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# FASB Amends Guidance on Collaborative Arrangements

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## Overview

On November 5, 2018, the FASB issued [ASU 2018-18](#),<sup>1</sup> which amends ASC 808<sup>2</sup> to clarify when transactions between participants in a collaborative arrangement under ASC 808 are within the scope of the FASB's new revenue standard, ASU 2014-09<sup>3</sup> (codified in ASC 606<sup>4</sup>). Because ASC 808 does not provide comprehensive recognition or measurement guidance for collaborative arrangements, the accounting for those arrangements is often based on an analogy to other accounting literature or on an entity's accounting policy election. Some entities apply revenue guidance directly or by analogy to all or part of their arrangements, and others apply a different method as an accounting policy. Accordingly, there is diversity in practice related to an entity's view of the economics of collaborative arrangements and its associated accounting for these transactions. Notwithstanding such diversity, the issuance of ASU 2014-09 prompted questions about the interaction between ASC 808 and ASC 606, specifically whether ASC 606 could be applied to certain transactions in collaborative arrangements.

<sup>1</sup> FASB Accounting Standards Update (ASU) No. 2018-18, *Clarifying the Interaction Between Topic 808 and Topic 606*.

<sup>2</sup> FASB Accounting Standards Codification (ASC) Topic 808, *Collaborative Arrangements*.

<sup>3</sup> FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

<sup>4</sup> FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

This *Heads Up* summarizes the key provisions of ASU 2018-18, which:

- “Clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of the unit of account.”
- “Add unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606.”
- “Require that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer.”

## Key Provisions of ASU 2018-18

### Revenue Scoping

Before the issuance of ASU 2018-18, ASC 606-10-15-3 specifically excluded certain elements of collaborative arrangements from the scope of ASC 606. ASC 606-10-15-3 states, in part, that a “counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement).” However, the Basis for Conclusions of ASU 2014-09 indicates that transactions with participants in a collaborative arrangement can be within the scope of ASC 606 if the counterparty meets the definition of a customer under some or all of an arrangement’s terms. The Basis for Conclusions further notes that it might be appropriate for an entity to apply the principles of ASC 606 to a collaborative arrangement by analogy, even if the counterparty is not considered a customer, as long as no other guidance applies. Thus, some stakeholders raised concerns that ASU 2014-09 and its Basis for Conclusions appear to be inconsistent with respect to the scope of ASC 606 for collaborative arrangements.

ASU 2018-18 amends ASC 606-10-15-3 to eliminate that inconsistency and adds ASC 808-10-15-5A and 15-5B, which clarify that collaborative arrangements may be partially within the scope of ASC 606 in a transaction between collaborative participants “if a unit of account, identified as a promised good or service (or bundle of goods or services) that is distinct within the collaborative arrangement using the guidance in paragraphs 606-10-15-4 and 606-10-25-19 through 25-22, is with a customer.” In such a situation, “[a]n entity shall apply the guidance in Topic 606 to a unit of account that is within the scope of that Topic, including the recognition, measurement, presentation, and disclosure requirements.”

In a transaction between collaborative participants, an entity is precluded by ASU 2018-18 from presenting a transaction together with “revenue from contracts with customers” unless the entity applies the guidance in ASC 606 to a unit of account that is within the scope of ASC 606.



### Connecting the Dots

In ASU 2018-18's Examples 1 and 2, Biotech and Pharma agree to participate equally in the results of research and development (R&D) activities and in commercialization activities for a drug candidate. Biotech views Pharma as a customer that provides distinct R&D services. In accordance with ASC 808-10-15-5A and 15-5B, because Pharma is viewed as a customer, the distinct R&D services are directly within the scope of the guidance in ASC 606 on separation, measurement, recognition, and disclosures. Furthermore, consideration received by Biotech pertaining to these services will be presented as revenue when recognized.

In Example 3, the R&D services are not within the scope of ASC 606 because a customer/vendor relationship does not exist between Little Pharma and Big Pharma. Under ASC 808-10-15-5A and 15-5B, ASC 606 would not be applied for separation, measurement, and recognition. However, ASC 808-10-15-5C would permit an analogy to ASC 606 for some or all aspects of the accounting for the R&D services if an analogy to ASC 606 is deemed an "appropriate analogy" (see [below](#)).

Further, ASU 2018-18 states, "The Board did not address the accounting for transactions with a collaborative arrangement participant that are directly related to third-party sales of either collaborative arrangement participant. Therefore, current practice for those transactions is unchanged." In addition, paragraph BC30 of ASU 2018-18 states:

The amendments in this Update are not intended to address transactions with a collaborative arrangement participant that are directly related to sales to third parties of either participant and, therefore, do not result in changes to the presentation of those transactions. . . . Examples of transactions with a collaborative arrangement participant that are directly related to sales to third parties of either participant may include (a) sales of 'production inputs' or other items to a collaborative arrangement participant that are eventually sold to a third party or (b) profit share receivables from collaborative arrangement participants for sales to third parties.

## Unit of Account

Before the issuance of ASU 2018-18, ASC 808 did not address recognition and measurement matters such as the determination of the appropriate unit of account. ASU 2018-18 amends ASC 808 to provide guidance on the unit of account that is "limited to the context of assessing the scope of the revenue guidance." Under the ASU, a unit of account is within the scope of ASC 606 if the collaborative participant is a customer for part or parts of the transaction and the goods or services are distinct in accordance with ASC 606-10-15-4 and ASC 606-10-25-19 through 25-22.



### Connecting the Dots

ASC 808-10-15-5B, which was added by ASU 2018-18, states, in part, "If a portion of a distinct bundle of goods or services is not with a customer, the unit of account is not within the scope of Topic 606." Further, paragraph BC26 ASU 2018-18 discusses situations in which a revenue and a nonrevenue element cannot be separated in accordance with the distinct criterion in ASC 606. It states:

The Board concluded that if the collaborative arrangement participant is a customer in the context of the entire bundle of goods or services, an entity should account for that unit of account under Topic 606. However, if the collaborative arrangement participant is not a customer for a portion of a distinct bundle of goods or services, the unit of account is not within the scope of Topic 606 and the entity should account for that unit of account using the residual guidance in Topic 808 that allows for accounting by analogy or, if there is no appropriate analogy, an accounting policy election, including for purposes of determining the unit of account.

## Nonrevenue Model

Under ASC 808, there could be transactions in a collaborative arrangement that do not qualify for presentation of income as “revenue from contracts with customers.” The FASB considered expanding the scope of its collaborative arrangements project to include a nonrevenue model, and its staff developed nonrevenue guidance for the Board’s consideration. The Board ultimately decided to not propose a nonrevenue model and to limit the project to determining the scope of the revenue guidance and units of account. However, the FASB amended ASC 808 to add ASC 808-10-15-5C, which addresses the accounting for a unit of account that is not within the scope of ASC 606. That paragraph states in part, that “the unit of account, recognition, and measurement for the unit(s) of account outside the scope of other Topics, including Topic 606, shall be based on an analogy to authoritative accounting literature or, if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election.”



### Connecting the Dots

As explained in paragraph BC31 of ASU 2018-18, the Board considered providing recognition and measurement guidance for nonrevenue transactions between collaborative participants, in part because “its decisions could result in more transactions that would need recognition and measurement guidance that does not exist in Topic 808.” Although the Board decided not to propose a nonrevenue accounting model for collaborative arrangements, in accordance with ASC 808-10-15-5C and as noted in paragraph BC31, “the Board decided to continue to permit an entity to apply the revenue guidance in Topic 606 by analogy or, if there is no appropriate analogy, as a policy election, without requiring the entity to apply all the guidance in Topic 606, as long as it presents the transaction separate from revenue recognized from contracts with customers.” Accordingly, it is possible for an entity to conclude on the basis of its facts and circumstances that ASC 606 represents an “appropriate analogy” with respect to determination of the nonrevenue unit(s) of account but may not represent an appropriate analogy with respect to recognition or measurement for such unit(s) of account. In such a case, the above guidance would support a conclusion that analogizing to ASC 606 could be limited to an entity’s determination of the unit(s) of account. The entity would then be required to establish a policy that is “reasonable, rational, and consistently applied” as long as the nonrevenue transaction is presented separately from any revenue recognized from contracts with customers under ASC 606.

## Scope, Transition, and Effective Date

ASU 2018-18’s amendments apply to all entities that have collaborative arrangements as defined in ASC 808. Entities must apply the guidance retrospectively as of the date of their initial application of ASC 606 and should recognize the cumulative effect of initially applying the amendments as an adjustment to opening retained earnings as of the later of (1) the earliest annual period presented and (2) the annual period that includes the date of the entity’s initial application of ASC 606. In addition, entities may elect to apply the guidance to all collaborative arrangements or only to collaborative arrangements that are not completed as of the date of their initial application of ASC 606, and their election must be disclosed.

The ASU’s amendments are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods therein. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted if financial statements have not yet been issued (public business entities) or have not yet been made available for issuance (all other entities), but no earlier than an entity’s date of adoption of ASC 606.



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