

TRG Snapshot

Summary of Revenue Implementation Issues Discussed to Date

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Introduction

Since the May 2014 release of the FASB's and IASB's new revenue standard — issued by the FASB as [ASU 2014-09](#)¹ (codified primarily in ASC 606²) and by the IASB as [IFRS 15](#)³ — the boards have been working to identify issues related to the standard's implementation. The boards' joint revenue transition resource group (TRG) has been an integral part of this process. As noted on the FASB's [Web site](#), 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 have attended the TRG's meetings. In addition, representatives from the SEC, PCAOB, IOSCO,⁴ and AICPA are invited to observe the meetings.

The TRG does not issue guidance but was formed instead to provide feedback on the standard's implementation and has played an important role in addressing issues raised by stakeholders. In its six meetings held thus far, the TRG has addressed nearly 40 implementation issues. By analyzing and discussing potential implementation issues, the TRG has helped the boards determine whether they need to take additional action, such as providing clarification or issuing other guidance.

On January 21, 2016, the IASB issued an [announcement](#) that it has completed its decision-making process related to clarifying the new revenue standard and that the IASB does not plan to schedule any more TRG meetings for IFRS constituents. However, the FASB will continue to address implementation issues and has scheduled three TRG [meetings](#) for 2016. Offering its support for the TRG's mission, the SEC staff recently commented⁵ on the implementation of the new revenue standard, which included the following key points on the TRG:

- The TRG's objective of soliciting, analyzing, and publicly discussing stakeholder implementation issues remains relevant (i.e., as a mechanism to promote more consistent application of the new revenue standard).
- While the IASB will no longer attend TRG meetings, TRG meeting participants should be prepared to view matters from a global perspective.
- The SEC staff attends TRG meetings and will use the discussions as a basis for assessing the appropriateness of domestic and foreign registrants' revenue recognition policies. Registrants should therefore monitor and consider TRG discussions and meeting minutes (which are available on the standard setters' Web sites) in the development of reasonable revenue recognition accounting policies.

¹ FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.

² 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](#)."

³ IFRS 15, *Revenue From Contracts With Customers*.

⁴ International Organization of Securities Commissions.

⁵ Wesley Bricker, deputy chief accountant in the SEC's Office of the Chief Accountant (OCA), spoke about the implementation of the new revenue standard at the 43rd Annual Securities Regulation Institute (sponsored by the Northwestern Pritzker School of Law).

- The SEC staff strongly encourages domestic and foreign filers to consult with the OCA if they anticipate selecting an accounting policy that is inconsistent with TRG discussions (i.e., in which general agreement was reached and documented in meeting minutes).

This *TRG Snapshot* summarizes issues discussed by the TRG to date, which are organized topically in a manner consistent with their arrangement in the new revenue standard. The accompanying [appendix](#) lists the issues chronologically and includes links to additional information.

Effective Date and Transition

Deferral of the New Revenue Standard's Effective Date

In August 2015, the FASB issued [ASU 2015-14](#),⁶ which delays the effective date of the new revenue standard by one year and permits early adoption on a limited basis. Specifically, ASU 2015-14 provides the following guidance for entities reporting under U.S. GAAP:

- *Public entities*⁷ — The new revenue standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. Early adoption is permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016, including interim reporting periods within the annual periods).
- *Nonpublic entities* — The new revenue standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. In addition, nonpublic entities can elect to early adopt the new revenue standard as of the following:
 - Annual reporting periods beginning after December 15, 2016, including interim periods.
 - Annual reporting periods beginning after December 15, 2016, and interim periods within annual reporting periods beginning one year after the annual reporting period of initial application of the new revenue standard.

Contract Modifications at Transition (January 2015 TRG Meeting)

To adopt ASC 606, entities will need to account for the effects of contract modifications for the periods called for by the transition method elected. For some entities, however, accounting for contract modifications before the date of initial adoption will be challenging — if not impracticable⁸ — because of the high volume and long duration of customer contracts that are frequently modified. Accordingly, stakeholders expressed the view that a practical expedient should be added to the new revenue guidance.

TRG members generally agreed that a practical expedient would be helpful, and the FASB staff noted at the January 2015 TRG meeting that the FASB was considering such a practical expedient.

Editor's Note: On September 30, 2015, the FASB issued a [proposed ASU](#) that would add a practical expedient permitting entities to determine and allocate the transaction price on the basis of all satisfied and unsatisfied performance obligations in a modified contract at the beginning of the earliest period presented in accordance with the guidance in ASC 606. Given this practical expedient, an entity would not be required to consider each individual contract modification upon transition to ASC 606. For additional information about the proposed ASU, see Deloitte's October 2, 2015, [Heads Up](#).

⁶ FASB Accounting Standards Update No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*.

⁷ Public business entities, certain not-for-profit entities, and certain employee benefit plans.

⁸ As used in (1) ASC 250 and (2) IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Completed Contracts at Transition (July 2015 TRG Meeting)

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. In light of this, stakeholders questioned (1) when a contract is considered completed for purposes of applying the transition guidance under the modified retrospective method and (2) how to account for completed contracts after adoption of the new revenue standard.⁹

TRG members generally agreed that a practical expedient or further clarifications to the guidance would be helpful.

Editor's Note: On September 30, 2015, the FASB issued a [proposed ASU](#) to amend the new revenue standard and clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application of the standard. For more information about the proposed ASU, see Deloitte's October 2, 2015, [Heads Up](#).

Scope

Preproduction Activities (November 2015 TRG Meeting)

The new revenue standard creates new guidance on fulfillment costs that are outside the scope of other Codification topics, including costs related to an entity's preproduction activities. The new revenue standard's Basis for Conclusions indicates that in developing such cost guidance, the boards did not intend to holistically reconsider cost accounting. Rather, they aimed to:

- Fill gaps resulting from the absence of superseded guidance on revenue (and certain contract costs).
- Improve consistency in the application of certain cost guidance.
- Promote convergence between U.S. GAAP and IFRSs.

Summarized below is the TRG's discussion of three issues related to how an entity should apply the new cost guidance when assessing preproduction activities, including questions related to the scope of the guidance (i.e., the costs to which such guidance would apply).

Assessing Whether Preproduction Activities Are a Promised Good or Service

The TRG generally agreed that an entity should first evaluate the nature of its promise to the customer and, in doing so, consider whether a preproduction activity is a promised good or service (i.e., the preproduction activity transfers control of a good or service to the customer) or a fulfillment activity. Further, the criteria for determining whether an entity transfers control of a good or service over time¹⁰ may be helpful in this assessment. For example, if an entity determines that a preproduction activity transfers control of a good or service to a customer over time, it should include the preproduction activity in its measure of progress toward complete satisfaction of its performance obligation(s).

Whether Entities Should Continue to Account for Certain Preproduction Costs Under ASC 340-10

TRG members in the United States agreed that since the new revenue standard does not amend the guidance in ASC 340-10, entities that currently account for preproduction costs in accordance with ASC 340-10 should continue to do so after the new revenue standard becomes effective.

⁹ It was noted that these issues pertain primarily to U.S. GAAP but that similar issues could arise under IFRSs.

¹⁰ Discussed in ASC 606-10-25-27 (paragraph 35 of IFRS 15).

Whether Preproduction Costs for Contracts Previously Within the Scope of ASC 605-35 Will Be Within the Scope of ASC 340-10 or ASC 340-40

TRG members in the United States noted that after the new revenue standard becomes effective, preproduction activities related to contracts currently within the scope of ASC 605-35 should be accounted for in accordance with ASC 340-40 because (1) the new revenue standard will supersede ASC 605-35 (and its related cost guidance) and (2) ASC 340-10 does not currently provide guidance on costs related to such contracts. Further, TRG members in the United States noted that implementation questions related to whether and, if so, how to apply ASC 340-10 may be resolved if that guidance is either (1) deleted or (2) clarified to enable entities to understand how to apply it in a manner consistent with the control principle in the new revenue standard.

Editor's Note: At its meeting on January 20, 2016, the FASB discussed certain technical corrections to the new revenue guidance and tentatively agreed to remove the guidance in ASC 340-10 on accounting for preproduction costs related to long-term supply arrangements. Instead of accounting for such costs in accordance with ASC 340-10, entities would account for them in accordance with ASC 340-40.

Fees and Reward Programs Related to Bank-Issued Credit Cards (July 2015 TRG Meeting)

Because banks have accounted for fees and reward programs related to credit cards they issue under ASC 310, questions have arisen about whether such fees and programs would be within the scope of ASC 606 or ASC 310.

TRG members in the United States generally agreed with the following observations and conclusions of the FASB staff:

- 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).
- The FASB staff indicated that if an entity concludes that the credit card arrangement is within the scope of ASC 310, the associated reward program would also be within the scope of ASC 310.

TRG members also noted that outcomes under U.S. GAAP may differ from those under IFRSs because of differences between ASC 310 and IFRS 9.¹¹

¹¹ IFRS 9, *Financial Instruments*.

Whether Fixed-Odds Wagering Contracts Are Revenue or Derivative Transactions (November 2015 TRG Meeting)

Partly because the new revenue standard will eliminate the guidance in ASC 924-605 and partly because of an interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC),¹² stakeholders reporting under U.S. GAAP have questioned whether fixed-odds wagering¹³ contracts should be accounted for as revenue transactions (i.e., when or as control is transferred in accordance with the new revenue standard) or as derivatives under ASC 815 (i.e., adjusted to fair value through net income each reporting period).

Many TRG members in the United States did not object to the FASB staff's view that entities should continue to account for fixed-odds wagering contracts as revenue transactions after the new revenue standard becomes effective. However, TRG members expressed concern that the current wording in the new revenue standard does not support the staff's view. Accordingly, TRG members recommended that the Board either (1) clarify its intent through a technical correction to include such contracts within the scope of ASC 606 (by excluding them from the scope of ASC 815) or (2) evaluate further whether its objective was to require entities to account for these contracts under ASC 815.

Editor's Note: At its January 20, 2016, meeting, the FASB discussed certain technical corrections to the new revenue guidance. The Board tentatively agreed to include in ASC 924 a derivatives guidance scope exception for fixed-odds wagering contracts by adding a new subtopic (ASC 924-815, *Entertainment — Casinos: Derivatives and Hedging*) that would clarify that such contracts are revenue contracts within the scope of ASC 606.

Whether Contributions Are Within the Scope of the New Revenue Standard (March 2015 TRG Meeting)

Contributions¹⁴ are not explicitly excluded from the scope of the new revenue standard.¹⁵ As a result, some stakeholders have questioned whether contributions are within the scope of the standard. The FASB staff affirmed its belief that because contributions are nonreciprocal transfers (i.e., they do not involve the transfer of goods or services to a customer), they are outside the scope of the new guidance.

TRG members in the United States generally agreed that nonreciprocal contributions are not within the scope of the new revenue standard; however, TRG members noted that if a not-for-profit entity transfers a good or service for part or all of a contribution (i.e., a reciprocal transfer), such a reciprocal transfer should be accounted for under ASC 606. TRG members in the United States also agreed with FASB board and staff members not to amend ASC 606 to add another scope exception and agreed with a FASB board member's suggestion that the AICPA could evaluate whether to include an interpretive clarification in its nonauthoritative industry guidance.

Step 1 — Identify the Contract With the Customer

The new revenue standard defines a contract as “an agreement between two or more parties that creates enforceable rights and obligations.” The parties to a contract must have enforceable rights and obligations for revenue to be recognized under the new guidance. Because the new revenue standard does not provide explicit guidance on how to consider termination penalties, questions have arisen

¹² In 2007, the IFRIC concluded that fixed-odds wagering contracts should be accounted for as derivatives under IAS 39, *Financial Instruments: Recognition and Measurement* (or IFRS 9, *Financial Instruments*, if an entity is required to adopt it).

¹³ Fixed-odds wagers are wagers placed by bettors (i.e., customers) who typically know the odds of winning in gaming activities (e.g., table games, slot machines, keno, bingo, and sports and race betting) at the time the bets are placed with gaming industry entities.

¹⁴ Contributions are defined as nonreciprocal transfers to a not-for-profit entity. They are distinguishable from exchange transactions, which are reciprocal transfers.

¹⁵ This topic applies only to U.S. GAAP because IFRSs do not provide industry-specific guidance for not-for-profit entities. See ASC 958-605 for guidance on revenue recognition by not-for-profit entities under existing U.S. GAAP.

regarding how an entity should evaluate termination clauses in determining the contractual period (i.e., the duration) of a contract.

In addition, the new revenue standard requires an entity to assess collectibility at contract inception. If collectibility is not probable, the entity cannot conclude that a contract with the customer exists and thus cannot recognize revenue if it satisfies a performance obligation. When the collectibility threshold is not met, revenue can be recognized only if (1) the entity has fully performed under the contract and has received all or substantially all consideration that it expects to receive, and such consideration is not refundable; (2) the contract is terminated, and consideration received is not refundable; or (3) the collectibility threshold has subsequently been met (i.e., collectibility was later determined to be probable). Consideration received before any of these three conditions are met should be recorded as a liability.¹⁶

Contract Enforceability and Termination Clauses (October 2014 and November 2015 TRG Meetings)

TRG members generally agreed with the staffs' examples and conclusions demonstrating that the duration of a contract is predicated on the contract's enforceable rights and obligations. Accordingly, regardless of whether one or both parties have the right to terminate the contract, an entity would need to evaluate the nature of the termination provisions, including whether they are substantive. For example, an entity would assess factors such as (1) whether the terminating party is required to pay compensation, (2) the amount of such compensation, and (3) the reason for the compensation (i.e., whether the compensation is in addition to amounts due for goods and services already delivered).

TRG members acknowledged that the determination of whether a termination provision is substantive will require judgment and would be evaluated both quantitatively and qualitatively. Some offered that data about the frequency of contract terminations may be useful in such a determination (i.e., a high frequency of payments made to terminate contracts may suggest that the termination provision is not substantive).

Further, TRG members generally agreed that when the contractual term of a contract is less than the contract's stated term (e.g., when a 12-month contract is determined to be a month-to-month contract rather than for a year), an entity would have to (1) reassess the allocation of the transaction price, (2) include the termination penalty in the transaction price (subject to the constraint on variable consideration, if appropriate), and (3) assess whether the termination provisions provide the customer with a material right (similarly to how the entity would assess renewal options in a contract).

Collectibility (January 2015 TRG Meeting)

In discussing issues identified by stakeholders on the collectibility assessment, TRG members generally agreed that:

- When collectibility is probable for a portfolio of contracts, the expected amount should be recognized as revenue, and the uncollectible amount should be recorded as an impairment loss in accordance with ASC 310 or IFRS 9.
- In determining when to reassess collectibility, an entity needs to exercise judgment on the basis of the facts and circumstances.
- The new revenue standard clearly prohibits entities from recognizing revenue when collectibility is not probable despite any nonrefundable cash payments that may have been received. Essentially, cash-based accounting will no longer be permitted under the new revenue standard.

¹⁶ ASC 606-10-25-6 through 25-8; paragraphs 14 through 16 of IFRS 15.

- An assessment of whether a price adjustment is due to collectibility (i.e., credit) or a price concession is complex but can be performed in practice.

Editor’s Note: On September 30, 2015, the FASB issued a [proposed ASU](#) that would clarify the collectibility guidance. For example, the proposal would add a criterion to ASC 606-10-25-7 to clarify that revenue can be recognized “in the amount of consideration received when the entity has transferred control of the goods or services, the entity has stopped transferring additional goods or services and has no obligation to transfer additional goods or services, and the consideration received from the customer is nonrefundable.” For additional information about the proposed ASU, see Deloitte’s October 2, 2015, [Heads Up](#).

Step 2 — Identify Performance Obligations

The new revenue standard requires entities to assess the goods or services promised in a contract with a customer and to identify as a performance obligation each promise to transfer either (1) a good or service (or bundle of goods or services) that is distinct or (2) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. 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. Further, a good or service is “distinct” if it is (1) capable of being distinct and (2) distinct within the context of the contract (i.e., separately identifiable).

In addition, a customer often may be given the option — either as part of an entity’s marketing efforts or through a current sales contract — of receiving additional future goods or services at a discount. Examples of such options include contract renewal options, sales incentives, customer awards or credits, and other discounts.

Under the new revenue standard, an entity must determine its contractual rights and obligations, including whether options for future goods or services give rise to performance obligations under a current contract with a customer. When an option represents a material right, the entity must allocate a portion of the current contract’s transaction price to the material right and recognize revenue when the underlying “future goods or services are transferred or when the option expires.”¹⁷ That is, if the option provides the customer with a material right, the customer is effectively paying for a future good or service in advance by purchasing goods or services under the contract.¹⁸ As a result, consideration received for the current contract will be recognized when the future goods or services are transferred to the customer.

Immaterial Goods or Services (January 2015 TRG Meeting)

Paragraph BC87 of the new revenue standard’s Basis for Conclusions indicates that before an entity can identify performance obligations in a contract with its customers, it must first identify all promised goods or services in the contract. Paragraph BC89 notes that the FASB and IASB “decided that all goods or services promised to a customer as a result of a contract give rise to performance obligations.” Further, paragraph BC90 states that the boards “decided not to exempt an entity from accounting for performance obligations that the entity might regard as being perfunctory or inconsequential.”

¹⁷ ASC 606-10-55-42; paragraph B40 of IFRS 15.

¹⁸ ASC 606-10-25-18 and ASC 606-10-55-42; paragraphs 26 and B40 of IFRS 15.

TRG members discussed various options, including whether to (1) specifically address “perfunctory or inconsequential” items in the text of the new revenue standard, (2) delete the wording from paragraph BC90 (as quoted above), and (3) add other implementation guidance.

While some TRG members discussed the potential need to add the concept of “inconsequential or perfunctory” to the new revenue standard, there appeared to be general agreement that such an addition would not be necessary. Further, most TRG members believed that the evaluation of promised goods or services in a contract would lead to about the same number of deliverables that are identified today.

Editor’s Note: On May 12, 2015, the FASB issued a [proposed ASU](#) that would clarify that an “entity is not required to identify promised goods or services that are immaterial in the context of the contract.”

In addition, the proposed ASU contains a practical expedient that would permit an entity to account for shipping and handling activities that occur after the customer has obtained control of a good as fulfillment activities (i.e., an expense) rather than as a promised service (i.e., a revenue element). An entity may also elect to account for shipping and handling as a promised service. The proposed ASU also explains that shipping and handling activities performed before the control of a product is transferred do not constitute a promised service to the customer in the contract (i.e., they represent fulfillment costs).

See Deloitte’s May 13, 2015, [Heads Up](#) for additional information about the proposed ASU.

Stand-Ready Obligations (January 2015 TRG Meeting)

The new revenue standard notes that promises in a contract with a customer may be explicit or implicit and lists examples of promised goods or services. One such example is “[p]roviding a service of standing ready to provide goods or services . . . or of making goods or services available for a customer to use as and when the customer decides,”¹⁹ referred to as stand-ready obligations.

Stakeholders have identified the following broad types of promises or arrangements that may constitute stand-ready obligations:

- *Type A* — The obligation to deliver goods or services is within the entity’s control, but additional development of the goods, services, or intellectual property is required.
- *Type B* — The obligation to deliver goods or services is outside both the entity’s and the customer’s control.
- *Type C* — The obligation to deliver goods or services is solely within the customer’s control.
- *Type D* — The obligation is a promise to make goods or services available to the customer continuously over the contractual period.

Because the new revenue standard provides an example of Type D arrangements but not others, questions have arisen regarding the identification of other stand-ready obligations (i.e., Types A through C) and how to appropriately measure progress toward completion of delivering the promised goods or services. Specifically, views differ on (1) what constitutes the nature of the promise in the aforementioned arrangements (e.g., whether it is the act of standing ready or the actual delivery of the goods or services to the customer) and (2) the methods used to measure progress toward the complete satisfaction of a stand-ready obligation (e.g., a time-based, input, or output method).

¹⁹ ASC 606-10-25-18(e); paragraph 26(e) of IFRS 15.

TRG members generally agreed that (1) the principle in the new revenue standard requires an entity to understand the nature of the promise, (2) entities should exercise judgment to determine an appropriate measure of progress toward complete satisfaction of a stand-ready performance obligation because the new revenue standard does not allow entities to automatically conclude that recording revenue on a straight-line basis is appropriate, and (3) [TRG Agenda Paper 16](#) helps illustrate considerations for making these judgments.

In addition, some TRG members questioned whether paragraph 14 of TRG Agenda Paper 16 could change practice related to the identification of specified upgrades in software arrangements. The FASB staff clarified that its intention for including paragraph 14 was not to change practice but to note that an entity should evaluate additional promises in a contract with a customer (regardless of whether such promises involve specified upgrades or other specified goods or services).

Distinct in the Context of the Contract (October 2014 TRG Meeting)

ASC 606-10-25-21 lists three factors (not all-inclusive) to help entities assess whether goods or services are distinct in the context of the contract.

Stakeholder views differ on whether (and, if so, to what extent) the existence of factors such as a customized or complex design, an entity's learning curve to produce the contractual goods or services, or the customer's motivation for purchasing the goods or services affects whether goods or services are distinct in the context of the contract.

While TRG members generally agreed that such factors are not individually determinative of whether goods or services are distinct in the context of the contract, there were inconsistent views on whether the evaluation should be performed (1) from the customer's perspective, (2) from the entity's perspective, or (3) only on the basis of the contract. Some TRG members believed that the entity should consider what items the customer has been promised and whether the promised items will be integrated in some way. For example, many TRG members agreed that an entity would need to evaluate the impact of design services it performs in determining the performance obligations under a contract (e.g., if the customer obtains control of the rights to the manufacturing process developed by the entity).

The TRG also discussed how the entity's knowledge of its customer's intended use for the goods or services would affect the determination of whether the goods or services were highly interrelated. Many TRG members expressed the view that an entity should consider whether the goods or services could fulfill their intended purpose on a stand-alone basis or whether they are inseparable because they affect the ability of the customer to use the combined output for which it has contracted.

Editor's Note: On May 12, 2015, the FASB issued a [proposed ASU](#) that includes changes to the guidance in ASC 606 on identifying performance obligations. Specifically, the proposed ASU seeks to (1) clarify "the principle for determining whether promises to transfer goods or services to a customer are separately identifiable" and (2) revise the examples in the standard to better align them with improvements to the "separately identifiable" principle. For additional information, see Deloitte's May 13, 2015, [Heads Up](#).

Series of Distinct Goods or Services (March 2015 TRG Meeting)

To promote simplicity and consistency in application,²⁰ the new revenue standard includes the concept of a series of distinct goods or services that are substantially the same and have the same pattern of transfer (the "series provision").²¹ Accordingly, goods and services constitute a single performance obligation if (1) they are "bundled" together because they are not distinct or (2) they are distinct

²⁰ Paragraph BC113 of the new revenue standard's Basis for Conclusions.

²¹ ASC 606-10-25-14 and 25-15; paragraphs 22 and 23 of IFRS 15.

but meet the criteria that require the entity to account for them as a series (and thus as a single performance obligation).

TRG members generally agreed that:

- Goods or services do not need to be transferred consecutively (i.e., an entity should look to the series provision criteria in ASC 606-10-25-15²² to determine whether the goods or services are a series of distinct goods or services for which the entity is not explicitly required to identify a consecutive pattern of performance). Further, while the term “consecutively” is used in the new revenue standard’s Basis for Conclusions, the FASB and IASB staffs noted that they “do not think whether or not the pattern of performance is consecutive is determinative [of] whether the series provision applies.”²³
- The accounting result for the series of distinct goods or services as a single performance obligation does not need to be “substantially the same”²⁴ as if each underlying good or service were accounted for as a separate performance obligation. Further, the FASB and IASB staffs stated that “[s]uch a requirement would almost certainly make it more difficult for entities to meet the requirement, and since the series provision is not optional, it likely would *require* entities to undertake a ‘with and without’ type analysis in a large number of circumstances to prove whether the series provision applies or not.”²⁵

Editor’s Note: TRG members also questioned whether the series provision should be mandatory or whether it may be better to have a practical expedient. While the FASB did not commit to amending the standard, it requested feedback from constituents in its May 12, 2015, [proposed ASU](#) on this topic. For additional information about the proposed ASU, see Deloitte’s May 13, 2015, [Heads Up](#).

Application of the Series Provision and Allocation of Variable Consideration (July 2015 TRG Meeting)

Stakeholders have raised the following questions related to whether performance obligations in long-term contracts meet the criteria to be accounted for under the series guidance:

- 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)?

TRG members discussed four examples presented by the FASB and IASB staffs in [TRG Agenda Paper 39](#) that illustrate the application of the staffs’ framework for determining whether an entity is required to apply the series guidance. The staffs’ analysis of one such example in relation to steps 2, 3, 4, and 5 of the new revenue standard is summarized below.

²² Paragraph 23 of IFRS 15.

²³ Quoted text is from paragraph 14 of [TRG Agenda Paper 27](#).

²⁴ Quoted text is from paragraph 20 of [TRG Agenda Paper 27](#).

²⁵ See footnote 24.

Example and Analysis

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.

Step 2 — Identifying a Performance Obligation

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. The nature of the promised service in the example was believed to be a single integrated management service comprising distinct activities (e.g., management of hotel employees, accounting services, training, and procurement). Day-to-day activities do not need to be identical to be substantially the same. Therefore, while these activities could vary from day to day, the nature of the service is one that provides an integrated management service and represents a single performance obligation instead of multiple performance obligations (for each underlying activity or different combinations of activities).

Step 3 — Determining the Transaction Price

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 the example, 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

Allocating variable consideration to each month could meet the allocation objective²⁶ because the amount corresponds to the value provided to the customer each month. Similarly, the FASB and IASB 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

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 TRG generally agreed with the FASB and IASB staffs' conclusions and acknowledged that the staffs' examples and analysis in TRG Agenda Paper 39 provide a framework for applying the guidance. Specifically, TRG members generally agreed that:

- An entity's first step is to determine the nature of its promise of providing services to its customer.
- Consideration is variable when the contractual rate per unit of output is fixed but the quantity (units of output) is undefined.
- The use of stand-alone selling prices to allocate variable consideration to a distinct good or service is an acceptable method but is not required to meet the allocation objective in ASC 606-10-32-28 (paragraph 73 of IFRS 15).

TRG members also noted that service contracts can be considerably more complex in practice. Further, it was noted that the revenue recognition pattern in each of the examples discussed does not represent multiple-attribution recognition (for additional information, see [Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation](#) below) but instead is the result of step 4's allocation process.

²⁶ 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.

Customer Options for Additional Goods and Services (November 2015 TRG Meeting)

Distinguishing Customer Options From Variable Consideration

TRG members generally agreed with the FASB and IASB staffs' framework under which an entity would perform an evaluation of the nature of its promises in a contract with a customer. Such evaluation would include a careful assessment of the enforceable rights and obligations in the present contract (not future contracts). That is, there is a distinction between (1) customer options and (2) uncertainty that is accounted for as variable consideration. Customer options are predicated on a separate customer action (namely, the customer's decision to exercise the option), which would not be embodied in the present contract; unless an option is a material right, such options would not factor into the accounting for the present contract. Uncertainty is accounted for as variable consideration when the entity has enforceable rights and obligations under a present contract to provide goods or services without an additional customer decision.

When Optional Goods and Services Would Be Considered Separate Performance Obligations

The TRG generally agreed that enforceable rights and obligations in a contract are only those for which the entity has legal rights and obligations under the contract and would not take economic or other penalties into account (e.g., (1) economic compulsion or (2) exclusivity because the entity is the sole provider of the goods or services, which may make the future deliverables highly probable of occurring). Accordingly, optional goods and services would be accounted for in the current contract if they represent material rights or are considered variable consideration because the entity has legal rights and obligations under the contract.

Accounting for Material Rights (October 2014, January 2015, and March 2015 TRG Meetings)

Need to Evaluate Quantitative and Qualitative Factors in Assessing Customer Options for Material Rights (October 2014 TRG Meeting)

TRG members generally agreed that in determining whether an option for future goods or services is a material right, an entity should (1) consider factors outside the current transaction (e.g., the current class of customer²⁷) and (2) assess both quantitative and qualitative factors. Further, TRG members noted that an entity should also evaluate incentives and programs to understand whether they are customer options designed to influence customer behavior (i.e., an entity should consider incentives and programs from the customer's perspective) because this could be an indicator that an option is a material right.

For example, regarding certain offers, such as buy three and get one free, TRG members noted that the quantities involved are less important than the fact that an entity would be "giving away" future sales in such cases. While not determinative, such an indicator may lead an entity to conclude that a customer option is a material right.

Accumulation Features (October 2014 TRG Meeting)

TRG members also discussed loyalty programs that have an accumulation feature. Some TRG members noted the belief that through the presence of an accumulation feature in a loyalty program, the entity gives its customers a material right. Others, however, indicated that the accumulation feature is not a determinative factor that would automatically lead an entity to conclude that the entity grants its customers a material right. Rather, these TRG members noted that if an accumulation feature is present, an entity would be required to evaluate the program.

Editor's Note: We believe that the existence of an accumulation feature in a loyalty program is a strong indicator of a material right, to which an entity would need to allocate a portion of the current contract's transaction price.

²⁷ ASC 606-10-25-2 and ASC 606-10-55-42; paragraphs 10 and B40 of IFRS 15.

Accounting for a Customer's Exercise of a Material Right (January 2015 and March 2015 TRG Meetings)

TRG members generally preferred the view that an entity would account for the exercise of a material right as a change in the contract's transaction price²⁸ (i.e., a continuation of the contract, whereby the additional consideration would be allocated to the material right). However, the TRG also believed that it would be acceptable for an entity to account for the exercise of a material right as a contract modification²⁹ (which may require reallocation of consideration between existing and future performance obligations).

How to Evaluate a Material Right for the Existence of a Significant Financing Component (January 2015 and March 2015 TRG Meetings)

TRG members indicated that they would generally view a customer's exercise of a material right as a continuation of the initial contract. However, they could also understand why others might view such an exercise as a contract modification or variable consideration depending on the facts and circumstances. TRG members also noted that while the determination of whether there is a significant financing component (associated with the material right) depends on the facts and circumstances, entities would need to evaluate material rights for the existence of significant financing components in a manner similar to how they would evaluate any other performance obligation. See [Significant Financing Components](#) below for additional TRG views.

Determining the Period Over Which an Entity Should Recognize a Nonrefundable Up-Front Fee (January 2015 and March 2015 TRG Meetings)

The TRG generally agreed that a nonrefundable up-front fee (e.g., a one-time activation fee in a month-to-month service contract under which the entity has not committed to future pricing)³⁰ should be recognized over the contract period if the entity concludes that the fee does not provide a material right. Conversely, if the nonrefundable up-front fee provides the customer with a material right, the fee should be recognized over the expected service period. An entity should consider both qualitative and quantitative factors to determine whether a nonrefundable up-front fee provides the customer with a material right.

Licenses of Intellectual Property and Sales- or Usage-Based Royalties (July 2014, October 2014, and November 2015 TRG Meetings)

Like other performance obligations in contracts with customers, licenses of intellectual property must be evaluated under the new revenue standard to determine whether they represent separate performance obligations.³¹

Accordingly, if a license is distinct from other promised goods or services, an entity would need to assess the nature of the license and determine whether the license grants the customer a right to use or a right to access the entity's intellectual property. Under a "right-to-use" license, the licensor's ongoing activities are not expected to significantly affect the intellectual property. Therefore, a right-to-use license gives a customer the right to use the entity's intellectual property as it exists at the point in time at which the license is granted (and control is transferred at a point in time). Conversely, a "right-to-access" license gives a customer the right to access the entity's intellectual property as it exists throughout the license period (and control is transferred over time) because the licensor's ongoing activities are expected to significantly affect the intellectual property.³²

²⁸ ASC 606-10-32-42 through 32-45; paragraphs 87 through 90 of IFRS 15.

²⁹ ASC 606-10-25-10 through 25-13; paragraphs 18 through 21 of IFRS 15.

³⁰ This issue was also discussed at the October 2014 TRG meeting. For more information, see Deloitte's October 2014 *TRG Snapshot*.

³¹ ASC 606-10-55-54 through 55-64; paragraphs B52 through B62 of IFRS 15.

³² ASC 606-10-55-60; paragraph B58 of IFRS 15.

In addition, the new revenue standard includes guidance that specifically addresses sales- or usage-based royalties promised in exchange for licenses of intellectual property — often referred to as the “royalty constraint.”³³ For such arrangements, entities are required to record revenue when (1) the subsequent sale or usage occurs or (2) the related performance obligation has been fully or partially satisfied. Otherwise, entities would need to estimate the amount of variable consideration to include in the transaction price (which would not be subject to significant revenue reversal) and reassess it.³⁴

Licenses of Intellectual Property (October 2014 TRG Meeting)

Because of the impact of a licensor’s ongoing activities on the determination of whether a license of intellectual property is a right-to-use or right-to-access license, the TRG discussed how entities should evaluate such ongoing activities. Issues noted by stakeholders include whether:

- An entity is required to identify the nature of a license when the license is not distinct (i.e., determine whether the license is satisfied over time or at a point in time when it is not a separate performance obligation).
- A license may be classified as a right to access:
 - Only if the licensor’s contractual or expected activities change the form and/or functionality of the underlying intellectual property.
 - If there are significant changes in the value of the intellectual property (because such changes alone would constitute a change to the intellectual property).
- In the case of a license that does not require the customer to use the most recent version of the underlying intellectual property, the licensor’s activities directly expose the customer to positive or negative effects of the intellectual property.
- Activities transferring a good or service that is not separable from a license of intellectual property should be considered to determine the nature of the license.
- Restrictions in a contract for a license of intellectual property affect the determination of the number of performance obligations in the contract (i.e., the number of distinct licenses).

TRG members did not reach general agreement on these topics and believed that clarifications to the guidance would be helpful.

Editor’s Note: On May 12, 2015, the FASB issued a [proposed ASU](#) that addresses stakeholders’ questions related to the implementation guidance in ASC 606 on licensing. Specifically, the proposal aims to clarify whether a license grants the customer a right to access or a right to use the underlying intellectual property.

The proposed ASU makes a distinction on the basis of whether the underlying intellectual property has significant stand-alone functionality. Intellectual property that does **not** have significant stand-alone functionality (e.g., a brand or logo) would be considered “symbolic” and would grant the customer a right-to-access license. In the case of intellectual property that **has** significant stand-alone functionality (e.g., software), an entity would need to assess (1) whether the intellectual property’s functionality is expected to change substantively over the license period and, if so, (2) whether the customer is contractually or practically required to use the updated intellectual property.

For additional information about the proposed ASU, see Deloitte’s May 13, 2015, [Heads Up](#).

³³ ASC 606-10-55-65; paragraph B63 of IFRS 15.

³⁴ ASC 606-10-32-11 through 32-14; paragraphs 56 through 59 of IFRS 15.

Licenses — Restrictions and Renewals (November 2015 TRG Meeting)

The TRG discussed the following issues related to point-in-time licenses:

- *Renewals of time-based right-to-use (point-in-time) licenses* — Whether a term extension represents a change in an attribute of a license that has already been transferred to a customer.
- *Distinct rights in a current contract versus those added through a contract modification* — Whether the removal of restrictions on the use of the underlying intellectual property in a multiyear license (e.g., geographical and product-class restrictions) conveys additional rights to the customer and thus represents distinct licenses. In addition, there are questions regarding how an entity would account for such releases affected through a contract modification (i.e., whether an entity would follow the new revenue standard’s modification guidance).
- *Accounting for a customer’s option to purchase or use additional copies of software* — Whether options to acquire additional software rights should be accounted for (1) in accordance with the royalty constraint guidance because they are related to licenses of intellectual property or (2) in a manner similar to the accounting for options to purchase additional goods because control is transferred at a point in time.

TRG members generally agreed that:

- The evaluation of whether an entity has provided a single license of intellectual property or multiple licenses to a customer (either in a single contract or through contract modifications) would depend on whether it has granted the customer additional rights (i.e., new or expanded rights).
- The modification of a license arrangement should be treated no differently from the modification of a contract for goods or services. Therefore, an entity should apply the contract modification guidance in the new revenue standard.

However, the TRG did not reach general agreement about:

- Why a time-based restriction would be treated differently from a geographical or product-based restriction. That is, many TRG members viewed the extension of time (i.e., through the contract renewal) as granting a customer an additional right rather than the continued use of the same rights under a license that the entity already delivered to the customer and from which the customer is currently benefiting).
- Whether additional copies of software would be accounted for as a customer option or as a usage-based royalty.

Editor’s Note: Because questions about license restrictions and renewals remained after the November 2015 TRG meeting, we believe that the final ASU that results from the FASB’s May 12, 2015, [proposed ASU](#) may include clarifications to the new revenue standard’s guidance on assessing license restrictions and renewals.

Sales- and Usage-Based Royalties (July 2014 TRG Meeting)

The TRG discussed issues regarding how the royalty constraint would apply when a license of intellectual property is offered with other goods or services in a contract (e.g., software licenses with postcontract customer support, franchise licenses with training services, biotechnology and pharmaceutical licenses sold with research and development services or a promise to manufacture a drug for the customer).

Views differ on whether the royalty constraint should apply to circumstances in which a royalty is (1) related to both a distinct license and nonlicense goods or services that are distinct from the license and (2) combined with other nonlicense goods or services in the contract (i.e., it is not distinct).

TRG members did not reach general agreement and noted their belief that stakeholders would benefit from additional clarifications to the new revenue guidance.

Editor’s Note: On May 12, 2015, the FASB issued a [proposed ASU](#) that would amend the scope and applicability of the guidance in ASC 606 on sales- and usage-based royalties. The proposal notes that the royalty constraint guidance would be applied either (1) when the royalty only pertains to a license of intellectual property or (2) when a license of intellectual property is “the predominant item to which the royalty relates (for example, when the customer would ascribe significantly more value to the license than to the other goods or services to which the royalty relates).” The proposed ASU rejects the notion of splitting royalties, indicating that doing so would be complex and may not yield useful information. See Deloitte’s May 13, 2015, [Heads Up](#) for additional details on the proposed ASU.

Warranties (March 2015 TRG Meeting)

The new revenue standard provides guidance on when an entity should account for a warranty as a performance obligation (e.g., if a customer has a choice to purchase a warranty or the warranty provides a service in addition to the assurance that the product complies with agreed-upon specifications). If the warranty is a performance obligation, the entity would account for the warranty by allocating a portion of the transaction price to that performance obligation.³⁵ The guidance includes three factors that the entity would consider in making such a determination: (1) whether the warranty is required by law, (2) the length of the coverage period, and (3) the nature of the tasks that are promised.³⁶

Questions continually arise about how an entity would determine whether a product warranty that is not separately priced is a performance obligation (i.e., whether the warranty represents a service rather than a guarantee of the product’s intended functionality). For illustrative purposes, TRG members discussed an example in which a luggage company provides a lifetime warranty to repair any damage to the luggage free of charge and noted that such a warranty would be a separate performance obligation because the company agreed to fix repairs for any damage (i.e., repairs extend beyond those that fix defects preventing the luggage from functioning as intended).

TRG members generally agreed with the conclusion that the warranty in the luggage example would represent a separate performance obligation but that it “illustrates a relatively [straightforward] set of facts and circumstances that demonstrate an instance of when a warranty provides a service.”³⁷ However, the conclusion for other warranty arrangements may be less clear. Accordingly, an entity will need to assess the substance of the promises in a warranty arrangement and exercise judgment on the basis of the entity’s specific facts and circumstances.

In addition, while the duration of the warranty (e.g., the lifetime warranty in the luggage company example discussed) may be an indicator of whether a warranty is a separate performance obligation, it is not determinative.

³⁵ ASC 606-10-32-28 through 32-41; paragraphs 73 through 86 of IFRS 15.

³⁶ ASC 606-10-55-33; paragraph B31 of IFRS 15.

³⁷ Quoted text is from paragraph 28 of [TRG Agenda Paper 29](#).

Step 3 — Determine the Transaction Price

Under step 3 of the new revenue standard, an entity is required to determine the transaction price, which is the amount of consideration to which it expects to be entitled in exchange for the promised goods or services in the contract. The transaction price can be a fixed amount, or it can vary because of “discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items.”

In determining the transaction price of a contract with a customer, an entity must consider several factors: (1) variable consideration, (2) significant financing components, (3) noncash consideration,³⁸ and (4) consideration payable to a customer.³⁹ Some or all of an estimate of variable consideration is only included in the transaction price to the extent that it is probable⁴⁰ that subsequent changes in the estimate would not result in a “significant reversal” of revenue (this concept is commonly referred to as the “constraint”). When the transaction price includes a variable amount, an entity is required to estimate the variable consideration by using either an “expected value” (probability-weighted) approach or a “most likely amount” approach, whichever is more predictive of the amount to which the entity will be entitled (subject to the constraint).

In addition, an entity may need to include a significant financing component in its determination of the transaction price. The new revenue standard notes the need for an entity to assess relevant facts and circumstances, including whether there is a difference “between the amount of promised consideration and the cash selling price of the promised goods or services.”⁴¹ However, the standard also notes three factors for which such a difference would not be attributable to a significant financing component.⁴²

Amounts Billed to Customers — Gross Versus Net (July 2014 TRG Meeting)

In determining the transaction price under the new revenue standard, an entity should exclude “amounts collected on behalf of third parties” (e.g., some sales taxes). In many scenarios, however, it may be unclear whether amounts billed to an entity’s customer (e.g., shipping and handling fees, out-of-pocket expenses, taxes and other assessments remitted to governmental authorities) are collected on behalf of third parties. Consequently, there are inconsistent views on whether such amounts should be presented as revenue or as reductions of costs in accordance with the new revenue standard.

The TRG discussion centered primarily on taxes and shipping and handling costs. One TRG member noted that the new revenue standard’s definition of transaction price is clear and that an entity would therefore record amounts gross unless the entity (1) arranges shipping on behalf of the customer in accordance with the customer’s specifications or (2) the tax is levied on the customer. In each case, the entity is only responsible for collecting and remitting fees to third parties. TRG members acknowledged that an entity would most likely need to assess whether it is acting as a principal or an agent to determine how to present amounts billed and collected on behalf of third parties.

Regarding taxes, TRG members noted that the new revenue standard would require entities to evaluate every type of tax (e.g., sales, income, excise) in every tax jurisdiction (i.e., in every local, state, and federal jurisdiction in each country in which the entity has contracts with customers). Many questioned whether such an exercise is practical or whether it was intended by the boards.

³⁸ The new revenue standard indicates that when consideration is in a form other than cash (i.e., noncash consideration), an entity should determine the transaction price by measuring the noncash consideration at fair value (ASC 606-10-32-21 through 32-24; paragraphs 66 through 69 of IFRS 15).

³⁹ ASC 606-10-32-25 through 32-27; paragraphs 70 through 72 of IFRS 15.

⁴⁰ Like the term “probable” in step 1 regarding the collectibility threshold, “probable” in this context has the same meaning as in ASC 450-20-20: “the future event or events are likely to occur.” In IFRS 15, the IASB uses the term “highly probable,” which has the same meaning as the FASB’s “probable.”

⁴¹ ASC 606-10-32-16; paragraph 61 of IFRS 15.

⁴² ASC 606-10-32-17; paragraph 62 of IFRS 15.

Editor’s Note: On September 30, 2015, the FASB issued a [proposed ASU](#) that would permit entities to present revenue net of sales taxes collected on behalf of governmental authorities (i.e., to exclude sales taxes that meet certain criteria from the transaction price). An entity that does not elect to present sales taxes on a net basis would be required to assess, for every tax jurisdiction, whether it is a principal or an agent in the sales tax transaction and would present sales taxes on a gross basis if it is a principal in the jurisdiction and on a net basis if it is an agent. For additional information about the proposed ASU, see Deloitte’s October 2, 2015, [Heads Up](#).

Variable Consideration (January 2015 TRG Meeting)

Stakeholders have questioned (1) when to recognize variable consideration (specifically, consideration payable to a customer) and (2) the unit of account for recognizing variable consideration (i.e., whether variable consideration, such as consideration payable to a customer, should be assessed at the contract level or the performance obligation level).

TRG members generally agreed with the FASB and IASB staffs’ view⁴³ that the reversal of revenue from variable consideration or consideration payable to a customer “should be made at the *earlier* of the date that there is a change in the transaction price in accordance with [ASC 606-10-32-25 (paragraph 70 of IFRS 15)] or the date at which the consideration payable to a customer is promised in accordance with [ASC 606-10-32-27 (paragraph 72 of IFRS 15)].” However, certain TRG members noted that it is difficult to support such a view on the basis of the wording in the new revenue standard.

In addition, TRG members also generally agreed with the staffs’ view that the constraint on variable consideration should be applied at the contract level because the contract is the unit of account for determining the transaction price.

Consideration Payable to a Customer (January 2015, March 2015, and July 2015 TRG Meetings)

Although the new revenue standard’s variable consideration guidance would arguably apply to consideration payable to a customer if such consideration is variable, some stakeholders believe that a requirement to include variable consideration payable to a customer in the transaction price may be inconsistent with the requirement to delay the recognition of consideration payable to a customer until the entity pays or promises to pay.

In July 2015, the TRG noted its general agreement with the FASB and IASB staffs’ conclusions on the following three issues raised by stakeholders:

- Assessing which payments to a customer are within the scope of the guidance on consideration payable to a customer.
- Determining who constitutes an entity’s customer.
- Determining the timing of recognition of consideration payable to a customer.

In doing so, the TRG 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).

⁴³ As expressed in paragraph 20 of [TRG Agenda Paper 14](#).

Assessing Which Payments to a Customer Are Within the Scope of the Guidance on Consideration Payable to a Customer

The TRG considered the following views:

- An entity should assess **all** consideration payable (broadly, all payments) to a customer.
- An entity should assess only payments within the current contract (or combined contracts, if the new revenue standard's contract combination requirements are met).

After discussion, the TRG concluded that an entity should not be required to strictly apply either of these views. Instead, a reasonable application that considers both views should lead to an appropriate outcome.

Further, the TRG concluded that in effect, an entity should evaluate a payment to a customer (or to a customer's customer) — particularly when no goods or services have been transferred — to determine the commercial substance of the payment and whether the payment is linked (economically) to a revenue contract with the customer.

Determining Who Constitutes an Entity's Customer

The TRG concluded that 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. In addition, 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.

Determining the Timing of Recognition of Consideration Payable to a Customer

The TRG concluded that the variable consideration guidance under the new revenue standard does not conflict with the standard's guidance on consideration payable to a customer. In addition, the TRG concluded that if the consideration payable to a customer is variable, the guidance on variable consideration should be applied. Conversely, if such consideration is not variable, the guidance on consideration payable to a customer is applicable.

Portfolio Practical Expedient and Application of the Variable Consideration Constraint (July 2015 TRG Meeting)

When an entity applies the expected-value method in estimating variable consideration, it may consider evidence from similar contracts to form its estimate of expected value. In a manner consistent with the overall objective of the new revenue standard, an 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.⁴⁴

Stakeholders have questioned whether:

- The evaluation of evidence from similar contracts would mean that an entity is applying the portfolio practical expedient (and would therefore need to meet the condition of reasonably expecting that the results would not differ materially).
- A transaction price estimated under the expected-value approach can be an amount that is not a possible outcome for an individual contract.

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

⁴⁴ ASC 606-10-10-4; paragraph 4 of IFRS 15.

In addition, TRG members generally agreed that 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). However, an entity must still consider the constraint on variable consideration when determining the transaction price.

Noncash Consideration (January 2015 TRG Meeting)

Stakeholders have noted that there are different interpretations regarding when noncash consideration should be measured and that the measurement date for noncash consideration has been variously viewed as (1) the time of contract inception, (2) the time at which the noncash consideration is received (or is receivable), and (3) the earlier of when the noncash consideration is received (or is receivable) or when the related performance obligation is satisfied (or as the performance obligation is satisfied, if satisfied over time).

In addition, stakeholders have indicated that it is unclear from the new revenue standard:

- How to apply the guidance on the inclusion of variable consideration in the transaction price when variability in fair value is attributable to both the form of consideration (e.g., changes in the share price of publicly traded shares of stock received as noncash consideration) and reasons other than the form of consideration (e.g., the number of shares of publicly traded stock that can be given as noncash consideration may change).
- How to apply the constraint to transactions in which variability in the fair value of noncash consideration is attributable to both the form of consideration and reasons other than the form of consideration.

The TRG did not reach general agreement on how the new revenue standard should be applied to address the implementation issues noted. As a result, TRG members noted that additional clarification would be helpful.

Editor's Note: On September 30, 2015, the FASB issued a [proposed ASU](#) that would clarify that in determining the transaction price for contracts containing noncash consideration, an entity would include the fair value of the noncash consideration to be received as of the contract inception date. Further, subsequent changes in the fair value of noncash consideration after contract inception would be subject to the variable consideration guidance only if the fair value varies for reasons other than its form. For additional information, see Deloitte's October 2, 2015, [Heads Up](#).

Significant Financing Components (January 2015 and March 2015 TRG Meetings)

TRG members discussed six implementation issues raised by stakeholders and considered by the FASB and IASB staffs regarding significant financing components. These issues, on which TRG members generally agreed with the staffs' views, are highlighted below.

How Broadly to Interpret the Factor in ASC 606-10-32-17(c) (paragraph 62(c) of IFRS 15)⁴⁵

The FASB and IASB staffs noted two prevailing views on interpreting the factor in ASC 606-10-32-17(c) (paragraph 62(c) of IFRS 15):

- Interpret the factor narrowly (i.e., very few reasons would be supportable).
- Interpret the factor more broadly to require an entity to consider the intent of the payment terms (i.e., whether the terms were intended as financing or for other reasons, such as customer convenience, retainer fees, and perceived value by the customer).

TRG members generally agreed with the staffs' conclusion that a reasonable interpretation is most likely something in between these views. In addition, TRG members agreed with the staffs' view that the guidance should not contain a rebuttable presumption that an entity would need to overcome (e.g., regarding the existence or nonexistence of a significant financing component); rather, an entity should be allowed to use judgment to evaluate the facts and circumstances of a transaction.

How to Apply the Guidance When the Promised Consideration Is Equal to the Cash Selling Price

TRG members generally agreed with the staffs' view that an entity should not automatically presume that no significant financing component exists if the list price, cash selling price, and promised consideration are the same. Further, they generally shared the staffs' view that a difference in those amounts does not create a presumption that a significant financing component exists; rather, it would require an evaluation.

Whether an Entity Can Account for Financing Components That Are Not Significant

TRG members generally agreed with the staffs' conclusion that the new revenue standard neither requires entities to account for insignificant financing components nor precludes them from doing so.

Whether the Practical Expedient⁴⁶ Can Be Applied When There Is a Single Payment Stream for Multiple Performance Obligations

The staffs cited an example of a two-year customer contract under which an entity delivers a device and provides a service. There are two alternative views on determining whether the practical expedient applies in this situation (i.e., determining the period between the transfer of goods or services and the receipt of payment). Under "View A," an entity would allocate the monthly consideration only to the first item delivered (i.e., the device in the example, which would be delivered at contract inception). In this situation, because the timing of the transfer of the goods and services and receipt of the customer's payment is less than one year (i.e., monthly revenue was allocated to the device), the entity could apply the practical expedient. Conversely, under "View B," an entity would proportionately allocate the monthly consideration to the device and services. Use of the practical expedient in this situation would not be permitted because the period between the transfer of goods and services (collectively) and the receipt of payment is greater than a year (i.e., two years). For the example discussed, the staffs indicated that View B is appropriate because they believed that View A did not appropriately reflect the economics of the transaction. Further, the staffs acknowledged, and TRG members generally agreed with the staffs, that assessing whether an entity can apply the practical expedient when there is a single payment stream for multiple performance obligations may be complex and will require judgment on the basis of the facts and circumstances.

⁴⁵ The guidance states that there is no significant financing component when the "difference between the promised consideration and the cash selling price of the good or service (as described in [ASC] 606-10-32-16 [paragraph 62(c) of IFRS 15]) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract."

⁴⁶ ASC 606-10-32-18 (paragraph 63 of IFRS 15) states, "As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less."

How to Calculate Interest for a Significant Financing Component

The staffs noted, and TRG members generally agreed, that the new revenue standard does not explicitly address subsequent measurement, but entities reporting under U.S. GAAP and IFRSs should apply the guidance in ASC 835-30 and IFRS 9, respectively.

How to Apply the Significant Financing Component Guidance for Contracts With Multiple Performance Obligations

TRG members generally agreed with the staffs' observation that an entity will need to use judgment when attributing a significant financing component to one or more performance obligations because it may not be possible to determine that a significant financing component is specifically related to one (or some) of the performance obligations.

Accounting for Restocking Fees and Related Costs (July 2015 TRG Meeting)

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.

The TRG generally agreed with the FASB and IASB staffs' view that an entity should include restocking fees for expected returns as part of the transaction price when control is transferred. 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).

With regard to restocking costs, the TRG generally agreed with the staffs' view that an entity should accrue restocking costs upon transfer of control. This view is supported by the guidance in ASC 606-10-55-27,⁴⁷ which 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.

Step 4 — Allocate the Transaction Price

The new revenue standard requires an entity to allocate the transaction price to each distinct performance obligation in a contract on a relative stand-alone selling price basis. It also includes guidance on allocating discounts to only one or some, but not all, performance obligations,⁴⁸ which differs from guidance on allocating variable consideration to one or some, but not all, performance obligations.⁴⁹

Allocation of the Transaction Price for Discounts and Variable Consideration (March 2015 TRG Meeting)

Because discounts may be variable consideration, stakeholders have questioned which guidance should be applied when an entity's contract with a customer includes a discount.

TRG members generally agreed with the FASB and IASB staffs that ASC 606-10-32-41⁵⁰ establishes a hierarchy that requires an entity to identify, and allocate variable consideration to, performance obligations before applying other guidance (e.g., the guidance on allocating a discount). Accordingly, an entity would first determine whether a discount is variable consideration. If the entity concludes that the discount is variable consideration, it would apply the variable consideration allocation guidance if the related criteria are met. Otherwise, the entity would look to the discount allocation guidance to determine how to allocate the discount.

⁴⁷ Paragraph B25 of IFRS 15.

⁴⁸ ASC 606-10-32-37; paragraph 82 of IFRS 15.

⁴⁹ ASC 606-10-32-40 and 32-41; paragraphs 85 and 86 of IFRS 15.

⁵⁰ Paragraph 86 of IFRS 15.

Step 5 — Recognize Revenue

In step 5 of the new revenue 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 any of the criteria⁵¹ 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 method⁵² and (2) the input method.⁵³

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).”⁵⁴

Practical Expedient for Measuring Progress Toward Complete Satisfaction of a Performance Obligation (July 2015 TRG Meeting)

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 six-year contract in which an electric power company sells energy to a buyer at rates that increase every two years and (2) an information technology (IT) outsourcing contract in which the prices decrease over the contract period.⁵⁵

TRG members generally agreed with the staffs’ analysis and conclusions 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.”⁵⁶ 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.”⁵⁷ The SEC observer also emphasized his view that a registrant should have sufficient evidence that demonstrates value to the customer.

In addition, the TRG discussed up-front and back-end fees, noting that while such fees do not preclude application of the invoice practical expedient, entities must use judgment in determining whether the value of the fee to the customer corresponds with the amount transferred to the customer.

The TRG also generally agreed with the staffs’ view that the disclosure practical expedient may be used only if an entity applies the measurement practical expedient.

Measuring Progress When Multiple Goods or Services Are Included in a Single Performance Obligation (July 2015 TRG Meeting)

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.

⁵¹ ASC 606-10-25-27; paragraph 35 of IFRS 15.

⁵² Based on the value of goods or services transferred to the customer.

⁵³ Based on an entity’s efforts or inputs in transferring goods or services to customers.

⁵⁴ ASC 606-10-55-18; paragraph B16 of IFRS 15.

⁵⁵ Considered in [TRG Agenda Paper 40](#).

⁵⁶ Quoted text is from TRG Agenda Paper 40. See paragraph BC167 of the new revenue standard’s Basis for Conclusions for additional information about this notion. The staffs also clarified 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).

⁵⁷ Quoted text is from TRG Agenda Paper 40.

- 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 in 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.

TRG members generally agreed with the FASB and IASB staffs' analysis and conclusions related to these issues, including the determination that a common (i.e., single) measure of progress is required for a single performance obligation. They 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. Further, they 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.

Partial Satisfaction of Performance Obligations Before the Contract Is Identified (March 2015 TRG Meeting)

Entities sometimes begin activities on a specific anticipated contract with their customer before (1) they agree to the contract or (2) the contract meets the criteria in step 1 of the new revenue standard. The FASB and IASB staffs refer to the date on which the contract meets the step 1 criteria as the "contract establishment date" (CED) and refer to activities performed before the CED as "pre-CED activities."⁵⁸

The staffs noted that stakeholders have identified two issues with respect to pre-CED activities: (1) how to recognize revenue from pre-CED activities and (2) how to account for certain fulfillment costs incurred before the CED.

TRG members generally agreed with the staffs' conclusion that once the criteria in step 1 have been met, entities should recognize revenue for pre-CED activities on a cumulative catch-up basis (i.e., record revenue as of the CED for all satisfied or partially satisfied performance obligations) rather than prospectively because cumulative catch-up is more consistent with the new revenue standard's core principle.

TRG members also generally agreed that certain fulfillment costs before the CED are capitalized as costs to fulfill an anticipated contract. However, these costs would be expensed immediately as of the CED if they are related to progress made to date because the goods or services constituting a performance obligation have already been transferred to the customer. The remaining asset would be amortized over the period in which the related goods or services will be transferred to the customer.

Determining When Control of a Commodity Is Transferred (July 2015 TRG Meeting)

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.⁵⁹ 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 members agreed with the FASB and IASB staffs' conclusion that an entity must consider "all relevant facts and circumstances, including the inherent characteristics of the commodity, the contract terms, and information about infrastructure or other delivery mechanisms."⁶⁰

⁵⁸ In paragraph 3 of [TRG Agenda Paper 33](#), the staffs noted that pre-CED activities may include (1) "administrative tasks that neither result in the transfer of a good or service to the customer, nor fulfil the anticipated contract"; (2) "activities to fulfil the anticipated contract but which do not result in the transfer of a good or service, such as set-up costs"; or (3) "activities that transfer a good or service to the customer at or subsequent to the CED."

⁵⁹ See ASC 606-10-25-27(a); paragraph 35(a) of IFRS 15.

⁶⁰ Quoted text is from [TRG Agenda Paper 43](#).

Principal-Versus-Agent Considerations

Under the new revenue standard, the determination of whether an entity is a principal (and would present revenue on a gross basis) or an agent (resulting in net presentation of revenue) depends on the nature of the entity's promise to a customer and who controls the promised good or service before it is transferred to the customer.

Assessing Whether an Entity Is a Principal or an Agent (July 2014 TRG Meeting)

Arrangements involving "virtual" goods and services — intangible goods and services that continue to be offered on the Internet through social networking Web sites and mobile application stores — may complicate the assessment of whether an entity is a principal or an agent. Because of the nature of such arrangements (and others, such as arrangements involving rights conveyed through gift cards), the TRG discussed the following implementation issues:

- How control would be assessed with respect to the originator and intermediary, including the impact on the principal-agent assessment when an originator has no knowledge of the amount an intermediary charged a customer for virtual goods or services.
- The order of steps for determining whether an entity is a principal or an agent. For example, it is unclear whether (1) the agency indicators in the new revenue standard are intended to help an entity initially assess who controls the goods or services or (2) the entity would apply the agency indicators only after it cannot readily determine who controls the goods or services.
- How to apply the agency indicators to the originator and intermediary (e.g., if certain indicators apply to both the originator and the intermediary).
- Whether certain indicators either are more important or should be discounted (e.g., whether inventory risk would be applicable in arrangements involving virtual goods or services).

In addition, the new revenue guidance requires an entity to allocate the total consideration in a contract with a customer to each of the entity's performance obligations under the contract, including discounts. Stakeholders have questioned whether discounts should be allocated to all performance obligations and whether consideration should be allocated on a gross or net basis if the entity is a principal for certain performance obligations but an agent for others.

TRG members did not reach general agreement on the issues discussed and believed that clarifications to principal-versus-agent guidance in the new revenue standard would be helpful.

Editor's Note: On March 17, 2016, the FASB issued [ASU 2016-08](#)⁶¹ to address issues raised regarding how an entity should assess whether it is the principal or the agent in contracts that include three or more parties.

Specifically, the guidance requires an entity to determine:

- The nature of its promise to the customer. If the entity's obligation is to provide the customer with a specified good or service, it is the principal. Otherwise, if the entity's obligation is to arrange for the specified good or service to be provided to the customer by a third party, the entity is an agent.
- Who controls the specified good or service before it is transferred to the customer. An entity is a principal "if it controls the specified good or service before that good or service is transferred to a customer."

⁶¹ FASB Accounting Standards Update No. 2016-08, *Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*.

Further, the ASU clarifies that the unit of account is a specified good or service (which is a distinct good or service or a bundle of distinct goods or services) and that an entity may be the principal with respect to certain specified goods or services in a contract but may be an agent with respect to others.

The ASU also adds clarifying guidance on the types of goods or services that a principal may control⁶² and reframes the principal-versus-agent indicators in the new revenue standard to (1) illustrate when an entity may be acting as a principal instead of when an entity acts as an agent and (2) explain how each indicator is related to the control principle. For more information about the ASU, see Deloitte's March 22, 2016, *Heads Up*.

Contract Assets and Liabilities

The new revenue standard introduces the terms "contract asset" and "contract liability"⁶³ and provides guidance on their recognition and presentation in the balance sheet. Specifically, entities are required to recognize an asset for incremental costs of obtaining a contract (e.g., sales commissions) when those costs are expected to be recovered. Capitalized costs are then amortized in a manner consistent with the pattern of transfer of the goods or services to which the asset is related (which may extend beyond the original contract term in certain circumstances).

The new revenue standard also requires entities to test for impairment (1) incremental costs of obtaining a revenue contract and (2) costs of fulfilling a revenue contract. Under the new guidance, an impairment exists when the carrying amount of the contract asset exceeds "the remaining amount of consideration that the entity expects to receive in exchange for the goods or services to which the asset relates" less associated costs that have not yet been recognized.⁶⁴

Costs of Obtaining a Contract (January 2015 TRG Meeting)

Because many entities pay sales commissions to obtain contracts with customers, questions have arisen regarding how to apply the new revenue standard's cost guidance to such commissions, including:

- Whether certain commissions (e.g., commissions on contract renewals or modifications, commission payments that are contingent on future events, and commission payments that are subject to "clawback" or thresholds) qualify as contract assets.
- The types of costs to capitalize (e.g., whether and, if so, how an entity should consider fringe benefits such as payroll taxes, pension, or 401(k) match) in determining the amount of commissions to record as incremental costs.
- The pattern of amortization for contract assets related to multiple performance obligations (e.g., for contract cost assets related to multiple performance obligations that are satisfied over disparate points or periods of time).

TRG members generally agreed that entities would continue to first refer to existing GAAP on liability recognition to determine whether and, if so, when a liability from a contract with a customer needs to be recorded. For example, an entity would apply the specific GAAP on liability (e.g., commissions, payroll taxes, 401(k) match) and then determine whether to record the related debit as an asset or expense.

TRG members also noted that there is no need for prescriptive guidance on amortization periods and methods and that the new revenue standard is clear that (1) an entity's method should be on a systematic basis and (2) the period should reflect the pattern of transfer of goods and services to a customer.

⁶² See ASC 606-10-55-37A in the ASU.

⁶³ See ASC 606-10-20 for the definitions of contract asset and contract liability.

⁶⁴ For guidance on cost capitalization and impairment, see ASC 340-40-25 and ASC 340-40-35 as well as paragraphs 91 through 104 of IFRS 15.

Presentation of Contract Assets and Liabilities (October 2014 TRG Meeting)

Although certain types of assets and liabilities result from revenue arrangements under existing GAAP, issues have been identified regarding how contract assets and liabilities should be presented under the new revenue standard. These issues include:

- *Determining the unit of account* — The TRG generally agreed that the contract, and not individual performance obligations, is the appropriate unit of account for presenting contract assets and liabilities.
- *Presenting contract assets and liabilities for individual contracts* — TRG members generally agreed that contract assets or liabilities should be presented for each contract on a net basis.
- *Presenting contract assets and liabilities for combined contracts* — The TRG generally agreed that when contracts meet the criteria for combination under the new revenue standard, a contract asset or liability should be presented for the combined contract.
- *Offsetting other assets and liabilities against contract assets and liabilities* — TRG members generally agreed that entities should look to existing guidance to determine whether they have the right of offset.⁶⁵ It was also noted that netting of contract assets and liabilities reflects an entity's net position for the remaining rights and obligations under the contract and therefore is different from offsetting.

Impairment Testing of Capitalized Contract Costs (July 2014 TRG Meeting)

To test contract assets for impairment, an entity must consider the total period over which it expects to receive an economic benefit from the contract asset. Accordingly, to estimate the amount of remaining consideration that it expects to receive, the entity would also need to consider goods or services under a specific anticipated contract (i.e., including renewals). However, the impairment guidance appears to contradict itself because it also indicates that entities should apply the principles used to determine the transaction price when calculating the "amount of consideration that an entity expects to receive."⁶⁶ The determination of the transaction price would exclude renewals.⁶⁷

TRG members generally agreed that when testing a contract asset for impairment, an entity would consider the economic benefits from anticipated contract extensions or renewals if the asset is related to the goods and services that would be transferred during those extension or renewal periods.

Editor's Note: At its meeting on January 20, 2016, the FASB discussed certain technical corrections to the new revenue guidance and tentatively agreed to amend ASC 340-40 to clarify that for impairment testing, an entity should:

- Consider contract renewals and extensions when measuring the remaining amount of consideration the entity expects to receive.
- Include in the amount of consideration the entity expects to receive both (1) the amount of cash expected to be received and (2) the amount of cash already received but not yet recognized as revenue.
- Test for and recognize impairment in the following order: (1) assets outside the scope of ASC 340-40 (such as inventory under ASC 330), (2) assets accounted for under ASC 340-40, and (3) reporting units and asset groups under ASC 350 and ASC 360.

⁶⁵ ASC 210-20; IAS 1, *Presentation of Financial Statements*; and IAS 32, *Financial Instruments: Presentation*.

⁶⁶ ASC 340-40-35-4; paragraph 102 of IFRS 15.

⁶⁷ ASC 606-10-32-4 (paragraph 49 of IFRS 15) states, "For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed, or modified."

Appendix — Chronological Listing of Revenue Implementation Issues

July 2014 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the July 2014 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Gross versus net revenue presentation — assessing whether an entity is a principal or an agent	25	<ul style="list-style-type: none"> • Application of the agency indicators in ASC 606-10-55-59 (paragraph B37 of IFRS 15): <ul style="list-style-type: none"> ◦ Interaction of the agency indicators with the principle that a principal controls the good or service before its transfer to the customer. ◦ Application of the agency indicators to some types of contracts (specifically, contracts for intangible goods or services and contracts for which the indicators provide contradictory evidence). • If an entity makes a determination that it is a principal (which typically results in the recognition of gross revenue), what amount of revenue should the entity recognize if it received a net amount of cash and does not know the gross amount? • How should the transaction price allocation guidance be applied to a transaction in which the entity is a principal for some of the deliverables and an agent for others? 	TRG Agenda Paper 1
Gross versus net revenue — amounts billed to customers	17	How should entities determine the presentation of amounts billed to customers under the new revenue standard?	TRG Agenda Paper 2
Sales-based and usage-based royalties	15	<ul style="list-style-type: none"> • When is a sales-based or usage-based royalty “promised in exchange for a license of intellectual property” such that the royalty constraint should apply? • Can a royalty be partially within the scope of the royalty constraint? 	TRG Agenda Paper 3
Impairment testing of capitalized contract costs	27	How should an entity consider renewals and extensions when performing an impairment test on capitalized contract costs?	TRG Agenda Paper 4

For additional information about the July 2014 TRG meeting, see [TRG Agenda Paper 5](#) and Deloitte’s July 2014 *TRG Snapshot*.

October 2014 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the October 2014 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Customer options	12	<ul style="list-style-type: none"> • Should the evaluation of whether an option provides a material right be performed in the context of only the current transaction with a customer, or should the evaluation also consider past and expected future transactions with the customer? • Is the evaluation of whether an option provides a material right solely a quantitative evaluation, or should the evaluation also consider qualitative factors? 	TRG Agenda Paper 6
Presentation of contract assets and liabilities	27	<ul style="list-style-type: none"> • How should an entity determine the presentation of a contract that contains multiple performance obligations? • How should an entity determine the presentation of two or more contracts that have been combined under step 1 (identify the contract with the customer) in accordance with ASC 606-10-25-9 (paragraph 17 of IFRS 15)? • When can an entity offset other balance sheet items against the contract asset or liability? 	TRG Agenda Paper 7

October 2014 TRG Meeting (continued)

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Licenses of intellectual property	14	<ul style="list-style-type: none"> • For a license of intellectual property that is not a separate performance obligation, does an entity need to determine the nature of the license as a right to access the entity's intellectual property or a right to use the entity's intellectual property (i.e., determine whether the license is satisfied over time or at a point in time)? • For the nature of a license to be a right to access the entity's intellectual property as it exists throughout the license period, (1) do the contractual or expected activities of the licensor have to change the form and/or functionality of the underlying intellectual property, or (2) do significant changes in the value of the intellectual property alone constitute a change to the intellectual property? <ul style="list-style-type: none"> ◦ If a customer is not required to use the most recent version of the underlying intellectual property, do the licensor's activities directly expose the customer to positive or negative effects of the intellectual property to which the customer has rights? ◦ Should the entity consider activities that transfer a good or service that is not separable from the license of intellectual property in determining the nature of the license under ASC 606-10-55-60(c) (paragraph B58(c) of IFRS 15)? • Can restrictions in a contract for a license of intellectual property affect the determination of whether that contract contains one or multiple licenses when the entity applies step 2 (identify performance obligations) of the new revenue standard? 	TRG Agenda Paper 8
Distinct in the context of the contract	9	How should entities assess whether a good or service is distinct in the context of the contract?	TRG Agenda Paper 9
Contract enforceability and termination clauses	6	How should an entity evaluate termination clauses in determining the duration of a contract (i.e., the contractual period)?	TRG Agenda Paper 10

For additional information about the October 2014 TRG meeting, see [TRG Agenda Paper 11](#) and Deloitte's October 2014 *TRG Snapshot*.

January 2015 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the January 2015 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Identifying promised goods or services	7	What are the promised goods or services in a contract with a customer?	TRG Agenda Paper 12
Collectibility	6	<ul style="list-style-type: none"> • How should an entity assess collectibility for a portfolio of contracts? • When should an entity reassess collectibility? • How should an entity recognize revenue on contracts that are subsequently reassessed as not probable of collection (i.e., after being assessed as collectible at contract inception)? • How should an entity assess whether a contract includes a price concession? 	TRG Agenda Paper 13
Variable consideration	18	<ul style="list-style-type: none"> • When should an entity recognize consideration payable to a customer? • Should the constraint on variable consideration be applied at the contract level or the performance obligation level? 	TRG Agenda Paper 14
Noncash consideration	20	<ul style="list-style-type: none"> • What is the measurement date for noncash consideration received (or receivable) from a customer? • How is the constraint applied to transactions in which the fair value of noncash consideration might vary because of the form of the consideration and for reasons other than the form of the consideration? 	TRG Agenda Paper 15
Stand-ready obligations	8	<ul style="list-style-type: none"> • What is the nature of the promise to the customer in arrangements? • How should an entity measure progress toward the complete satisfaction of a stand-ready obligation (i.e., an obligation for which the entity has determined that the nature of the entity's promise is the service of "standing ready" to perform) that is satisfied over time? 	TRG Agenda Paper 16

January 2015 TRG Meeting (continued)

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Islamic finance transactions	N/A	Whether deferred-payment transactions (with the possible exception of the “first type” described in paragraph 7 of TRG Agenda Paper 17) must first pass through IFRS 15 before being reported under IFRS 9 since the Islamic financial institution must possess the underlying assets, even for a very short period, with all risks and rewards incidental to ownership before the subsequent sale.	TRG Agenda Paper 17
Material rights	13	<ul style="list-style-type: none"> Accounting for a customer’s exercise of a material right. Material rights and significant financing components. Determining when a material right exists. 	TRG Agenda Paper 18
Consideration payable to a customer	18	<ul style="list-style-type: none"> Are entities required to apply the guidance on consideration payable to a customer at the contract level or more broadly to the entire “customer relationship”? Does the guidance on payments made to a customer or “to other parties that purchase the entity’s goods or service from the customer” apply only to customers in the distribution chain, or does it apply more broadly to any customer of an entity’s customer? Timing of recognizing consideration payable to a customer that is anticipated, but not yet promised, to the customer. “Negative revenue” resulting from consideration payable to a customer. 	TRG Agenda Paper 19
Significant financing components	20	<ul style="list-style-type: none"> Should the factor in ASC 606-10-32-17(c) (paragraph 62(c) IFRS 15) be applied broadly (in a manner consistent with Example 30 of ASC 606)? If the implied interest rate in an arrangement is zero (i.e., interest-free financing) such that the consideration to be received is equal to the cash selling price, does a financing component exist? How should an entity adjust for the time value of money when the consideration is received up front and revenue is recognized over multiple years? 	TRG Agenda Paper 20
Costs of obtaining a contract	26	<ul style="list-style-type: none"> Commission paid on renewals after the initial contract is obtained: <ul style="list-style-type: none"> Capitalization of the commission. What is the amortization period? How should entities evaluate whether a commission paid for a renewal is “commensurate with” a commission paid on the initial contract (when determining the appropriate amortization period for an initial commission)? Should commissions earned on contract modifications (that are not treated as separate contracts) be capitalized? Are costs incremental if they are contingent on future events? Should commission payments subject to “clawback” (i.e., repayment to the entity if the customer does not perform) be capitalized as an incremental cost of obtaining a contract? Should commissions based on achieving cumulative targets be capitalized? Should entities consider fringe benefits (e.g., payroll taxes, pension/401(k) match, FICA) in the assessment of determining the amount of commissions to record as incremental costs? How should entities determine the pattern of amortization for a contract cost asset related to multiple performance obligations that are satisfied over disparate points or periods of time? 	TRG Agenda Paper 23
Contract modifications — practical expedient at transition	2	Should a practical expedient (and a requirement to disclose the use of that practical expedient) be provided to address some of the potential challenges (and costs) that an entity might face when applying the guidance on contract modifications before the date of initial adoption?	TRG Agenda Paper 24

For additional information about the January 2015 TRG meeting, see [TRG Agenda Paper 25](#) and Deloitte’s January 2015 *TRG Snapshot*.

March 2015 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the March 2015 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Contributions	5	Are contributions within the scope of the new revenue standard?	TRG Agenda Paper 26
Series of distinct goods or services	9	<ul style="list-style-type: none"> Does the series provision apply only if the goods are delivered, or the services are performed, consecutively? For the series provision to apply, does the accounting result need to be the same as if the underlying distinct goods and services each were accounted for as a separate performance obligations? 	TRG Agenda Paper 27
Consideration payable to a customer	18	<ul style="list-style-type: none"> Which payments to a customer are within the scope of the guidance on consideration payable to a customer? Is the guidance on consideration payable to a customer related to customers in the distribution chain or more broadly to any customer of an entity's customer? Timing of recognition of consideration payable to a customer. 	TRG Agenda Paper 28
Warranties	16	How should an entity evaluate whether a product warranty is a performance obligation in a contract with a customer when the warranty is not separately priced?	TRG Agenda Paper 29
Significant financing components	20	<ul style="list-style-type: none"> How should an entity apply the factor in ASC 606-10-32-17(c) (paragraph 62(c) of IFRS 15) in determining when the difference between promised consideration and cash selling price is not related to a significant financing component? If the promised consideration is equal to the cash selling price, does a financing component exist? Does the new revenue standard preclude accounting for financing components that are not significant? How should entities determine whether the practical expedient can be applied in scenarios in which there is a single payment stream for multiple performance obligations? How should an entity calculate the adjustment of revenue in arrangements that contain a significant financing component? How should the significant financing guidance be applied when there are multiple performance obligations? 	TRG Agenda Paper 30
Variable discounts	22	What is the interaction between the guidance on allocating discounts and the guidance on allocating variable consideration?	TRG Agenda Paper 31
Exercise of material rights	13	<ul style="list-style-type: none"> How should an entity account for a customer's exercise of a material right? How should an entity evaluate whether a customer option that provides a material right includes a significant financing component? Over what period should an entity recognize a nonrefundable up-front fee? 	TRG Agenda Paper 32
Partially satisfied performance obligations	24	<ul style="list-style-type: none"> How should revenue arising from pre-CED activities be recognized? How should an entity account for fulfillment costs incurred before the CED? 	TRG Agenda Paper 33

For additional information about the March 2015 TRG meeting, see [TRG Agenda Paper 34](#) and Deloitte's March 2015 *TRG Snapshot*.

July 2015 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the July 2015 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Accounting for restocking fees and related costs	22	<ul style="list-style-type: none"> How should an entity account for restocking fees for widgets expected to be returned? How should an entity account for restocking costs for expected widget returns (e.g., estimated shipping or repackaging costs)? 	TRG Agenda Paper 35
Scope: credit cards	4	<ul style="list-style-type: none"> Are the rights and obligations of a card-issuing bank's contract with a cardholder within the scope of ASC 606? Are cardholder reward programs subject to the guidance in ASC 606? 	TRG Agenda Paper 36
Consideration payable to a customer	18	<ul style="list-style-type: none"> Which payments to a customer are within the scope of the guidance on consideration payable to a customer? Who are considered an entity's customers under the guidance on consideration payable to a customer? How does the guidance on timing of recognition of consideration payable to a customer reconcile with the variable consideration guidance? 	TRG Agenda Paper 37
Portfolio practical expedient and application of the variable consideration constraint	19	<ul style="list-style-type: none"> Is an entity applying the portfolio practical expedient when it considers evidence from similar contracts to develop an estimate by using the expected-value method? Can the estimated transaction price under the expected-value method be an amount that is not a possible outcome of an individual contract? 	TRG Agenda Paper 38
Application of the series provision and allocation of variable consideration	10	<ul style="list-style-type: none"> In the determination of whether the series provision is applicable, how should entities consider whether the performance obligation consists of distinct goods or services that are substantially the same? If there is an undefined quantity of outputs but the contractual rate per unit of output is fixed, is the consideration variable? For the requirement in ASC 606-10-32-40(b) (paragraph 85(b) of IFRS 15) to be met, is it necessary to allocate the variable consideration on a relative stand-alone selling price basis? 	TRG Agenda Paper 39
Practical expedient for measuring progress toward complete satisfaction of a performance obligation	23	<ul style="list-style-type: none"> Is the practical expedient for measuring progress toward complete satisfaction of a performance obligation applicable to contracts with rates that change during the contract term? How should entities assess whether the disclosure practical expedient in ASC 606-10-50-14 (paragraph 121 of IFRS 15) may be applied when the practical expedient for measuring progress toward complete satisfaction of a performance obligation is not used? 	TRG Agenda Paper 40
Measuring progress when multiple goods or services are included in a single performance obligation	23	<ul style="list-style-type: none"> Can multiple measures of progress be used to depict an entity's performance in completing a combined performance obligation? How should an entity determine the measure of progress when a combined performance obligation satisfied over time contains multiple goods or services? 	TRG Agenda Paper 41
Completed contracts at transition	3	<ul style="list-style-type: none"> When is a contract considered "completed" for purposes of applying the transition guidance? How should an entity account for "completed contracts" after adoption of the new revenue standard? 	TRG Agenda Paper 42
Determining when control of a commodity is transferred	24	What factors should an entity consider when evaluating whether a customer simultaneously receives and consumes the benefits of a commodity as the entity performs?	TRG Agenda Paper 43

For additional information about the July 2015 TRG meeting, see [TRG Agenda Paper 44](#) and Deloitte's July 2015 *TRG Snapshot*.

November 2015 TRG Meeting

The following table summarizes the revenue implementation issues discussed at the November 2015 TRG meeting:

Topic	Page	Revenue Implementation Issues or Questions Discussed	Source
Licenses — specific application issues related to restrictions and renewals	15	<ul style="list-style-type: none"> • Renewals of time-based right-to-use (point in time) licenses. • Distinct rights in a contract. • Distinct rights added through a modification. • Accounting for a customer’s option to purchase or use additional copies of software. 	TRG Agenda Paper 45
Preproduction activities	3	<ul style="list-style-type: none"> • How should an entity assess whether preproduction activities are a promised good or service (or included in the measure of progress toward complete satisfaction of a performance obligation that is satisfied over time)? • How should an entity account for preproduction costs that currently are accounted for in accordance with the guidance in ASC 340-10? (U.S. GAAP question only.) • Are preproduction costs for contracts previously within the scope of ASC 605-35 within the scope of the cost guidance in ASC 340-10 or ASC 340-40? (U.S. GAAP question only.) 	TRG Agenda Paper 46
Whether fixed-odds wagering contracts are within or outside the scope of ASC 606	5	Are fixed-odds wagering contracts within the scope of ASC 606?	TRG Agenda Paper 47
Customer options for additional goods and services	12	<ul style="list-style-type: none"> • Optional purchases versus variable consideration. • What are optional purchases? • Why are optional purchases different from variable consideration? • Customer termination rights and penalties. • When should an optional purchase be considered a separate performance obligation? 	TRG Agenda Paper 48

For additional information about the November 2015 TRG meeting, see Deloitte’s November 2015 *TRG Snapshot*.

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