

TRG Snapshot

Joint Meeting on Revenue

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In This Issue

- [Topic 1 — Consideration Payable to a Customer](#)
- [Topic 2 — Scope: Credit Cards](#)
- [Topic 3 — Portfolio Practical Expedient and Application of Variable Consideration Constraint](#)
- [Topic 4 — Completed Contracts at Transition](#)
- [Topic 5 — Application of the Series Provision and Allocation of Variable Consideration](#)
- [Topic 6 — Practical Expedient for Measuring Progress Toward Complete Satisfaction of a Performance Obligation](#)
- [Topic 7 — Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation](#)
- [Topic 8 — Determining When Control of a Commodity Is Transferred](#)
- [Topic 9 — Accounting for Restocking Fees and Related Costs](#)

This *TRG Snapshot* summarizes the July 13, 2015, meeting of the joint revenue transition resource group (TRG) created by the FASB and IASB.

The purpose of the TRG is not to issue guidance but instead to seek and provide feedback on potential issues related to implementation of ASC 606¹ and IFRS 15² (collectively, the “new revenue standard”). By analyzing and discussing potential implementation issues, the TRG will help the boards determine whether they need to take additional action, such as providing clarification or issuing other guidance. The TRG comprises financial statement preparers, auditors, and users from “a wide spectrum of industries, geographical locations and public and private organizations,” and board members of the FASB and IASB attend the TRG’s meetings. In addition, representatives from the SEC, PCAOB, IOSCO,³ and AICPA are invited to observe the meetings.

The TRG generally agreed with the FASB and IASB staffs’ analyses and views regarding Topics 1, 2, 5, 6, 7, 8, and 9 and therefore did not recommend changes to the new revenue standard. Topics 3 and 4 are likely to be addressed at a future TRG meeting.

The TRG’s next meeting is scheduled for November 9, 2015.

Topic 1 — Consideration Payable to a Customer

Background: The following three issues were discussed at the January 26 and March 30, 2015, meetings of the TRG; however, general agreement about them was not reached at either meeting (see Deloitte’s March 2015 *TRG Snapshot* for additional background and summary information):

- *Issue 1: Determining which payments are within the scope of the guidance on consideration payable to a customer* — As outlined in TRG Agenda Paper 37, TRG members’ views on this issue were as follows:
 - *View A* — “Entities should assess all consideration payable to a customer.”
 - *View B* — “Entities should assess consideration payable to a customer only within the context of that contract with a customer (or combined contracts).”
 - *View C* — “Entities should assess consideration payable to a customer only within a contract with a customer (or combined contracts) and to a customer in the distribution chain of that contract with a customer.”

The FASB and IASB staffs noted that in previous discussions, TRG members disagreed with View C; however, there was mixed support for Views A and B. Some members believed that View A would result in an entity’s need to assess and document each distinct payment to a customer, which may be impractical or result in unnecessary costs. Others believed that View B may lead to an entity’s failure to identify payments made to customers that truly are related to contracts with those customers. Ultimately, TRG members determined that a “reasonable”

¹ For titles of *FASB Accounting Standards Codification* (ASC or the “Codification”) references, see Deloitte’s “Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*.”

² IFRS 15, *Revenue From Contracts With Customers*.

³ International Organization of Securities Commissions.

rather than “strict” application of Views A and B would be appropriate and that an entity’s internal processes and controls would enable identification of payments made to customers that may be related to revenue contracts.

- *Issue 2: Determining who constitute an entity’s customers in the application of the guidance on consideration to a customer* — TRG members had the following views on this issue:
 - *View A* — “An entity’s customers are limited to those in the distribution chain.”
 - *View B* — “An entity’s customers include those in the distribution chain and *might* include a customer’s customers that extend beyond those in the distribution chain.”

The staffs noted that in prior meetings, most TRG members agreed with View B and indicated that an agent in a principal-agent relationship might regard both the principal and the end customer as its customers. However, under either view, TRG members generally agreed that a contractual obligation to provide consideration to a customer’s customer (e.g., beyond the distribution chain) would be considered a payment to a customer.

- *Issue 3: Determining how the guidance on timing of recognition of consideration payable to a customer reconciles with the variable consideration guidance* — TRG members’ views on this issue were as follows:
 - *View A* — “The guidance on variable consideration and the later of guidance⁴ for consideration payable to a customer can be reconciled because not all consideration payable to a customer is variable consideration.”⁵
 - *View B* — “The guidance on variable consideration and the later of guidance for consideration payable to a customer [are] not consistent.”

The staffs noted that support for these views was mixed. Some TRG members opposed View A because it would inappropriately narrow the scope of variable consideration, which they believed should be broad. Supporters of View A believed that (1) certain types of customer payments may meet the definition of variable consideration (and that an adjustment to the transaction price would therefore be required) and (2) other payments would not meet the definition of variable consideration (and that a later reduction of revenue would therefore be required).

Supporters of View B believed that (1) the guidance on consideration payable is inconsistent with the guidance on variable consideration and would lead to different timing of a reduction of the transaction price and (2) the “later of” guidance is inconsistent with the new standard’s principle that a transaction price should be the “amount of consideration to which an entity expects to be entitled.”

See [TRG Agenda Paper 37](#) for additional information.

Summary: TRG members reaffirmed their previous conclusions on Issues 1 and 2. In addition, they reached general agreement on Issue 3 and did not recommend changes to the standard. They generally agreed that the principle in the new revenue standard is appropriate (i.e., that the transaction price should reflect an entity’s expectation of the amount of consideration it would be entitled to receive). Many TRG members also believed that the variable consideration and “later of” guidance in the new standard could be reconciled and that the implementation issue would most likely apply to a narrow set of circumstances.

Topic 2 — Scope: Credit Cards

Background: Under current U.S. GAAP, credit card arrangements are typically accounted for under ASC 310. ASC 606-10-15-4 indicates that financial instruments within the scope of Codification topics other than ASC 606, including ASC 310, are excluded from the scope of the new revenue standard unless those other Codification topics “do not specify how to separate and/or initially measure one or more parts of the contract.”⁶ However, stakeholders have questioned whether credit card arrangements

⁴ In TRG Agenda Paper 37, the staffs refer to the guidance in ASC 606-10-32-27 (paragraph 72 of IFRS 15) as “the later of” guidance.

⁵ View A is consistent with the recommendation in [TRG Agenda Paper 28](#), which was discussed at the March 2015 TRG meeting.

⁶ See ASC 606-10-15-2 through 15-5 (paragraphs 5 through 8 of IFRS 15) for additional information.

generally — or specific features of such arrangements — are within the scope of the new revenue standard since the arrangements often involve different (1) fees (e.g., annual fees, late fees), (2) features (e.g., concierge services, rewards programs), and (3) parties to the transaction (e.g., issuer, cardholder, network, merchant, merchant acquirer).

Accordingly, the FASB staff considered the following two issues (which apply to U.S. GAAP):

- *Issue 1: Whether the rights and obligations under a credit-card-issuing bank's contract with a cardholder are within the scope of the new revenue standard* — On the basis of outreach efforts, the FASB staff noted that all credit card fees are currently accounted for under ASC 310 because they are related to credit lending activities (i.e., akin to loan origination fees). The staff also noted that the new revenue standard does not include consequential amendments to ASC 310. Accordingly, the staff believed that entities would continue to account for services exchanged for credit card fees under ASC 310 rather than ASC 606. However, the staff noted that as an anti-abuse measure, entities need to assess whether credit card fees and services should be accounted for under ASC 606 when the issuance of a credit card appears incidental to the arrangement (e.g., when a card is issued in connection with the transfer of (1) an automobile or (2) asset management services).
- *Issue 2: Whether cardholder rewards programs in arrangements related to bank-issued credit cards are within the scope of ASC 606* — The staff noted that an entity's scope conclusion is a matter of judgment that should be based on the specific facts and circumstances. However, the staff indicated that if an entity concludes that the credit card arrangement is within the scope of ASC 310, the associated rewards program would also be within the scope of ASC 310. The staff also provided considerations for determining how an entity should account for a rewards program if the entity concludes that the rewards program is within the scope of ASC 606.

See [TRG Agenda Paper 36](#) for additional information.

Summary: TRG members generally agreed with the FASB staff's conclusions on both issues, which were mainly related to U.S. GAAP. Some TRG members acknowledged that (1) similar scope issues may arise under IFRSs and (2) because there is no guidance under IFRSs that specifically addresses credit card fees, application differences between U.S. GAAP and IFRSs may result. In addition, TRG members and other observers reiterated that entities should not default to the guidance in ASC 310 for all credit card arrangements. Instead, if the transaction includes goods or services (or both) that are "clearly unrelated" to the credit card arrangement, entities would need to perform additional analysis.

Noting that the staffs are aware of some other scope-related questions, a FASB staff member indicated that the intent of TRG Agenda Paper 36 is to provide a framework for determining scope and considerations related to the application of ASC 606 (e.g., paragraph 21 of the staff paper, if appropriate).

Topic 3 — Portfolio Practical Expedient and Application of Variable Consideration Constraint

Background: There are two methods for estimating variable consideration under the new revenue standard: (1) expected value and (2) most likely amount. When an entity applies the expected-value method, it may consider evidence from other, similar contracts to form its estimate of expected value. In a manner consistent with the overall objective of the standard, the entity is also permitted to use a portfolio approach as a practical expedient to account for a group of contracts with similar characteristics rather than account for each contract individually. However, an entity may only apply the practical expedient if it does not expect the results to be materially different from applying the guidance to individual contracts.⁷

⁷ ASC 606-10-10-4; paragraph 4 of IFRS 15.

Stakeholders have questioned whether the evaluation of evidence from other similar contracts would mean that an entity is applying the portfolio practical expedient (and would therefore need to meet the condition that the results may not differ materially).

The question stems partly from the new revenue standard's Example 22, "Right of Return,"⁸ which discusses a variable consideration scenario that has two possible outcomes (i.e., binary outcomes). Under that scenario, many stakeholders would have expected the sample entity to use the most-likely-amount approach to estimate variable consideration. But instead the entity used the expected-value approach "because the entity has a large number of contracts with similar characteristics."⁹ The example further indicates that the entity applied the practical expedient to account for contracts as a portfolio in accordance with the new revenue guidance, which would also suggest that the entity in the example performed an evaluation to assess whether the result of applying the portfolio practical expedient would differ materially from accounting for each contract individually.

In TRG Agenda Paper 38, the staffs discussed a modified version of Example 22 and concluded that the accounting results would not materially differ under the expected-value and portfolio approaches. Further, the staffs reiterated that (1) while an entity is required to perform an assessment to use the portfolio practical expedient, the assessment need not be quantitative, (2) an entity can consider evidence from similar contracts, and (3) doing so is not equivalent to using the portfolio practical expedient.

In addition, stakeholders have questioned whether a transaction price estimated under the expected-value approach can be an amount that is not a possible outcome for an individual contract. The staffs discussed this question in the context of an example but did not include a recommendation. As described in TRG Agenda Paper 38, TRG members had the following two views:

- *View A* — "The transaction price should be constrained to the highest amount that is both a possible outcome of the contract and a probable [highly probable] outcome" (i.e., the transaction price can only be one of the possible outcomes).
- *View B* — "The transaction price is not automatically reduced by the constraint on variable consideration" (i.e., the transaction price may be an amount that is not one of the possible outcomes).

Supporters of View A noted that ASC 606-10-10-4 (paragraph 4 of IFRS 15) specifies the accounting for an individual contract and that an entity therefore cannot recognize revenue for an amount that is not one of the potential outcomes of the individual contract. Supporters of View B believe that (1) application of the constraint should not automatically negate the result of the estimation technique when the expected-value approach permits a better prediction of the consideration to which the entity expects to be entitled and (2) if the expected-value method permits a better prediction of the transaction price, it is not necessary for the amount to be one of the potential outcomes.

See [TRG Agenda Paper 38](#) for additional information.

Summary: TRG members generally agreed with the staffs' view that an entity is not necessarily applying the portfolio practical expedient when it considers evidence from other, similar contracts to develop an estimate under the expected-value method.

Further, certain TRG members indicated a general preference for View B in the estimation of the transaction price under the expected-value approach. While some TRG members expressed concern that under View B in the example, a recorded amount may not be a possible outcome, others agreed that when an entity has a portfolio of contracts (or contracts with a range of many possible outcomes), it would be appropriate to use the expected-value method. A FASB Board member believed that rather than determining whether a transaction price estimated under the expected-value approach can be

⁸ ASC 606-10-55-202 through 55-207; paragraphs IE110 through IE115 of IFRS 15.

⁹ See paragraph 6 of TRG Agenda Paper 38.

an amount that is not a possible outcome for an individual contract, the more appropriate issue is to identify when an entity should use the expected-value method. He asked the staffs to draft guidance (including related considerations) on that issue in the minutes to the July 2015 meeting. The staffs agreed to summarize their views and will ask for the TRG's feedback on the the summary. As a result, depending on the TRG's input, the issue may be discussed at the next TRG meeting.

Topic 4 — Completed Contracts at Transition

Background: Under the modified retrospective transition method, entities will apply the new revenue standard only to contracts that are not completed as of the date of initial application. The new revenue standard states that a contract is considered completed if the entity has transferred all of the goods or services identified in accordance with current GAAP.

The FASB and IASB staffs explored the following issues identified by stakeholders (which pertain primarily to U.S. GAAP, although the staffs noted that similar issues could arise under IFRSs):

- *Issue 1: When a contract is considered completed for purposes of applying the transition guidance under the modified retrospective method* — Under the new revenue standard, a performance obligation is satisfied when the entity has transferred control of the good or service promised (that comprises the performance obligation) to the customer. Under current U.S. GAAP, however, completion occurs when the risks and rewards have passed to the customer. The control principle is therefore new, and it has led to questions about when a contract is complete for transition purposes. For example, there could be contracts under which all goods or services have been transferred as described under the new revenue standard, but a portion of the contract revenue is deferred as of the transition date in accordance with current U.S. GAAP.
- *Issue 2: How to account for completed contracts after adoption of the new revenue standard* — Stakeholders have questioned whether contracts that are completed for transition purposes should continue to be accounted for under existing U.S. GAAP after adoption of the new standard if the accounting for the transaction has not been completed (e.g., not all revenue has been recognized under current U.S. GAAP because collectibility is not reasonably assured or revenue is not fixed or determinable). That is, it is unclear whether entities should record the remaining portions of such contracts as revenue or through equity.

The staffs did not provide conclusions for either issue. Rather, they presented several examples and offered two views on each.

For additional details, see [TRG Agenda Paper 42](#).

Summary: TRG members generally agreed that in a manner consistent with the modified transition guidance in the new revenue standard, entities should assess whether goods and services have been transferred in accordance with the current guidance on revenue recognition. In addition, TRG members generally agreed that such an assessment should be made regardless of whether the accounting for the contract has been completed (i.e., regardless of whether the entity has received all cash under the contract or earned all revenue for cash that has been received).

TRG members did not agree on whether subsequent transition accounting for completed contracts should be performed under the current revenue guidance or the new revenue guidance. TRG members in London supported the use of existing IFRSs, and TRG members in the United States favored using the new revenue standard. Specifically, some U.S. TRG members indicated the following:

- For completed contracts as of the transition date for which revenue has not yet been recognized, any deferred revenue should be written off as part of the cumulative-effect adjustment. Further, entities should record any future cash payments made after the transition date that would have been recognized as revenue under current GAAP as an adjustment to retained earnings rather than recognizing those payments in the income statement, thereby

avoiding the use of a mixed revenue recognition model after the adoption of the new revenue standard. The TRG acknowledged that as a result of this process, certain revenues and costs might never be recognized in the income statement, but a TRG member mentioned that entities would most likely specify the transition impact under the disclosure requirements in ASC 606.

- Certain contracts should be excluded from the transition guidance in ASC 606 (e.g., warranties or loyalty programs) — even though they are contemplated under the new standard — if the entity has determined that such contracts were not revenue elements under ASC 605. Therefore, as of the transition date, the existing liability would remain on the entity’s balance sheet until it is paid, and any subsequent warranties issued or loyalty points earned would be accounted for under ASC 606 (including performance obligations, if applicable).

Because of the divergent views, the staffs agreed to apply the TRG’s feedback to some fact patterns. After soliciting further views from the TRG, the staffs will determine whether to discuss this topic at a future TRG meeting.

Topic 5 — Application of the Series Provision and Allocation of Variable Consideration

Background: To simplify the application of its guidance, the new revenue standard includes a provision akin to a practical expedient that allows an entity to identify as a performance obligation a promise to transfer a “series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer” (the “series guidance”). Under ASC 606-10-25-15 (paragraph 23 of IFRS 15), a series of distinct goods or services has the same pattern of transfer to the customer if (1) each distinct good or service would meet the criteria to be a performance obligation satisfied over time and (2) the same method for measuring progress toward satisfaction of the performance obligation would be applied to each distinct good or service.

Acknowledging that there is some overlap between the issues discussed in TRG Agenda Paper 39 and those addressed in TRG Agenda Papers 40 (see [Topic 6](#) below) and 41 (see [Topic 7](#) below), the FASB and IASB staffs noted in TRG Agenda Paper 39 that stakeholders have raised various implementation issues related to whether performance obligations in long-term contracts meet the criteria to be accounted for under the series guidance. Specifically, the staffs considered the following three stakeholder questions:

- In applying the series guidance, how should entities determine whether distinct goods or services are substantially the same?
- If a contract provides for a fixed price per unit of output but the quantity of outputs is undefined, is the consideration variable?
- Should variable consideration be allocated on the basis of the relative stand-alone selling price of each performance obligation (or distinct good or service)?

In examining these issues, the staffs provided the following examples (all of which are presumed to meet the requirements for recognizing revenue over time):

- *Example A* — A buyer and seller enter into a 10-year information technology (IT) outsourcing contract under which the seller promises to deliver continuous IT services for the duration of the contract. The IT seller performs various activities in providing IT outsourcing. The price per service is fixed and decreases over the term of the contract. However, the quantity of services is not fixed.
- *Example B* — Under a 10-year transaction processor (TP) contract, a TP seller promises to provide continuous access to its system for the duration of the contract. The TP seller receives an up-front fee at the inception of the contract, a fixed fee per transaction, and a percentage of total dollars processed as consideration. However, the quantity of transactions is not fixed.
- *Example C* — A provider of hotel management services enters into a 20-year contract to manage a customer’s properties. The service provider receives consideration based on

1 percent of monthly rental revenue, reimbursement of labor costs incurred, and an annual incentive fee of 8 percent of gross operating profit.

- *Example D* — A franchisor provides a franchisee with a license to use the franchisor’s trade name and sell its products for the duration of the parties’ 10-year contract. The franchisor receives a fixed fee and 5 percent of the franchisee’s sales.

While TRG Agenda Paper 39 includes the staffs’ analysis and related conclusions for each of the examples above, the staffs’ framework for analyzing the implementation issues is discussed below in relation to (1) steps 2, 3, 4, and 5 of the new revenue recognition model and (2) Example C discussed in the agenda paper, as applicable.

Step 2 — Identifying a Performance Obligation

The staffs believed that an entity would need to determine (1) the nature of the services promised to the customer and (2) whether the promised services are distinct and substantially the same. Stakeholders have questioned how broadly or narrowly to interpret “substantially the same.” The staffs believed that in Example C, the nature of the promised service is a single integrated management service comprising distinct activities (e.g., management of hotel employees, accounting services, training, and procurement). They noted that while these activities could vary from day to day, the nature of the service is providing an integrated management service. Therefore, the staffs believed that the integrated management service is a single performance obligation instead of more performance obligations (for each underlying activity or different combinations of activities).

Step 3 — Determining the Transaction Price

The staffs noted that a contractual agreement to provide an unknown quantity of services throughout the contract term contains variable consideration (i.e., total consideration is contingent on the quantity of services provided to the customer). In Example C, the annual incentive fee and monthly revenue rental fee constitute variable consideration since the amount is not fixed. Further, reimbursable labor hours are not fixed given the nature of the service and therefore represent variable consideration.

Step 4 — Allocating the Transaction Price to the Performance Obligations

The objective in step 4 is to allocate the transaction price to each distinct good or service “in an amount that depicts the amount of consideration to which the entity expects to be entitled” in transferring the good or service to the customer on the basis of the relative stand-alone selling price of each distinct good or service. However, if the criteria in ASC 606-10-32-39 through 32-41 (paragraphs 84 through 86 of IFRS 15) are met, variable consideration is excluded from this allocation method. Consequently, the staffs believed that entities should use judgment in determining the appropriate allocation method for meeting the allocation objective.

With respect to Example C, the staffs believed that allocating variable consideration to each month could meet the allocation objective because the amount corresponds to the value provided to the customer each month. Similarly, the staffs noted that the variable consideration related to the reimbursement of labor costs could be allocated to each day (although it may be allocated on a monthly basis for practical reasons). Further, the staffs believed that the annual incentive fee could reflect the value delivered to the customer and therefore could be allocated to the annual period.

Step 5 — Recognizing Revenue as the Entity Satisfies the Performance Obligation

In analyzing Example C, the staffs noted that the provider of hotel management services would recognize the monthly variable fee and reimbursement of labor costs as the monthly services are provided. Further, the entity would estimate (subject to the constraint for variable consideration) the annual incentive fee and recognize the fee over the annual period on the basis of the common measure of progress.

The staffs further noted that the revenue recognition pattern in each of the examples discussed does not represent multiple-attribution recognition (see [Topic 7](#) for additional information) but instead is the result of step 4's allocation process.

See [TRG Agenda Paper 39](#) for additional information.

Summary: TRG members generally agreed with the staffs' analysis and believed that day-to-day activities do not need to be identical to be "substantially the same." While noting that the types of service contracts discussed in TRG Agenda Paper 39 can be considerably more complex in practice, they acknowledged that the staff paper and examples provide a framework for applying the guidance. Some TRG members noted their belief that the franchise license example should be excluded from Topic 5 because the new revenue standard has specific implementation guidance on licenses. In addition, several TRG members expressed concern that the facts in the agenda paper's examples could raise questions about the accounting for optional purchases (i.e., in the context of determining and allocating variable consideration under [Topic 5](#)). The staffs acknowledged TRG members' concerns and noted that implementation issues related to optional purchases are expected to be discussed at the November 2015 TRG meeting.

Topic 6 — Practical Expedient for Measuring Progress Toward Complete Satisfaction of a Performance Obligation

Background: If any of the criteria¹⁰ for recognizing revenue over time are met, entities need to determine the appropriate method for measuring progress toward satisfaction of the performance obligation. Two types of methods are available: (1) the output method, which is based on the value of goods or services transferred to the customer, and (2) the input method, which is based on an entity's efforts or inputs in transferring goods or services to customers.

In applying the output method, an entity may use a practical expedient that allows it to recognize revenue in the amount it has the right to invoice (the "invoice practical expedient"). However, this option is available only if the invoice amount represents the "amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided)."¹¹

Stakeholders have asked whether the invoice practical expedient may be used for contracts in which the unit price or rate varies during the contract period. In analyzing the question, the FASB and IASB staffs discussed two examples: (1) a modified version of the IT outsourcing contract considered in TRG Agenda Paper 39 (in which the prices decrease over the contract period) and (2) a six-year contract in which an electric power company sells energy to a buyer at rates that increase every two years.

As described in TRG Agenda Paper 40, while the staffs reiterated that an entity must apply judgment and that conclusions are likely to vary depending on the facts and circumstances, they believed that the invoice practical expedient could be used for both contract examples because the respective price and rate changes reflect the "value to the customer of each incremental good or service that the entity transfers to the customer."¹² For the energy contract, the changing prices "reflect the value to the customer because the rates are based on one or more market indicators"; and the changing prices in the IT outsourcing contract "reflect the value to the customer, which is corroborated through (1) the benchmarking (market) adjustment and (2) declining costs (and level of effort) of providing the tasks that correspond with the declining pricing of the activities."

¹⁰ ASC 606-10-25-27; paragraph 35 of IFRS 15.

¹¹ ASC 606-10-55-18; paragraph B16 of IFRS 15.

¹² See paragraph BC167 of the new revenue standard's Basis for Conclusions for additional information about this notion.

Further implementation questions have been raised about the interplay between the new revenue standard's requirement to disclose certain information related to unsatisfied performance obligations¹³ and when an entity may use the practical expedient that provides relief from this requirement if certain conditions are met (the "disclosure practical expedient"¹⁴). Specifically, stakeholders have questioned whether multiyear contracts that contain minimum payments or volume discounts but do not qualify for the invoice practical expedient would be eligible for the disclosure practical expedient.

See [TRG Agenda Paper 40](#) for additional information.

Summary: TRG members generally agreed with the staffs' analysis, but the SEC observer emphasized his view that a registrant would need good evidence to recognize revenue on the basis of variable prices (i.e., have sufficient evidence that demonstrates value to the customer). They also discussed up-front and back-end fees, noting that while such fees do not preclude application of the invoice practical expedient, entities must use judgement in determining whether the value of the fee to the customer corresponds with the amount transferred to the customer. Certain TRG members also indicated that they appreciated the staffs' clarification that the phrase "value to the customer" has a context in ASC 606-10-55-17 (paragraph B15 of IFRS 15) that differs from its context in ASC 606-10-55-18 (paragraph B16 of IFRS 15). In addition, members noted that this topic may be revisited at the TRG's meeting in November, when the issue of optional purchases is expected to be discussed.

Topic 7 — Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation

Background: In step 2 of the new revenue standard, an entity is required to identify all distinct goods or services promised in a contract with a customer, each of which represents a performance obligation. Certain promised goods or services in the contract may not be distinct¹⁵ but may be combined with other promised goods or services until the entity can identify a distinct bundle of goods or services. In step 5 of the new standard, revenue is recorded as the performance obligation (which may include one or more promised goods or services) is satisfied either at a point in time or over time. If the requirements for recognition over time are met, the entity must select a method for measuring progress toward satisfaction of the performance obligation.

Stakeholders have questioned whether an entity may apply more than one method to measure the progress of a performance obligation containing multiple goods or services that are bundled and recognized over time. These stakeholders note that applying one measure of progress to all goods and services may be inconsistent with the new standard's principle regarding when to recognize revenue. Further, stakeholders have noted that (1) recognizing revenue in the same pattern for all goods and services may not accurately depict the economics of the transaction and (2) operational issues may arise when the consideration for a performance obligation involving several goods or services contains multiple payment streams that vary among periods.

As discussed in [TRG Agenda Paper 41](#), while the staffs acknowledged diversity in practice under existing U.S. GAAP and IFRSs, they believed that the new revenue standard clearly indicates that "using multiple methods of measuring progress for the same performance obligation would not be appropriate."

In addition, stakeholders have raised implementation issues about how to measure progress toward satisfaction of a performance obligation involving a bundle of goods or services. For example, if multiple promised goods or services in a performance obligation are delivered at various periods, there are questions about how an entity should select a single method by which to measure progress for the respective goods and services.

See [TRG Agenda Paper 41](#) for additional information.

¹³ See ASC 606-10-50-13 (paragraph 120 of IFRS 15) for details of the required disclosures.

¹⁴ See ASC 606-10-50-14 (paragraph 121 of IFRS 15) for more information about the disclosure practical expedient.

¹⁵ See ASC 606-10-25-19 (paragraph 27 of IFRS 15) for the criteria used to determine whether a promised good or service is distinct.

Summary: TRG members generally agreed with the staffs' analysis and conclusions, including the determination that a common measure of progress is required for a single performance obligation.

TRG members observed that selecting a common measure of progress may be challenging when a single performance obligation contains more than one good or service or has multiple payment streams, and they emphasized that the selection is not a free choice. They also noted that while a common measure of progress that does not depict the economics of the contract may indicate that the arrangement contains more than one performance obligation, it is not determinative.

Further, some TRG members questioned the reasonableness of certain assumptions in the examples in TRG Agenda Paper 41, including the statement in the cloud computing example that the arrangement contains one performance obligation that includes implementation and hosting services. Also, as they did regarding [Topic 5](#), certain TRG members noted their belief that the franchise license example is not relevant and should be excluded from Topic 7. In addition, as the staffs noted with respect to TRG members' comments on examples in other TRG agenda papers discussed at the meeting, while "real life" scenarios are often more complex than hypotheticals (and entities will be required to use significant judgment), the examples are intended to give entities a common framework.

Topic 8 — Determining When Control of a Commodity Is Transferred

Background: Stakeholders have raised questions regarding the determination of when an entity transfers control of a commodity. Specifically, they have questioned whether revenue for delivery of a commodity should be recognized at a point in time or over time.¹⁶

One of the criteria for recognizing revenue over time is the customer's simultaneous receipt and consumption of the benefits of the commodity as the entity performs. TRG Agenda Paper 43 notes that the staffs are aware of the following stakeholder views on determining whether this criterion has been satisfied:

- *View A* — Only consider "inherent characteristics of the commodity" (e.g., whether the commodity can be stored).
- *View B* — Consider "all relevant facts and circumstances, including the inherent characteristics of the commodity, the contract terms, and information about infrastructure or other delivery mechanisms."

The staffs agreed that View B is appropriate in the determination of the nature of the entity's promise in a contract "regardless of whether the contract is for the delivery of a commodity or a widget"¹⁷ and in the evaluation of the criteria in ASC 606-10-25-27 (paragraph 35 of IFRS 15).

See [TRG Agenda Paper 43](#) for additional information.

Summary: While TRG members generally agreed with the staffs' conclusions, they discussed whether and, if so, how accounting outcomes differ if a commodity supply contract is viewed as a series of distinct goods or services (i.e., delivery is a performance obligation satisfied at a point in time) or as a series of distinct goods or services of which the customer simultaneously receives and consumes the benefits (i.e., delivery is part of a single performance obligation satisfied over time). TRG members generally agreed that it would be helpful for the staffs to further develop examples that show the effects of these views.

¹⁶ See ASC 606-10-25-27(a); paragraph 35(a) of IFRS 15.

¹⁷ See paragraph 14 of TRG Agenda Paper 43.

Topic 9 — Accounting for Restocking Fees and Related Costs

Background: Stakeholders have raised questions regarding the appropriate accounting for restocking fees collected from customers and restocking costs (e.g., estimated shipping or repackaging) for expected returns. Stakeholder views were as follows:

- *Restocking fees* —The FASB and IASB staffs noted the following three prevailing views on accounting for restocking fees related to expected returns:
 - *View A* — Include restocking fees for expected returns as part of the transaction price when control is transferred.
 - *View B* — Exclude restocking fees for expected returns from the transaction price. Restocking fees should be recognized as revenue when a return is made.
 - *View C* — Treat restocking fees for expected returns as a lease because they create a put option at a price lower than the original selling price of the products.

The staffs concluded that View A is the most appropriate approach because it is most consistent with the staffs' view on how entities should account for restocking costs (see discussion below). In addition, the staffs believed that a returned product subject to a restocking fee should be accounted for in a manner similar to how an entity would account for a partial return right (i.e., the restocking fee should be included in the transaction price if the entity is entitled to that amount).

- *Restocking costs* — The staffs noted the following three views on accounting for restocking costs related to expected returns:
 - *View A* — Accrue restocking costs upon transfer of control.
 - *View B* — Recognize restocking costs when the return is made and the associated costs are incurred.
 - *View C* — Recognize costs to recover expected returns when they are incurred unless the returned item is expected to be impaired.

The staffs believed that View A is the most appropriate of the three alternatives because ASC 606-10-55-27 (paragraph B25 of IFRS 15) indicates that an entity should recognize an asset for the entity's right to recover returned products by referring to the former carrying amount and reducing it by the expected costs to recover the products.

See [TRG Agenda Paper 35](#) for additional details.

Summary: TRG members generally supported the staffs' views.

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