

U.S. GAAP vs. IFRS: Revenue from contracts with customers

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (IASB) (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS related to the recognition of revenue from contracts with customers.

The guidance related to recognizing revenue from contracts with customers in U.S. GAAP is included in the Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. In IFRS, the guidance related to recognizing revenue from contracts with customers is included in IFRS 15, *Revenue from Contracts with Customers*.

Comparison

The significant differences between U.S. GAAP and IFRS related to recognizing revenue from contracts with customers are summarized in the following table.

	U.S. GAAP	IFRS
Relevant guidance	ASC 606	IFRS 15
Collectibility threshold: Definition of <i>probable</i>	Defines probable as likely to occur.	Defines probable as <i>more likely than not</i> (which is a lower threshold than U.S. GAAP).
Licensing	<p>Requires classification of intellectual property (IP) as either functional or symbolic.</p> <p>IP is considered functional if it has standalone functionality at the time of transfer. Examples are films and software. Revenue recognition on arrangements including functional IP usually occurs at the point in time at which control of the license transfers.</p> <p>IP is considered symbolic if it does not have standalone functionality at the time of transfer. Examples include brands and trade names. Revenue recognition on transfers of symbolic IP usually occurs over the license period.</p>	<p>There is no differentiation between types of IP. Instead, when determining whether a license is a right to use or a right to access, an entity considers whether the customer can direct the use of, and obtain substantially all of the benefits from, the license at the point in time at which the license is granted.</p>
License renewals	Revenue cannot be recognized before the beginning of the renewal period.	No such restriction exists.
Shipping and handling	Permits entities to make an accounting policy election to account for shipping and handling activities that occur after control of the goods transfers to the customer as a fulfillment expense.	No such accounting policy election is included.
Sales and other similar taxes	Permits entities to make an accounting policy election to exclude all sales (and other similar taxes) from the transaction price measurement.	No such accounting policy election is included.

	U.S. GAAP	IFRS
Noncash consideration: Measurement date	Noncash consideration is measured at inception.	No date is prescribed for measurement of noncash consideration.
Noncash consideration: Variability	In situations in which noncash consideration varies for reasons other than solely the form of the noncash consideration: (a) variations in fair value due to the form of the noncash consideration are excluded from the transaction price (and revenue) and (b) variations in fair value not due to the form of the noncash consideration are accounted for as variable consideration.	The variable consideration guidance applies regardless of the reason for the variability.
Reversal of impairment losses on certain capitalized costs	Does not permit reversal of an impairment loss on capitalized costs to obtain or fulfill a contract.	Requires reversal of an impairment loss on capitalized costs to obtain or fulfill a contract if the conditions leading to the recognition of the loss cease to exist (or have improved).
Losses on production-type or construction-type contracts	The onerous test may be applied at either a contract level or a performance obligation level.	The onerous test is performed at a contract level.

These are the significant differences between U.S. GAAP and IFRS related to recognizing revenue from contracts with customers. Refer to ASC 606 and IFRS 15 for all of the specific requirements applicable to recognizing revenue from contracts with customers. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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U.S. GAAP vs. IFRS: Revenue from contracts with customers resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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