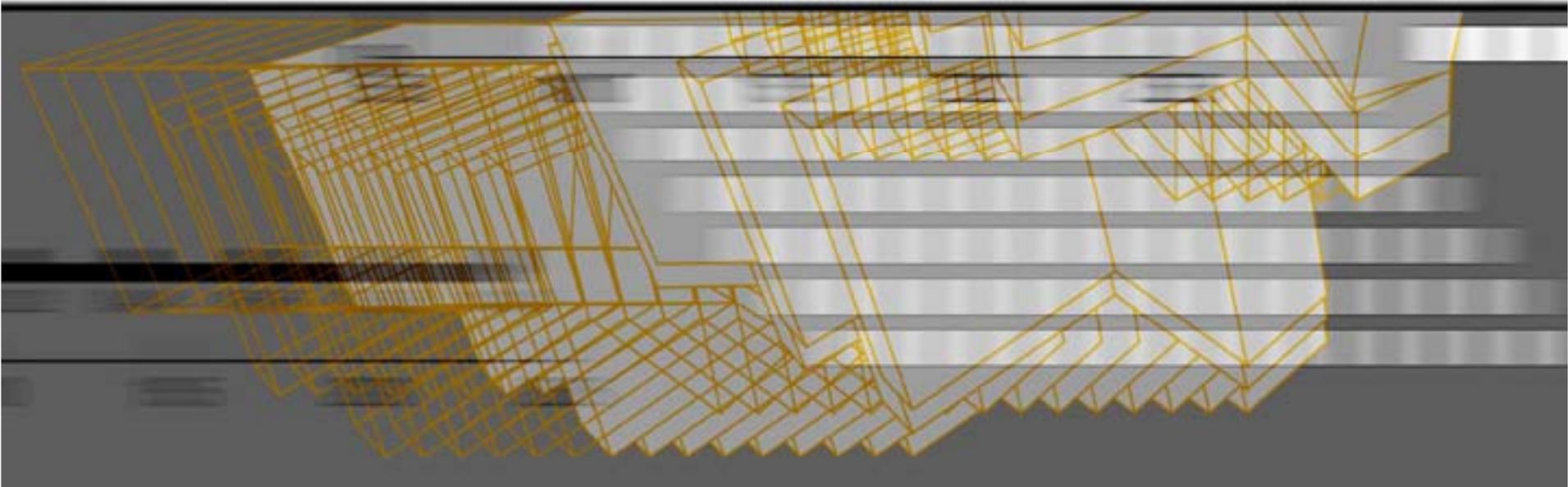
Revenue recognized at point in time when control transfers if separate performance obligation

Disclosures / transition / effective date

- > Disclosure objective:
 - > Quantitative and qualitative information regarding nature, amount, timing and uncertainty of revenue and related cash flows
- > Retrospective transition with certain practical expedients
- > Effective date no earlier than 2015 for public entities and 2016 for nonpublic entities



Closing

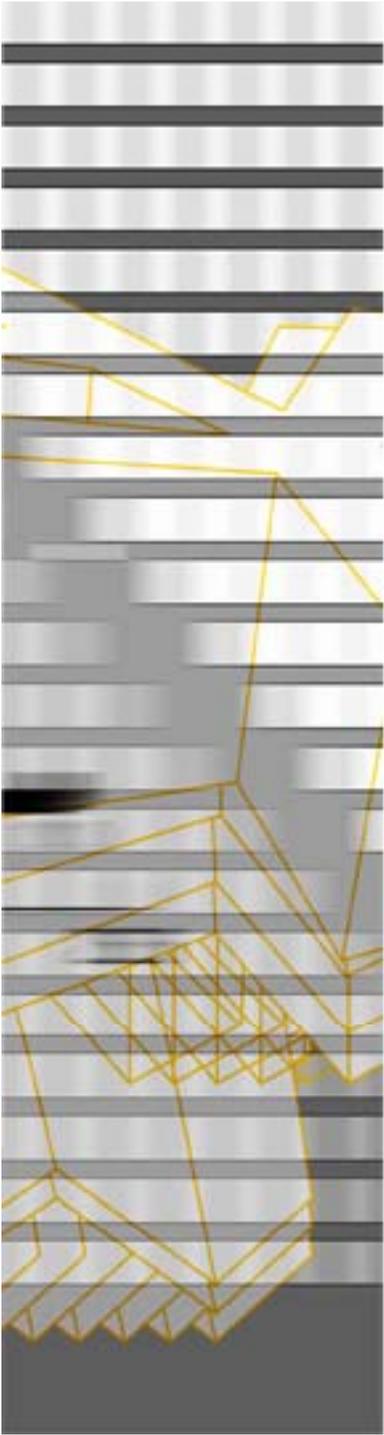


McGladrey thought leadership

- > FASB and IASB Issue Revised Exposure Draft on Revenue Recognition
- > Revised Revenue Recognition Exposure Draft – What Does It Mean For You?
- > <http://mcgladrey.com/Assurance/Accounting-Resources>
- > <http://mcgladrey.com/Publications/Publication-Subscription>

Questions?





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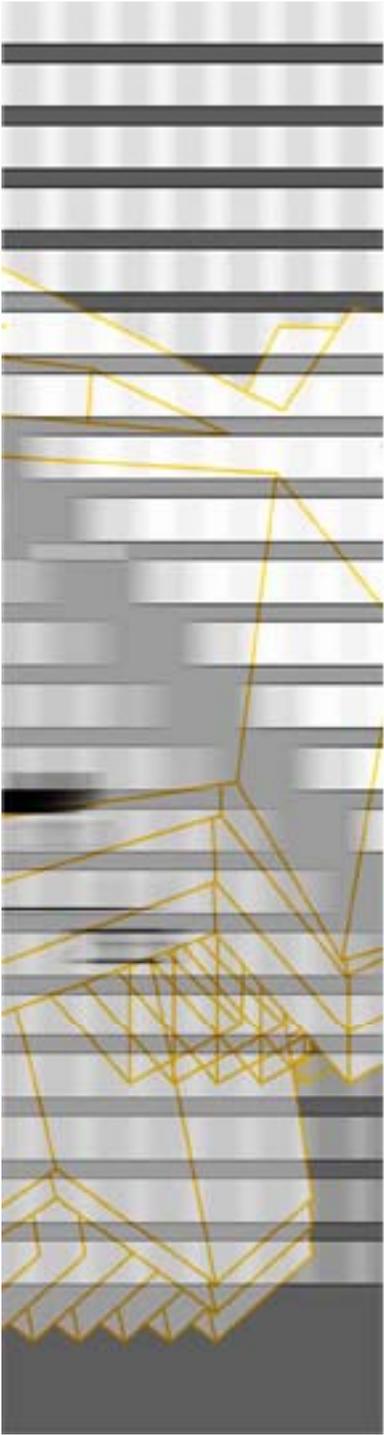
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