

*Proposed Accounting Standards Update*

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Revenue from Contracts with Customers  
(Topic 606)

Narrow-Scope Improvements and Practical Expedients

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 606 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2015-320, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft and is requesting comments by November 16, 2015. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2015-320
- Sending written comments to “Technical Director, File Reference No. 2015-320, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Do not send responses by fax.

All comments received are part of the FASB’s public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB’s website.

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Proposed Accounting Standards Update  
Revenue from Contract with Customers (Topic 606)  
Narrow-Scope Improvements and Practical Expedients  
September 30, 2015  
Comment Deadline: November 16, 2015

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# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update) and What Are the Main Provisions?

On May 28, 2014, the FASB and the International Accounting Standards Board (IASB) issued a converged standard on recognition of revenue from contracts with customers. In June 2014, the FASB and the IASB (collectively, the Boards) announced the formation of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG). One of the objectives of the TRG is to inform the Boards about potential implementation issues that could arise when organizations implement the new revenue standard. The TRG also assists stakeholders in understanding specific aspects of the new revenue standard. The TRG does not issue authoritative guidance. Instead, the Boards evaluate the feedback received from the TRG and other stakeholders to determine what action, if any, is necessary for each potential implementation issue.

The core principle of the guidance in Topic 606, Revenue from Contracts with Customers, is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this proposed Update would not change the core principle of the guidance in Topic 606. Rather, the amendments in this proposed Update would affect only the narrow aspects of Topic 606 noted in the table below.

Area for Improvement	Summary of Proposed Amendments
<p><b><i>Assessing the Collectibility Criterion in Paragraph 606-10-25-1(e) and Accounting for Contracts That Do Not Meet the Criteria for Step 1 (Applying Paragraph 606-10-25-7)</i></b></p> <p>One criterion in Step 1 of the new revenue model is that it is probable that an entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.</p> <p>Some TRG members and other stakeholders have narrowly interpreted the guidance related to collectibility in a manner that would result in more contracts than the Board intended not meeting the collectibility criterion.</p> <p>If a contract fails to meet the collectibility criterion at contract inception, an entity continues to assess the contract to determine whether that criterion is subsequently met. If the criterion is not subsequently met, an entity only recognizes consideration received as revenue when the criteria in paragraph 606-10-25-7 have been met.</p> <p>Some TRG members and other stakeholders have expressed the view that it is unclear when the criteria in paragraph 606-10-25-7 would be met for certain arrangements.</p>	<p>The amendments in this proposed Update would clarify the objective of the collectibility criterion in Step 1. The objective of this assessment is to determine whether the contract is valid and represents a genuine transaction on the basis of whether a customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer.</p> <p>The amendments in this proposed Update also would add a new criterion to paragraph 606-10-25-7 to clarify when revenue would be recognized for a contract that fails to meet the criteria in Step 1. That criterion would allow an entity to recognize revenue 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.</p>

<b>Area for Improvement</b>	<b>Summary of Proposed Amendments</b>
<p><b><i>Presentation of Sales Taxes and Other Similar Taxes Collected from Customers</i></b></p> <p>In Step 3 of the new revenue model, an entity determines the transaction price of the contract. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).</p> <p>To determine whether amounts are collected on behalf of third parties, an entity would need to identify and analyze taxes on a jurisdiction-by-jurisdiction basis to determine which amounts should be reported gross and which should be reported net. TRG members have indicated to the Board that compliance with that aspect of Topic 606 could be complex and costly for many entities because of the number of jurisdictions in which an entity would have to determine which party is primarily obligated for payment of the tax and because of the variation of, and changes in, tax laws among federal, state, and local jurisdictions.</p>	<p>The amendments in this proposed Update would permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.</p>
<p><b><i>Noncash Consideration</i></b></p> <p>In Step 3 of the new revenue model, an entity determines the transaction price of the contract. Some contracts include promises of consideration in a form other than cash (that is, noncash consideration).</p> <p>Topic 606 states that noncash consideration is measured at fair value.</p>	<p>The amendments in this proposed Update would specify that the measurement date for noncash consideration is contract inception.</p> <p>The amendments in this proposed Update also would clarify that the variable consideration guidance applies only to variability resulting</p>

<b>Area for Improvement</b>	<b>Summary of Proposed Amendments</b>
<p>However, Topic 606 does not specify the measurement date for noncash consideration. Additionally, some stakeholders have indicated that it is unclear how the constraint on variable consideration is applied in circumstances in which the fair value of noncash consideration varies both because of the form of the consideration and for reasons other than the form of consideration.</p>	<p>from reasons other than the form of the consideration.</p>
<p><b><i>Contract Modifications at Transition</i></b></p> <p>Topic 606 includes two transition methods: retrospectively to each prior reporting period presented in accordance with Topic 606 and retrospectively with the cumulative effect of initially applying the guidance in Topic 606 at the date of initial application. In applying either method, an entity is required to evaluate contract modifications that occurred before the initial date of adoption of Topic 606. TRG members have informed the Board that this analysis may be complex and costly in instances in which an entity has a significant volume of contract modifications or when the modifications have occurred over a long period of time.</p>	<p>The amendments in this proposed Update would provide a practical expedient that permits an entity to determine and allocate the transaction price on the basis of all satisfied and unsatisfied performance obligations in a modified contract as of the beginning of the earliest period presented in accordance with the guidance in Topic 606. Thus, an entity would not be required to separately evaluate the effects of each contract modification. An entity that chooses to apply the practical expedient would apply the expedient consistently to similar types of contracts.</p>
<p><b><i>Completed Contracts at Transition</i></b></p> <p>The two transition methods for Topic 606 include practical expedients related to completed contracts. The transition guidance in Topic 606 explains that a completed contract is “a contract for which the entity has transferred all of the goods or services identified in accordance with revenue guidance that</p>	<p>The amendments in this proposed Update would 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 generally accepted accounting principles (GAAP) before the date of initial application. Accounting for</p>



<b>Area for Improvement</b>	<b>Summary of Proposed Amendments</b>
<p>is in effect before the date of initial application.”</p> <p>TRG members have informed the Board that it is unclear when a contract should be considered “completed” for purposes of applying the transition guidance.</p>	<p>elements of a contract that do not affect revenue under legacy GAAP would be irrelevant to the assessment of whether a contract is complete.</p> <p>In addition, the amendments in this proposed Update would permit an entity to apply the modified retrospective transition approach either to all contracts or to completed contracts only.</p>
<p><b>Technical Correction</b></p> <p>An entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is required to provide the accounting change disclosures in paragraphs 250-10-50-1 through 50-3 in the period of adoption. Paragraph 250-10-50-1(b)(2) requires an entity to disclose current-period financial information in the period of adoption under former GAAP. Stakeholders have reported that this requirement would significantly increase transition costs because an entity would have to account for contracts with customers under former GAAP and Topic 606 for one additional year.</p>	<p>The amendments in this proposed Update would clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. However, an entity still would be required to disclose the effect of the changes on any prior periods retrospectively adjusted.</p>

The Board decided to add a project to its technical agenda to improve Topic 606 by reducing:

1. The risk of diversity in practice at initial application
2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

## Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect entities with transactions included within the scope of Topic 606. The scope of that Topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this proposed Update to the recognition and measurement provisions of Topic 606 also would affect entities with transactions included within the scope of Topic 610, Other Income.

## When Would the Amendments Be Effective?

The amendments in this proposed Update would affect the guidance in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this proposed Update would be the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year.

## How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?

Topic 606 and IFRS 15, *Revenue from Contracts with Customers*, create common revenue recognition guidance for GAAP and IFRS and are the result of a joint project between the FASB and the IASB. The Board expects that the amendments in this proposed Update would help reduce the cost and complexity of implementation by enhancing the operability and understandability of the guidance.

The amendments in this proposed Update would not change the core principle for revenue recognition in Topic 606. Instead, the proposed amendments would provide clarifying guidance in a few narrow areas and add some practical expedients to the guidance. Those proposed amendments should reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the risk of diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this proposed Update are not identical to those proposed by the IASB, and some are incremental to the amendments proposed by the IASB. The FASB expects that the amendments in this proposed Update would not result in financial reporting outcomes that are significantly different from those reported under IFRS for similar transactions.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Does the proposed addition of paragraphs 606-10-55-3A through 55-3C, as well as the addition of new examples, clarify the objective of the collectibility threshold? If not, why?

**Question 2:** Paragraph 606-10-25-7(c) was proposed to provide clarity about when revenue should be recognized for a contract that does not meet the criteria in paragraph 606-10-25-1. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

**Question 3:** The collectibility criterion in paragraph 606-10-25-1(e) refers to collectibility being probable, which is defined in Topic 606 as “likely to occur.” If the Board were, instead, to refer to collectibility being “more likely than not,” which would result in a converged collectibility criterion with IFRS, would the amendment improve the collectibility guidance in Topic 606? Explain your response.

**Question 4:** Paragraph 606-10-32-2A provides a policy election that would permit an entity to elect to exclude all sales (and other similar) taxes collected from customers from the transaction price. Does this proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

**Question 5:** Revisions to paragraph 606-10-32-21 and the related example specify that noncash consideration should be measured at contract inception. Does this proposed amendment improve the clarity of applying the guidance? If not, why?

**Question 6:** Revisions to paragraph 606-10-32-23 clarify that the guidance on variable consideration applies only to variability in noncash consideration resulting from reasons other than the form of the consideration. Would the proposed amendments improve the clarity of applying the guidance? If not, why?

**Question 7:** Paragraph 606-10-65-1(f)(4) provides a practical expedient for contract modifications at transition. Would the proposed amendment reduce the cost and complexity of applying Topic 606? If not, why?

**Question 8:** Revisions to paragraph 606-10-65-1(c)(2) clarify that a completed contract is a contract for which all (or substantially all) of the revenue was

recognized under revenue guidance in effect before the date of initial application. Does this proposed amendment clarify the transition guidance? If not, why and what alternative would you suggest?

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Codification.

<b>Areas for Improvement</b>	<b>Related Paragraphs</b>
Issue 1: Assessing the Collectibility Criterion in Paragraph 606-10-25-1(e) and Accounting for Contracts That Do Not Meet the Criteria for Step 1 (Applying Paragraph 606-10-25-7)	3–6
Issue 2: Presentation of Sales Taxes and Other Similar Taxes Collected from Customers	7–8
Issue 3: Noncash Consideration	9–11
Issue 4: Contract Modifications at Transition, Completed Contracts at Transition, and Technical Correction	12–13

## Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Issue 1: Assessing the Collectibility Criterion in Paragraph 606-10-25-1(e) and Accounting for Contracts That Do Not Meet the Criteria for Step 1 (Applying Paragraph 606-10-25-7)

3. The following amendments are clarifications to Topic 606 about evaluating whether it is probable that an entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. That evaluation is part of Step 1 of the new revenue standard. The amendments also provide clarifications about when an entity should recognize revenue if the criteria in paragraph 606-10-25-1 are not met.

### Amendments to Section 606-10-25

4. Amend paragraphs 606-10-25-1, 606-10-25-3, 606-10-25-5, and 606-10-25-7, with a link to transition paragraph 606-10-65-1, as follows:

### Revenue from Contracts with Customers—Overall

#### Recognition

##### > Identifying the Contract

**606-10-25-1** An entity shall account for a contract with a customer that is within the scope of this Topic only when all of the following criteria are met:

- a. The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations.
- b. The entity can identify each party's rights regarding the goods or services to be transferred.
- c. The entity can identify the payment terms for the goods or services to be transferred.
- d. The contract has commercial substance (that is, the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract).
- e. It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (see paragraphs 606-10-55-3A through 55-3C for implementation guidance on collectibility). In evaluating whether collectibility of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration

**when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 606-10-32-7).**

**606-10-25-2** A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral, or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries, and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations.

**606-10-25-3** Some contracts with customers may have no fixed duration and can be terminated or modified by either party at any time. Other contracts may automatically renew on a periodic basis that is specified in the contract. An entity shall apply the guidance in this Topic to the duration of the contract (that is, the contractual period) in which the parties to the contract have present enforceable rights and obligations. In evaluating the criterion in paragraph 606-10-25-1(e), an entity shall assess the collectibility of the consideration promised in a contract for the goods or services that will be transferred to the customer rather than assessing the collectibility of the consideration promised in the contract for all of the promised goods or services (see paragraphs 606-10-55-3A through 55-3C).

**606-10-25-4** For the purpose of applying the guidance in this Topic, a contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties). A contract is wholly unperformed if both of the following criteria are met:

- a. The entity has not yet transferred any promised goods or services to the customer.
- b. The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

**606-10-25-5** If a contract with a customer meets the criteria in paragraph 606-10-25-1 at contract inception, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer (see paragraphs 606-10-55-3A through 55-3C).

**606-10-25-6** If a contract with a customer does not meet the criteria in paragraph 606-10-25-1, an entity shall continue to assess the contract to determine whether the criteria in paragraph 606-10-25-1 are subsequently met.

**606-10-25-7** When a contract with a customer does not meet the criteria in paragraph 606-10-25-1 and an entity receives consideration from the customer, the entity shall recognize the consideration received as **revenue** only when **either one** of the following events has occurred:

- a. The entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is nonrefundable.
- b. The contract has been terminated, and the consideration received from the customer is nonrefundable.
- c. The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped transferring goods and services to the customer and has no obligation to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

**606-10-25-8** An entity shall recognize the consideration received from a customer as a liability until one of the events in paragraph 606-10-25-7 occurs or until the criteria in paragraph 606-10-25-1 are subsequently met (see paragraph 606-10-25-6). Depending on the facts and circumstances relating to the contract, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

## Amendments to Section 606-10-55

5. Amend paragraph 606-10-55-3 and add paragraphs 606-10-55-3A through 55-3C and their related heading, with a link to transition paragraph 606-10-65-1, as follows:

### Implementation Guidance and Illustrations

#### > Implementation Guidance

**606-10-55-3** This implementation guidance is organized into the following categories:

- a. ~~Performance obligations satisfied over time (paragraphs 606-10-55-4 through 55-15)~~ Assessing collectibility (paragraphs 606-10-55-3A through 55-3C)
- aa. **Performance obligations satisfied over time (paragraphs 606-10-55-4 through 55-15)**
- b. Methods for measuring progress toward complete satisfaction of a performance obligation (paragraphs 606-10-55-16 through 55-21)
- c. Sale with a right of return (paragraphs 606-10-55-22 through 55-29)



- d. Warranties (paragraphs 606-10-55-30 through 55-35)
- e. Principal versus agent considerations (paragraphs 606-10-55-36 through 55-40)
- f. Customer options for additional goods or services (paragraphs 606-10-55-41 through 55-45)
- g. Customers' unexercised rights (paragraphs 606-10-55-46 through 55-49)
- h. Nonrefundable upfront fees (and some related costs) (paragraphs 606-10-55-50 through 55-53)
- i. Licensing (paragraphs 606-10-55-54 through 55-65)
- j. Repurchase agreements (paragraphs 606-10-55-66 through 55-78)
- k. Consignment arrangements (paragraphs 606-10-55-79 through 55-80)
- l. Bill-and-hold arrangements (paragraphs 606-10-55-81 through 55-84)
- m. Customer acceptance (paragraphs 606-10-55-85 through 55-88)
- n. Disclosure of disaggregated revenue (paragraphs 606-10-55-89 through 55-91).

## **>> Assessing Collectibility**

**606-10-55-3A** Paragraph 606-10-25-1(e) requires an entity to assess whether it is **probable** that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to a **customer**. The assessment, which is part of identifying whether there is a contract with a customer, is based on whether the customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer. The objective of this assessment is to evaluate whether there is a substantive transaction between the entity and the customer, which is a necessary condition for the transaction to be accounted for under the revenue model in Topic 606.

**606-10-55-3B** The collectibility assessment in paragraph 606-10-25-1(e) is partly a forward-looking assessment. It requires an entity to use judgment and consider all of the facts and circumstances, including the entity's customary business practices and its knowledge of the customer, in determining whether it is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that the entity expects to transfer to the customer. The assessment is not necessarily based on the customer's ability and intention to pay the entire amount of consideration to which it will be entitled for the entire duration of the contract if the entity expects to stop transferring additional promised goods or services in the contract in the event that the customer fails to pay consideration when it is due.

**606-10-55-3C** When assessing whether a contract meets the criterion in paragraph 606-10-25-1(e), an entity should determine whether the contractual terms and its customary business practices indicate that the entity's exposure to credit risk is less than the entire consideration promised in the contract because the entity has

the ability to mitigate its credit risk. Examples of contractual terms or customary business practices that might mitigate the entity's credit risk include the following:

- a. Payment terms—In some contracts, payment terms limit an entity's exposure to credit risk. For example, a customer may be required to pay a portion of the consideration promised in the contract before the entity transfers promised goods or services to the customer. In those cases, any consideration that will be received before the entity transfers promised goods or services to the customer would not be subject to credit risk.
- b. The ability to stop transferring promised goods or services—An entity may limit its exposure to credit risk if it has the right to stop transferring further goods or services to a customer in the event that the customer fails to pay consideration when it is due. In those cases, an entity should assess only the collectibility of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer on the basis of the entity's rights and customary business practices. Therefore, if the customer fails to perform as promised and, consequently, the entity would respond to the customer's failure to perform by not transferring further goods or services to the customer, the entity would not consider the likelihood of payment for the promised goods or services that will not be transferred under the contract.

An entity's ability to repossess an asset previously transferred to the customer should not be considered when assessing the entity's ability to mitigate its exposure to credit risk.

6. Amend paragraphs 606-10-55-94, 606-10-55-96, and 606-10-55-98 and add the heading preceding paragraph 606-10-55-95 and add paragraphs 606-10-55-98A through 55-98S and their related headings, with a link to transition paragraph 606-10-65-1, as follows:

## > Illustrations

### > > Identifying the Contract

**606-10-55-94** Examples 1–4 illustrate the guidance in paragraphs 606-10-25-1 through 25-8 on identifying the contract. In addition, the following guidance is illustrated in these Examples:

- a. Paragraph 606-10-25-1(e) and paragraphs 606-10-55-3A through 55-3C on assessing collectibility (Example 1) The interaction of paragraph 606-10-25-1 with paragraphs 606-10-32-2 and 606-10-32-7 on estimating variable consideration (Examples 2 and 3) [Content moved to paragraph 606-10-55-94(b)]

- b. The interaction of paragraph 606-10-25-1 with paragraphs 606-10-32-2 and 606-10-32-7 on estimating variable consideration (Examples 2 and 3) **[Content moved from paragraph 606-10-55-94(a)]**  
~~Paragraph 606-10-55-65 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 4).~~  
**[Content moved to paragraph 606-10-55-94(c)]**
- c. Paragraph 606-10-55-65 on consideration in the form of sales-based or usage-based royalties on licenses of intellectual property (Example 4).  
**[Content moved from paragraph 606-10-55-94(b)]**

**> > > Example 1—Collectibility of the Consideration**

**> > > > Case A—Real Estate Developer**

**606-10-55-95** An entity, a real estate developer, enters into a contract with a customer for the sale of a building for \$1 million. The customer intends to open a restaurant in the building. The building is located in an area where new restaurants face high levels of competition, and the customer has little experience in the restaurant industry.

**606-10-55-96** The customer pays a nonrefundable deposit of \$50,000 at inception of the contract and enters into a long-term financing agreement with the entity for the remaining 95 percent of the promised consideration. The financing arrangement is provided on a nonrecourse basis, which means that if the customer defaults, the entity can repossess the building but cannot seek further compensation from the customer, even if the collateral does not cover the full value of the amount owed. The entity's cost of the building is \$600,000. The customer obtains legal title to, and physical possession of, control of the building at contract inception.

**606-10-55-97** In assessing whether the contract meets the criteria in paragraph 606-10-25-1, the entity concludes that the criterion in paragraph 606-10-25-1(e) is not met because it is not probable that the entity will collect substantially all of the consideration to which it is entitled in exchange for the transfer of the building. In reaching this conclusion, the entity observes that the customer's ability and intention to pay may be in doubt because of the following factors:

- a. The customer intends to repay the loan (which has a significant balance) primarily from income derived from its restaurant business (which is a business facing significant risks because of high competition in the industry and the customer's limited experience).
- b. The customer lacks other income or assets that could be used to repay the loan.
- c. The customer's liability under the loan is limited because the loan is nonrecourse.

**606-10-55-98** Because the criteria in paragraph 606-10-25-1 are not met, the entity applies paragraphs 606-10-25-7 through 25-8 to determine the accounting for the

nonrefundable deposit of \$50,000. The entity observes that none of the events described in paragraph 606-10-25-7 have occurred—that is, the entity has not received substantially all of the consideration, it has not satisfied its performance obligation to transfer control of the building to the customer (see paragraph 606-10-55-98A), and—~~it the contract has not been terminated the contract.~~ Consequently, in accordance with paragraph 606-10-25-8, the entity accounts for the nonrefundable \$50,000 payment as a deposit liability. The entity continues to account for the initial deposit, as well as any future payments of principal and interest, as a deposit liability and does not recognize a receivable until one of the events in paragraph 606-10-25-7 occurs or until the criteria in paragraph 606-10-25-1 are met. The entity does not derecognize the real estate asset until it transfers control of the asset to the customer. Also, ~~the entity does not recognize a receivable until such time that the entity concludes that the criteria in paragraph 606-10-25-1 are met (that is, the entity is able to conclude that it is probable that the entity will collect the consideration) or one of the events in paragraph 606-10-25-7 has occurred. The entity continues to assess the contract in accordance with paragraph 606-10-25-6 to determine whether the criteria in paragraph 606-10-25-1 are subsequently met or whether the events in paragraph 606-10-25-7 have occurred.~~ [Content moved to paragraph 606-10-55-98B]

**606-10-55-98A** The entity concludes that, in this arrangement, it has not transferred control of the building to the customer at the point in time the customer obtains legal title to, and physical possession of, the building on the basis of an evaluation of the indicators in paragraph 606-10-25-30. Despite obtaining legal title to, and physical possession of, the building at contract inception, the entity concludes that the transfer of title and the entity’s right to receive payments for the building from the customer are not substantive and that the customer has not taken on the significant risks and rewards of ownership of the asset, because there is no contract between the parties in accordance with paragraph 606-10-25-1.

**606-10-55-98B** The entity continues to assess the contract in accordance with paragraph 606-10-25-6 to determine whether the criteria in paragraph 606-10-25-1 are subsequently met or whether any of the events in paragraph 606-10-25-7 have occurred. In this Example, the entity might not conclude that a contract exists until substantially all of the consideration for the building is received. Alternatively, the entity might conclude a contract exists at some point before that if, for example, the conditions in paragraph 606-10-55-97(a) through (b) change and the customer has established a consistent payment history under the contract. When a substantive contract is subsequently determined to exist between the parties in accordance with this Topic, the entity concludes control of the building transfers to the customer. This is because, at that point in time, the entity concludes the transfer of legal title and its right to receive payment for the building are substantive in accordance with this Topic and that the customer has assumed the significant risks and rewards of building ownership. Because the entity has transferred control of the building to the customer, the entity derecognizes the building. In addition, because the criteria in paragraph 606-10-25-1 have now been met, the entity

recognizes revenue in accordance with the remainder of the guidance in this Topic. [Content moved from paragraph 606-10-55-98]

**> > > Case B—Service Provider 1**

**606-10-55-98C** An entity, a service provider, enters into a three-year service contract with a new customer of low credit quality at the beginning of a calendar month.

**606-10-55-98D** The transaction price of the contract is \$720, and \$20 is due at the end of each month. The standalone selling price of the monthly service is \$20.

**606-10-55-98E** The entity's history with this class of customer indicates that while the entity cannot conclude it is probable the customer will pay the transaction price of \$720, the customer will make the payments required under the contract for at least 6 months. If, during the contract term, the customer stops making the required payments, the entity's customary business practice is to limit its credit risk by not transferring further services to the customer after a customary grace period (which is typically about one month) and to pursue collection for the unpaid services.

**606-10-55-98F** In assessing whether the contract meets the criteria in paragraph 606-10-25-1, the entity assesses whether it is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. This includes assessing the entity's history with this class of customer in accordance with paragraph 606-10-55-3B and its business practice of stopping service in response to customer nonpayment in accordance with paragraph 606-10-55-3C. Consequently, as part of this analysis, the entity does not consider the likelihood of payment for services that would not be provided in the event of the customer's nonpayment because the entity is not exposed to credit risk for those services.

**606-10-55-98G** It is not probable that the entity will collect the transaction price (\$720) because of the customer's low credit rating. However, the entity expects the customer to make the required payments for a substantial period of time under the contract (that is, at least six months), and the entity has the ability and intention (as evidenced by its customary business practice) to stop providing services if the customer does not pay the promised consideration for services provided when it is due. Therefore, assuming the criteria in paragraphs 606-10-25-1(a) through (d) are met, the entity concludes that the contract is substantive and represents a valid and genuine transaction under this Topic because it is probable the customer will pay substantially all of the promised consideration to which the entity is entitled for the services it will provide to the customer (that is, for the services the entity will provide for as long as the customer continues to pay for the services provided plus the customary grace period). Consequently, the entity would apply the remaining guidance in this Topic to recognize revenue and only reassess whether the contract is valid or genuine if, in accordance with paragraph 606-10-25-5, there is a significant change in facts or circumstances such as the customer not making its required payments.

## **> > > Case C—Service Provider 2**

**606-10-55-98H** An entity, a service provider, enters into a one-year service contract with a new customer of low credit quality at the beginning of a calendar month.

**606-10-55-98I** The transaction price of the contract is \$240, and \$20 is due at the end of each month. The standalone selling price of the monthly service is \$20.

**606-10-55-98J** The entity's history with this class of customer indicates that there is a substantial risk the customer will not pay for services received from the entity, including the risk that the entity will never receive any payment for any services provided. If, during the contract term, the customer stops making the required payments, the entity's customary business practice is to limit its credit risk by not transferring further services to the customer after a customary grace period (which is typically about two to three months) and to pursue collection for the unpaid services. The entity is willing to take this risk with this class of customer, including providing a significant grace period relative to the duration of the contract, because the incremental cost of providing service to the customer is not significant and the fees it does collect from this class of customer are sufficient to make this risk acceptable to the entity.

**606-10-55-98K** In assessing whether the contract with the customer meets the criteria in paragraph 606-10-25-1, the entity assesses whether it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. This includes assessing the entity's history with this class of customer and its business practice of stopping service in response to the customer's nonpayment in accordance with paragraph 606-10-55-3C.

**606-10-55-98L** At contract inception, the entity concludes that the criterion in paragraph 606-10-25-1(e) is not met because it is not probable that the customer will pay substantially all of the consideration to which the entity is entitled under the contract for the services that will be provided. Subsequently, when the customer initially pays for a month of service, the entity accounts for the consideration received in accordance with paragraphs 606-10-25-7 through 25-8. The entity concludes that none of the events in paragraph 606-10-25-7 have occurred because the contract has not been terminated, the entity has not received substantially all of the consideration promised in the contract, and the entity is continuing to provide services to the customer.

**606-10-55-98M** In accordance with paragraph 606-10-25-6, the entity continues to assess the contract to determine whether the criteria in paragraph 606-10-25-1 are subsequently met. In making that evaluation, the entity considers, among other things, its experience with this customer. The customer has made the required payments when due for several months. On the basis of the customer's performance under the contract, the entity concludes that the criteria in 606-10-25-1 have been met, including the collectibility criterion in paragraph 606-10-25-1(e).

Once the criteria in paragraph 606-10-25-1 are met, the entity applies the remaining guidance in this Topic to recognize revenue.

#### **> > > Case D—Health Club Membership**

**606-10-55-98N** An entity, a health club, enters into a one-year membership with a customer of low credit quality. The transaction price of the contract is \$120, and \$10 is due at the beginning of each month. The standalone selling price of the monthly service is \$10.

**606-10-55-98O** On the basis of the customer's credit history and in accordance with the entity's customary business practice, the customer is required to pay each month before the entity provides the customer with access to the health club. In response to nonpayment, the entity's customary business practice is to stop providing service to the customer upon nonpayment. The entity does not have any exposure to credit risk because all payments are made in advance and the entity does not provide services unless the advance payment has been received.

**606-10-55-98P** The contract meets the criterion in paragraph 606-10-25-1(e) because it is probable the entity will collect the consideration to which it will be entitled in exchange for the services that will be transferred to the customer (that is, one month of payment in advance for each month of service).

#### **> > > Case E—Manufacturer**

**606-10-55-98Q** An entity, a manufacturer, enters into a contract with a customer of low credit quality to transfer 1,200 units of a single good. The transaction price for the contract is \$1,200,000 for the 1,200 units. That is, the customer has a contract to purchase 1,200 units from the entity in accordance with paragraph 606-10-25-2. The per-unit price of \$1,000 is equal to the standalone selling price of each unit.

**606-10-55-98R** The entity's history with this class of customer indicates that the entity expects to collect approximately 94 percent of the transaction price; however, the entity's customary business practice is to pursue full payment under the contract.

**606-10-55-98S** In assessing whether the contract meets the criteria in paragraph 606-10-25-1, the entity assesses whether it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods that will be transferred to the customer. Although it is not probable the entity will collect the full \$1,200,000 transaction price, it is probable the entity will collect substantially all of the consideration to which it will be entitled to in exchange for the goods that will be transferred to the customer. Therefore, the entity concludes that the contract meets the collectibility criterion in paragraph 606-10-25-1(e) and that the potential 6 percent underpayment does not change the conclusion that there is a valid and genuine contract between the parties.

### > > > Example 2—Consideration Is Not the Stated Price—Implicit Price Concession

**606-10-55-99** An entity sells 1,000 units of a prescription drug to a customer for promised consideration of \$1 million. This is the entity's first sale to a customer in a new region, which is experiencing significant economic difficulty. Thus, the entity expects that it will not be able to collect from the customer the full amount of the promised consideration. Despite the possibility of not collecting the full amount, the entity expects the region's economy to recover over the next two to three years and determines that a relationship with the customer could help it to forge relationships with other potential customers in the region.

**606-10-55-100** When assessing whether the criterion in paragraph 606-10-25-1(e) is met, the entity also considers paragraphs 606-10-32-2 and 606-10-32-7(b). Based on the assessment of the facts and circumstances, the entity determines that it expects to provide a price concession and accept a lower amount of consideration from the customer. Accordingly, the entity concludes that the transaction price is not \$1 million and, therefore, the promised consideration is variable. The entity estimates the variable consideration and determines that it expects to be entitled to \$400,000.

**606-10-55-101** The entity considers the customer's ability and intention to pay the consideration and concludes that even though the region is experiencing economic difficulty it is probable that it will collect \$400,000 from the customer. Consequently, the entity concludes that the criterion in paragraph 606-10-25-1(e) is met based on an estimate of variable consideration of \$400,000. In addition, based on an evaluation of the contract terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 606-10-25-1 are also met. Consequently, the entity accounts for the contract with the customer in accordance with the guidance in this Topic.

### > > > Example 3—Implicit Price Concession

**606-10-55-102** An entity, a hospital, provides medical services to an uninsured patient in the emergency room. The entity has not previously provided medical services to this patient but is required by law to provide medical services to all emergency room patients. Because of the patient's condition upon arrival at the hospital, the entity provides the services immediately and, therefore, before the entity can determine whether the patient is committed to perform its obligations under the contract in exchange for the medical services provided. Consequently, the contract does not meet the criteria in paragraph 606-10-25-1, and in accordance with paragraph 606-10-25-6, the entity will continue to assess its conclusion based on updated facts and circumstances.

**606-10-55-103** After providing services, the entity obtains additional information about the patient, including a review of the services provided, standard rates for such services, and the patient's ability and intention to pay the entity for the services provided. During the review, the entity notes its standard rate for the



services provided in the emergency room is \$10,000. The entity also reviews the patient's information and to be consistent with its policies designates the patient to a customer class based on the entity's assessment of the patient's ability and intention to pay. The entity determines that the services provided are not charity care based on the entity's internal policy and the patient's income level. In addition, the patient does not qualify for governmental subsidies.

**606-10-55-104** Before reassessing whether the criteria in paragraph 606-10-25-1 have been met, the entity considers paragraphs 606-10-32-2 and 606-10-32- 7(b). Although the standard rate for the services is \$10,000 (which may be the amount invoiced to the patient), the entity expects to accept a lower amount of consideration in exchange for the services. Accordingly, the entity concludes that the transaction price is not \$10,000 and, therefore, the promised consideration is variable. The entity reviews its historical cash collections from this customer class and other relevant information about the patient. The entity estimates the variable consideration and determines that it expects to be entitled to \$1,000.

**606-10-55-105** In accordance with paragraph 606-10-25-1(e), the entity evaluates the patient's ability and intention to pay (that is, the credit risk of the patient). On the basis of its collection history from patients in this customer class, the entity concludes it is probable that the entity will collect \$1,000 (which is the estimate of variable consideration). In addition, on the basis of an assessment of the contract terms and other facts and circumstances, the entity concludes that the other criteria in paragraph 606-10-25-1 also are met. Consequently, the entity accounts for the contract with the patient in accordance with the guidance in this Topic.

#### **> > > Example 4—Reassessing the Criteria for Identifying a Contract**

**606-10-55-106** An entity licenses a patent to a customer in exchange for a usage-based royalty. At contract inception, the contract meets all the criteria in paragraph 606-10-25-1, and the entity accounts for the contract with the customer in accordance with the guidance in this Topic. The entity recognizes revenue when the customer's subsequent usage occurs in accordance with paragraph 606-10-55-65.

**606-10-55-107** Throughout the first year of the contract, the customer provides quarterly reports of usage and pays within the agreed-upon period.

**606-10-55-108** During the second year of the contract, the customer continues to use the entity's patent, but the customer's financial condition declines. The customer's current access to credit and available cash on hand are limited. The entity continues to recognize revenue on the basis of the customer's usage throughout the second year. The customer pays the first quarter's royalties but makes nominal payments for the usage of the patent in quarters 2–4. The entity accounts for any impairment of the existing receivable in accordance with Topic 310 on receivables.

**606-10-55-109** During the third year of the contract, the customer continues to use the entity's patent. However, the entity learns that the customer has lost access to credit and its major customers and thus the customer's ability to pay significantly deteriorates. The entity therefore concludes that it is unlikely that the customer will be able to make any further royalty payments for ongoing usage of the entity's patent. As a result of this significant change in facts and circumstances, in accordance with paragraph 606-10-25-5, the entity reassesses the criteria in paragraph 606-10-25-1 and determines that they are not met because it is no longer probable that the entity will collect the consideration to which it will be entitled. Accordingly, the entity does not recognize any further revenue associated with the customer's future usage of its patent. The entity accounts for any impairment of the existing receivable in accordance with Topic 310 on receivables.

## Issue 2: Presentation of Sales Taxes and Other Similar Taxes Collected from Customers

7. The following amendments add an accounting policy election to permit an entity to exclude all sales (and other similar) taxes from the measurement of the transaction price.

### Amendments to Section 606-10-32

8. Add paragraph 606-10-32-2A, with a link to transition paragraph 606-10-65-1, as follows:

#### Measurement

##### > Determining the Transaction Price

**606-10-32-2** An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

**606-10-32-2A** An entity may elect to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process shall be excluded from the scope of the election. An entity that makes this election shall exclude from the transaction price

all taxes in the scope of the election and shall comply with the applicable accounting policy guidance, including the disclosure requirements, in paragraphs 235-10-50-1 through 50-6.

## Issue 3: Noncash Consideration

9. The following amendments specify that the fair value of noncash consideration is measured at contract inception. The amendments also address the application of the guidance on variable consideration when the fair value of noncash consideration varies because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer) and for reasons other than the form of the consideration (for example, the exercise price of a share option changes because of the entity's performance). The amendments clarify that in those situations an entity should apply the guidance on variable consideration only to the variability resulting from reasons other than the form of the consideration.

## Amendments to Section 606-10-32

10. Amend paragraphs 606-10-32-21 and 606-10-32-23, with a link to transition paragraph 606-10-65-1, as follows:

### Measurement

#### > Determining the Transaction Price

##### > > Noncash Consideration

**606-10-32-21** To determine the **transaction price** for **contracts** in which a **customer** promises consideration in a form other than cash, an entity shall measure the fair value of the noncash consideration at contract inception ~~(or promise of noncash consideration) at fair value.~~

**606-10-32-22** If an entity cannot reasonably estimate the fair value of the noncash consideration, the entity shall measure the consideration indirectly by reference to the **standalone selling price** of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

**606-10-32-23** The fair value of the noncash consideration may vary after contract inception because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). Changes in the fair value of noncash consideration after contract inception that are due to the form of the consideration are not included in the transaction price. If the fair value of the noncash consideration promised by a customer varies for reasons

~~other than only the form of the consideration (for example, the exercise price of a share option changes the fair value could vary because of the entity's performance), an entity shall apply the guidance on variable consideration in paragraphs 606-10-32-11 through 32-13 606-10-32-5 through 32-14. If the fair value of the noncash consideration varies because of the form of the consideration and for reasons other than the form of the consideration, an entity shall apply the guidance in paragraphs 606-10-32-5 through 32-9 and paragraphs 606-10-32-11 through 32-14 on variable consideration only to the variability resulting from reasons other than the form of the consideration.~~

**606-10-32-24** If a customer contributes goods or services (for example, materials, equipment, or labor) to facilitate an entity's fulfillment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as noncash consideration received from the customer.

## Amendments to Section 606-10-55

11. Amend paragraph 606-10-55-250, with a link to transition paragraph 606-10-65-1, as follows:

### Implementation Guidance and Illustrations

#### > Illustrations

#### > > Noncash Consideration

#### > > > Example 31—Entitlement to Noncash Consideration

**606-10-55-248** An entity enters into a contract with a customer to provide a weekly service for one year. The contract is signed on January 1, 20X1, and work begins immediately. The entity concludes that the service is a single performance obligation in accordance with paragraph 606-10-25-14(b). This is because the entity is providing a series of distinct services that are substantially the same and have the same pattern of transfer (the services transfer to the customer over time and use the same method to measure progress—that is, a time-based measure of progress).

**606-10-55-249** In exchange for the service, the customer promises 100 shares of its common stock per week of service (a total of 5,200 shares for the contract). The terms in the contract require that the shares must be paid upon the successful completion of each week of service.

~~**606-10-55-250** The entity measures its progress toward complete satisfaction of the performance obligation as each week of service is complete. To determine the transaction price (and the amount of revenue to be recognized), the entity~~

measures the fair value of 5,200~~400~~ shares at contract inception (that is, on January 1, 20X1) that are received upon completion of each weekly service. The entity does not reflect any subsequent changes in the fair value of the shares after contract inception received (or receivable) in revenue. Rather, the entity references the GAAP related to the form of the noncash consideration received in order to determine whether and how any subsequent changes in fair value should be recognized. The entity measures its progress toward complete satisfaction of the performance obligation and recognizes revenue (on the basis of the 1/1/X1 fair value of 5,200 shares) as each week of service is complete.

## Issue 4: Contract Modifications at Transition, Completed Contracts at Transition, and Technical Correction

12. The following amendments provide a practical expedient to the accounting for contract modifications at transition, clarify the definition of a completed contract at transition, and eliminate the requirement to provide certain transition disclosures that otherwise would be required by Topic 250, Accounting Changes and Error Corrections.

### Amendments to Section 606-10-65

13. Amend paragraph 606-10-65-1 as follows:

#### **Transition and Open Effective Date Information**

**> Transition Related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)**

**606-10-65-1** The following represents the transition and effective date information related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606):

- a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.
- b. All other entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. However, all other entities may elect

to apply the pending content that links to this paragraph earlier only as of either:

1. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period.
  2. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the pending content that links to this paragraph.
  3. Subparagraph superseded by Accounting Standards Update No. 2015-14.
- c. For the purposes of the transition guidance in (d) through (i):
1. The date of initial application is the start of the reporting period in which an entity first applies the pending content that links to this paragraph.
  2. A completed **contract** is a contract for which ~~the entity has transferred all of the goods or services identified all (or substantially all) of the revenue~~ was recognized in accordance with ~~{remove glossary link}~~revenue~~{remove glossary link}~~ guidance that is in effect before the date of initial application.
- d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
1. Retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 subject to the expedients in (f).
  2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (h) through (i).
- e. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-3 in the period of adoption, except as follows. An entity need not disclose the effect of the changes on the current period, which otherwise would be required by paragraph 250-10-50-1(b)(2). However, an entity shall disclose the effect of the changes on any prior periods that have been retrospectively adjusted.
- f. An entity may use one or more of the following practical expedients when applying the pending content that links to this paragraph retrospectively in accordance with (d)(1):
1. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
  2. For completed contracts that have variable consideration, an entity may use the **transaction price** at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
  3. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction

price allocated to the remaining **performance obligations** and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 606-10-50-13).

4. An entity need not separately evaluate the effects of contract modifications before the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph. An entity shall determine the transaction price of the contract considering all satisfied and unsatisfied performance obligations from contract inception to the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph. An entity shall perform a single allocation of the transaction price to each identified performance obligation on the basis of an estimate of the relative standalone selling price of each performance obligation. The transaction price allocated to an unsatisfied performance obligation shall be recognized as revenue when (or as) the performance obligation is subsequently satisfied (see paragraphs 606-10-25-23 through 25-37). An entity shall apply the guidance in paragraphs 606-10-25-10 through 25-13 to contract modifications after the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph.
- g. For any of the practical expedients in (f) that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
1. The expedients that have been used
  2. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
- h. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(2), the entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity ~~shall~~ may elect to apply this guidance retrospectively either to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018, for an entity with a December 31 year-end). Under this transition method, an entity may apply the practical expedient for contract modifications in (f)(4). If an entity applies the practical expedients for completed contracts or contract modifications, it shall comply with the guidance in (g).
- i. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if the pending content that links to this paragraph is applied retrospectively in accordance with (d)(2):

1. The amount by which each financial statement line item is affected in the current reporting period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change
2. An explanation of the reasons for significant changes identified in (i)(1).

*The amendments in this proposed Update were approved for publication by five members of the Financial Accounting Standards Board. Messrs. Kroeker and Schroeder voted against publication of the amendments. Their alternative views are set out at the end of the basis for conclusions.*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith



# Background Information, Basis for Conclusions, and Alternative Views

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

## Background Information

BC2. On May 28, 2014, the FASB issued Update 2014-09 and the IASB issued IFRS 15 (collectively, the new revenue standard). The new revenue guidance is largely converged for GAAP and IFRS. In June 2014, the FASB and the IASB announced the formation of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG). One of the objectives of the TRG is to inform the Boards about potential implementation issues that could arise when organizations implement the new revenue standard. The TRG also assists stakeholders in understanding specific aspects of the new revenue standard. The TRG does not issue authoritative guidance. Instead, the Boards evaluate the feedback received from the TRG and other stakeholders to determine what action, if any, is necessary for each potential implementation issue.

BC3. The issues described in this proposed Update were discussed at TRG meetings in 2014 and 2015. Presentation of sales taxes and other similar taxes collected from customers was discussed on July 18, 2014, collectibility, noncash consideration, and contract modifications were discussed on January 26, 2015, and completed contracts at transition was discussed on July 13, 2015. The Boards learned from the discussions about potential challenges in applying those aspects of Topic 606. Following the TRG meetings, the FASB and the IASB directed their respective staffs to perform additional research and outreach on those topics. The focus of the additional research and outreach was to understand whether there were specific improvements each Board could make that would assist stakeholders with consistent application of the new revenue standard and that would reduce the cost and complexity of implementation.

BC4. The FASB's proposed amendments on collectibility, sales taxes and other similar taxes, noncash consideration, and completed contracts at transition were not addressed in the IASB's Exposure Draft, *Clarifications to IFRS 15*, nor were similar amendments. The IASB has proposed the same amendments as the FASB on contract modifications at transition in its Exposure Draft, which was issued on July 30, 2015. In addition to the amendments proposed by the FASB,

the IASB also is proposing a practical expedient for considering completed contracts when an entity elects the retrospective method of transition. The FASB concluded that the benefits of a converged standard on revenue would be diminished if there is significant diversity in applying the standard. Therefore, the benefits of a converged standard would be enhanced by amending Topic 606 to promote greater consistency in application by enhancing the operability and understandability of the guidance before it becomes effective as long as the financial reporting outcomes of applying Topic 606 and IFRS 15 are reasonably consistent, even if the articulation of the guidance in GAAP and IFRS would not be identical. The Board expects that the amendments in this proposed Update will help reduce the cost and complexity of implementation by enhancing the operability and understandability of the guidance.

## Scope

BC5. The scope of the proposed guidance is the same as Topic 606 (see paragraphs 606-10-15-1 through 15-5). The amendments in this proposed Update that affect the recognition or measurement provisions of Topic 606 also affect the accounting for transfers of nonfinancial assets that are not an output of an entity's ordinary activities in the scope of Topic 610, Other Income, because Topic 610 relies upon the guidance in paragraphs 606-10-25-1 through 25-8, some of which are being amended in this proposed Update.

## Assessing the Collectibility Criterion in Paragraph 606-10-25-1(e) and Accounting for Contracts That Do Not Meet the Criteria for Step 1 (Applying Paragraph 606-10-25-7)

BC6. At its January 26, 2015 meeting, the TRG discussed an implementation question raised by stakeholders about how to apply the collectibility criterion in Step 1 on identifying a contract with a customer in instances in which an entity has received nonrefundable consideration from a customer with poor credit quality. The discussion focused on different interpretations of the following:

- a. How to apply the collectibility criterion in paragraph 606-10-25-1(e) if the consideration promised in the contract is not probable of collection
- b. When to recognize revenue in accordance with paragraph 606-10-25-7 for nonrefundable consideration received from the customer when the contract does not meet the criteria in paragraph 606-10-25-1 for identifying the contract with the customer.

## Assessing the Collectibility Criterion in Paragraph 606-10-25-1(e)

BC7. In assessing whether it is probable that an entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to a customer, some stakeholders have interpreted the guidance in Topic 606 to mean that the entity always should assess the probability of collecting all of the consideration promised in the contract. Under this interpretation, some contracts with customers that have poor credit would not meet the criterion in paragraph 606-10-25-1(e) even though they, otherwise, are valid and genuine contracts. Other stakeholders have asserted that those contracts might be valid and genuine because the entity has the ability to protect itself from credit risk (for example, the entity might stop transferring additional goods or services to the customer if the customer fails to pay the consideration when due). The financial reporting outcome from the first interpretation is inconsistent with the Board's intention.

BC8. The Boards believe that many contracts would not fail the criterion in paragraph 606-10-25-1(e). Paragraph BC44 of Update 2014-09 states:

In addition, the Boards observed that in most transactions, an entity would not enter into a contract with a customer in which there was significant credit risk associated with that customer without also having adequate economic protection to ensure that it would collect the consideration. Consequently, the Boards decided that there would not be a significant practical effect of the different meaning of the same term [*probable*] because the population of transactions that would fail to meet the criterion in paragraph 606-10-25-1(e) would be small.

BC9. Paragraph 606-10-25-1(e) states that an entity should consider the probability of collecting substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to a customer. The phrase *will be transferred* was not intended to mean the transfer of *all* promised goods or services but rather the goods or services that will be transferred based on the customary business practices of the entity in dealing with its exposure to the customer's credit risk throughout the contract. This partially forward-looking assessment requires the entity to consider the relative position of the entity's contractual rights to the consideration and the entity's performance obligations in addition to evaluating a customer's credit and payment history. For example, the entity could stop providing goods or services to the customer or could require advance payments. This is consistent with the Board's reasoning in paragraph BC46 of Update 2014-09:

In addition, the Boards specified in paragraph 606-10-25-1(e) that an entity should only assess the consideration to which it will be entitled in exchange for the goods or services that will be

transferred to a customer. Therefore, if the customer were to fail to perform as promised and consequently the entity would respond to the customer's actions by not transferring any further goods or services to the customer, the entity would not consider the likelihood of payment for those goods or services that would not be transferred.

BC10. As described in paragraph BC43 of Update 2014-09, the purpose of the assessment in Step 1 is to determine whether a contract is valid and represents a genuine transaction. Expressed another way, if it is not probable the customer will fulfill its obligations under the contract, then there is a question about the validity of the contract and whether the revenue-generating transaction is substantive. To clarify how it intended the guidance in paragraph 606-10-25-1(e) to be applied, the Board decided to include implementation guidance and illustrative examples about how an entity should assess collectibility. The guidance in this proposed Update would clarify that the collectibility assessment may be based on a portion of the consideration promised in the contract (that is, the portion to which the entity will be entitled in exchange for the goods or services that *will be transferred* to the customer). Therefore, the collectibility criterion is an assessment of whether the customer has the ability and intention to pay substantially all of the promised consideration to which the entity will be entitled in exchange for the goods or services that will be transferred to the customer, not all of the goods or services promised to the customer in the contract. The Board also decided to clarify that a contract may represent a valid and genuine transaction even if it is not probable the entity will collect 100 percent of the promised consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. If, as in Example 1, Case E, an entity expects to collect substantially all of the promised consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer, the contract would still represent a substantive (that is, valid and genuine) transaction.

BC11. An entity should not apply the other guidance in Topic 606 on the basis of the goods or services that will be transferred to the customer; the notion of the "goods and services that will be transferred to the customer" exists only for the purposes of identifying the contract with the customer to evaluate the criterion in paragraph 606-10-25-1(e). An entity should not apply that notion to the other aspects of Topic 606, such as identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations, and recognizing revenue. That is, once a contract is determined to exist for the purposes of Topic 606, the remainder of the guidance in Topic 606 should be applied to the contract.

BC12. This difference in perspective arises because the core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of *promised goods or services* to a customer in an amount that reflects the consideration to which the entity *expects* to be entitled in exchange for those goods or services. In assessing the criterion in paragraph 606-10-25-1(e), the entity considers its

exposure to credit risk on the basis of the consideration to which it expects to be entitled for *those* goods and services that *will* be transferred to the customer for the purpose of determining whether a transaction is valid and genuine. That is, the entity considers whether a substantive contract with a customer exists for the purposes of applying the revenue model in Topic 606, regardless of whether a legal contract exists. Therefore, the assessment considers the entity's exposure to nonpayment for goods or services that the entity's rights, obligations, and business practices suggest that the entity will transfer to the customer.

BC13. The assessment of collectibility does not include an entity's ability to repossess an asset transferred to a customer. This is because the ability to repossess an asset does not mitigate an entity's exposure to its customer's credit risk for the consideration promised in the contract. An entity's ability to repossess an asset transferred to a customer might, however, affect its assessment of when or whether control of the asset transfers to the customer in some arrangements.

BC14. The guidance in paragraphs 606-10-25-2 through 25-4 is relevant after an entity determines that a transaction meets the criteria in paragraph 606-10-25-1 (that is, after an entity determines that a contract with a customer exists). Those paragraphs relate to the enforceable rights and obligations between an entity and a customer in the contract the entity accounts for under Topic 606.

BC15. In reaching its decision to clarify the guidance on collectibility in this proposed Update, the Board considered, but rejected, adopting an alternative approach to collectibility in Topic 606 that would have considered collectibility when recognizing revenue under a contract rather than in determining whether a contract with a customer exists (that is, that whether the arrangement is substantive). This alternative would have been similar to the cash basis of revenue recognition that was applied in practice under previous GAAP when persuasive evidence of an arrangement existed, delivery occurred or services were rendered, and a seller's price to a buyer was fixed or determinable, but collectibility was not reasonably assured. While this approach was supported by some Board members, the majority of the Board rejected this alternative because it would have been a substantial change to the revenue model in Topic 606 and would have been a significant departure from the guidance on collectibility in IFRS 15.

BC16. The Board also rejected an approach that would have changed the threshold in paragraph 606-10-25-1(e) for assessing collectibility. In both the GAAP and the IFRS versions of the new revenue standard, the criterion in paragraph 606-10-25-1(e) requires that "it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer." In issuing the new revenue guidance, the Boards noted that the term *probable* has different meanings under GAAP and IFRS. In Topic 606, probable is defined as "the future event or events are likely to occur." Under IFRS, probable is defined as "more likely than not." The Boards noted that using the same term, but with different meanings, in GAAP and IFRS could result in accounting that is not converged when determining whether the

criterion in paragraph 606-10-25-1(e) is met. However, the Boards noted that the term *probable* was used in some of the collectibility thresholds in their previous revenue recognition guidance, and both Boards wanted to maintain consistency with that guidance. The term *reasonably assured* also was used in collectibility thresholds in some parts of legacy GAAP. However, in this context, the FASB understood that, in practice, the terms *probable* and *reasonably assured* were applied similarly.

BC17. The Board considered that a change in the threshold to “more likely than not” might be viewed by stakeholders as an improvement over the issued standard because it would reduce the population of contracts for which no revenue is recognized despite the fact that (a) the entity has transferred a good or service to the customer and (b) the customer has paid nonrefundable consideration. In addition, the Board considered feedback from some stakeholders that a collectibility threshold set at that level might be more conceptually consistent with the objective of considering collectibility in Step 1 of the revenue model, that is, to identify nonsubstantive arrangements. Those stakeholders have suggested that a contract in which the customer is less likely to pay than it is likely to pay may, in fact, be nonsubstantive. However, in contrast, if a customer is more likely than not to pay, but still not “likely to pay,” that may be less supportive of the contract being nonsubstantive. Furthermore, lowering the collectibility threshold to “more likely than not” would increase convergence with IFRS because both Topic 606 and IFRS 15 would have the same collectibility threshold. Although the Board rejected this approach in this proposed Update, the Board has included a question on this topic to solicit feedback on whether the Board should reconsider amending the collectibility threshold from *probable* to *more likely than not* during redeliberations of this proposed Update.

## Accounting for Contracts That Do Not Meet the Criteria for Step 1 (Applying Paragraph 606-10-25-7)

BC18. The assessment of when a contract meets the alternate recognition criteria in paragraph 606-10-25-7 affects when an entity recognizes revenue for consideration received in a contract that does not meet the criteria in paragraph 606-10-25-1 (that is, the contract is nonsubstantive). Since the issuance of Topic 606, and in some of the TRG discussions about collectibility, some stakeholders have asserted that the accounting outcomes resulting from the alternate recognition model do not appropriately reflect the economics of the transactions in some cases. This is because it prevents recognition of revenue and results in the recognition of a deposit liability in some cases if the entity has (a) received a payment that is nonrefundable and (b) completed the performance for which it received that nonrefundable payment.

BC19. The alternate recognition model in paragraph 606-10-25-7 applies when the entity concludes, based on the criteria in paragraph 606-10-25-1, that no contract (or only a nonsubstantive contract) exists between the entity and the

customer for the purposes of Topic 606. While some stakeholders do not support the accounting outcomes that result in some cases, the alternate recognition model is the logical extension of the conclusion that a valid and genuine contract does not exist between the entity and the customer. Any cash received by the entity is deferred until either (a) a contract comes into effect or (b) the criteria in paragraph 606-10-25-7 are met because if there is not a substantive contract between the parties, there can be no assurance that the payments received from the customer are solely for past performance.

BC20. In addition to some stakeholders' concerns about the accounting outcomes, other stakeholders have raised questions about applying the alternate recognition model. In particular, some stakeholders have questioned when a contract would meet the contract termination criterion in paragraph 606-10-25-7(b). An entity sometimes pursues collection for a significant period of time after control has transferred for the goods or services already provided to the customer and, in order to maintain its legal rights under the contract, does not terminate the contract. Therefore, some stakeholders have asserted that nonrefundable consideration received from the customer might be recognized as a liability for a significant period of time during the period that an entity pursues collection, although the entity may have stopped transferring promised goods or services to a customer and has no further obligations to transfer goods or services to the customer.

BC21. In response to those concerns, the Board decided to add criterion (c) to paragraph 606-10-25-7, which would clarify that revenue in the amount of nonrefundable consideration received should be recognized when the entity has transferred the goods or services to the customer to which the consideration relates and the entity has stopped transferring additional goods and services and has no obligation to transfer additional goods or services. The Board decided to add this criterion because it was not the Board's intention that revenue should remain unrecognized when those conditions were met solely because the entity has not legally terminated the contract with the customer so that it can continue to pursue collection (or its other rights) under the contract. This additional criterion that is applicable to the alternate recognition model would apply when any of the criteria in paragraph 606-10-25-1 have not be met. This proposed amendment to the alternative recognition model is not equivalent to a "cash basis" of accounting because in order to meet this new criterion, the entity must either stop transferring goods or services to the customer (and have no obligation to transfer further goods or services to the customer) or not have any additional promised goods or services to transfer.

BC22. The assessment of whether paragraph 606-10-25-7(c) has been met will require judgment of the specific facts and circumstances. For example, an entity's right to stop, and process to stop, transferring goods or services may vary for different types of arrangements or vary by jurisdiction.

BC23. In deciding to add the event in paragraph 606-10-25-7(c), the Board considered that its addition might affect the applicability of the event in paragraph 606-10-25-7(a). That is, as the formulation of the event in paragraph 606-10-25-7(c) has developed, the Board has observed that it may never be the case that the event in paragraph 606-10-25-7(a) would occur before the event in (c). The Board decided not to remove event (a) from paragraph 606-10-25-7 at this time because that event is included in the alternate recognition guidance in IFRS 15 and because the Board wants to consider feedback on the amendments in this proposed Update.

BC24. During the drafting process of the amendments in this proposed Update, some stakeholders raised concerns about whether the proposed additional criterion in paragraph 606-10-25-7(c) would result in an entity derecognizing a significant asset (for example, a building or piece of equipment) even though the entity is unable to recognize a significant portion of the transaction price as revenue for that asset. In other words, those stakeholders asked whether the proposed amendments would require an entity, in some cases, to recognize a significant upfront loss. In deliberating the amendments in this proposed Update, the Board observed that the concept of control in Topic 606 is directly linked, and intentionally derived from, the concept of control of an asset in Concepts Statement No. 6, *Elements of Financial Statements*. Therefore, there is a direct correlation between when an entity determines it has transferred control of an asset to a customer in accordance with paragraph 606-10-25-30 and when it, therefore, should derecognize that asset. Once the buyer controls the asset (that is, it has obtained control of the asset from the entity), the entity no longer controls that asset and should no longer recognize the asset. The timing of derecognition of an asset is not a function of whether all or a portion of the revenue for completing the sale of that asset is constrained for a reason unrelated to the entity not having yet satisfied its performance obligation by transferring control of the asset to the customer (for example, uncertainty as to the transaction price due to variable consideration or uncertainty about collectibility). The amendments in this proposed Update would not have any effect on determining whether control of an asset has been transferred and, therefore, should not affect conclusions about when an asset should be derecognized.

## Presentation of Sales Taxes and Other Similar Taxes Collected from Customers

BC25. The guidance on determining the transaction price in Update 2014-09 specifies that the transaction price is the amount of consideration an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). Paragraph BC187 in Update 2014-09 explains that the Boards decided that the measurement of the transaction price does not include amounts collected on behalf of another party such as some sales taxes and value added



taxes in some jurisdictions. Excluding amounts collected in an agency capacity that ultimately will be remitted to a third party is consistent with other Sections in Topic 606 on principal versus agent considerations.

BC26. The existing guidance in Topic 606 requires an entity to analyze sales (and other similar) tax laws on a jurisdiction-by-jurisdiction basis to determine whether to include or exclude those taxes from the transaction price. At its July 18, 2014 meeting, the TRG discussed the guidance and noted that an entity should apply the principal versus agent implementation guidance to help an entity distinguish between when the entity is acting as an agent for tax amounts collected (and, thus, would exclude that amount from revenue) and when the entity is primarily obligated for payment of the tax (and, thus, would include that amount in revenue and costs). However, the Board learned from those discussions of stakeholders' concerns about the cost and complexity of assessing tax laws in each jurisdiction because many entities operate in numerous jurisdictions and because the laws in some jurisdictions are unclear about which party to the transaction is primarily obligated for payment of the taxes. Stakeholders also stated that the variation of, and changes in, tax laws among jurisdictions contributes to that complexity. Therefore, some preparers and practitioners requested that the Board add to Topic 606 an accounting policy election for sales (and other similar) tax presentation to reduce the complexity and practical difficulties in assessing whether a tax within the scope of the policy election is collected on behalf of a third party.

BC27. The FASB performed outreach with financial statement users to evaluate the request for an accounting policy election and to evaluate alternatives for sales (and other similar) tax presentation. Most users reported that presentation of all sales taxes and other similar taxes on a net basis (that is, excluded from both revenues and costs) would provide the most useful financial information.

BC28. On the basis of stakeholders' feedback, the Board decided to permit an entity to elect to exclude sales taxes and other similar taxes from the measurement of the transaction price. If an entity elects to exclude sales taxes and other similar taxes from the measurement of the transaction price, the entity would make that election for all sales taxes in the scope of the policy election.

BC29. The Board decided that the scope of the election for taxes would be the same scope as existing GAAP in Subtopic 605-45, Revenue Recognition—Principal Agent Considerations, because the scope of the existing guidance is well established in practice. That scope does not include taxes imposed on an entity's gross receipts or the inventory procurement process.

BC30. If an entity elects not to present all taxes within the scope of the policy election on a net basis, then the entity would apply the guidance on determining the transaction price in paragraph 606-10-32-2 and would consider the principal versus agent guidance in paragraphs 606-10-55-36 through 55-40 to determine

whether amounts collected from customers for those taxes should be included in the transaction price.

## Noncash Consideration

BC31. The TRG discussed two potential implementation issues on the noncash consideration guidance in Topic 606 at its January 26, 2015 meeting. The Board learned from that discussion about potential challenges with consistent application of the guidance in Topic 606 for determining the measurement date of noncash consideration and for constraining estimates of variable consideration when the fair value of noncash consideration varies because of the form of the consideration and for reasons other than the form of consideration. After the TRG meeting, the Board performed additional research and outreach on noncash consideration. The focus of the additional research and outreach was to understand whether there were specific improvements that the Board could make that would assist stakeholders in consistently applying Topic 606.

BC32. The guidance in paragraphs 606-10-32-21 through 32-22 and 606-10-55-248 through 55-250 states that noncash consideration is measured at fair value (or by reference to the standalone selling price of the goods or services promised to the customer if an entity cannot reasonably estimate fair value). However, stakeholders observed that the guidance in Topic 606 on the measurement date for noncash consideration is unclear. Specifically, stakeholders indicated that the guidance in paragraph 606-10-55-250 could be interpreted to mean that the measurement date for noncash consideration is one or more of several dates (for example, contract inception or as the noncash consideration is received over time). Accordingly, the Board decided to clarify the guidance in Topic 606 to require that noncash consideration be measured at contract inception.

BC33. The Board concluded that the measurement date of the transaction price should not vary on the basis of the nature of the promised consideration. The Board indicated that measuring noncash consideration at contract inception is consistent with the guidance in Topic 606 for determining the transaction price and for allocating the transaction price to performance obligations. For example, paragraph 606-10-32-19 requires that the transaction price be adjusted for a significant financing component using the discount rate that would be reflected in a separate financing transaction between an entity and its customer at contract inception. Paragraph 606-10-32-31 states that the transaction price is allocated to the identified performance obligations in a contract on the basis of the standalone selling prices of the goods or services at contract inception. Additionally, the Board observed that the approach typically would be less costly and complex to apply in practice than other alternatives, such as a requirement to remeasure noncash consideration each period until the noncash consideration is received (or receivable).

BC34. If an entity performs by transferring goods or services to a customer before the customer pays the noncash consideration or before payment of the noncash consideration is due, the entity is required to present the noncash consideration as a contract asset, excluding any amounts presented as a receivable. An entity should assess the contract asset for impairment in accordance with Topic 310, Receivables (see paragraph 606-10-45-3). Once recognized, the noncash consideration should be measured and accounted for in accordance with other relevant guidance (for example, Topic 320, Investments—Debt and Equity Securities).

BC35. Stakeholders observed that the guidance in Topic 606 is unclear about whether the variable consideration guidance in paragraphs 606-10-32-5 through 35-9 and paragraphs 606-10-32-11 through 32-14 applies in circumstances in which the fair value of noncash consideration varies both because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer) and for reasons other than the form of consideration (for example, a change in the exercise price of a share option because of the entity's performance). Specifically, stakeholders indicated that the guidance in paragraph 606-10-32-23 could be interpreted to mean that the variable consideration guidance applies to variability resulting both from the form of the consideration and for reasons other than the form of consideration or that it applies only to variability resulting from other than the form of the consideration. Accordingly, the Board decided to clarify that the variable consideration guidance applies only to variability resulting from other than the form of consideration.

BC36. The Board indicated that the variable consideration guidance should be applied to the same types of variability regardless of the form of consideration. The Board observed that applying the variable consideration guidance to variability resulting both from the form of the consideration and for reasons other than the form of consideration might not provide users of financial statements with useful information because the timing of revenue recognition might differ for similar transactions that are settled in different forms of consideration (for example, cash and shares). Additionally, the Board observed that including a minor performance condition that affects the amount of consideration in a contract could significantly affect the amount of noncash consideration subject to the constraint on variable consideration if the constraint was applied to variability resulting both from the form of the consideration and for reasons other than the form of consideration. For example, an arrangement might include a performance condition that, if achieved, decreases the exercise price of a share option by a minor amount. If the constraint was applied to variability resulting both from the form of the consideration and for reasons other than the form of the consideration, the entire amount of noncash consideration in this example would be subject to the constraint. Conversely, if the arrangement excluded the minor performance condition, none of the noncash consideration would be subject to the constraint because changes in the fair value would vary due only to its form.

# Contract Modifications at Transition, Completed Contracts at Transition, and Technical Correction

## Contract Modifications at Transition

BC37. The TRG discussed a potential implementation issue related to the guidance in Topic 606 for contract modifications at transition at its January 26, 2015 meeting. The Board learned from that discussion about potential practical challenges with applying the contract modification guidance in Topic 606 at transition. After the TRG meeting, the Board directed its staff to perform additional research and outreach to understand whether there was a specific expedient (or expedients) that the Board could provide to address some of the practical challenges raised by stakeholders.

BC38. Paragraph 606-10-65-1 specifies that the guidance in Topic 606 should be applied either retrospectively to each reporting period presented or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. Paragraphs 606-10-25-10 through 25-13 specify the accounting for contract modifications. Some stakeholders observed that the frequency of contract modifications for some organizations might make a separate evaluation of each contract modification before the adoption of Topic 606 complex and costly, regardless of the transition method selected. Accordingly, the Board decided to provide a practical expedient to reduce the cost of implementing Topic 606.

BC39. The Board discussed several potential practical expedients. One expedient would have permitted an entity to account for the unsatisfied performance obligations in a modified contract at transition as if there was a termination of the original contract and the creation of a new contract as of the transition date. Another expedient would have permitted an entity to account for a modified contract by determining the transaction price for all satisfied and unsatisfied performance obligations from contract inception and performing a single allocation of the transaction price to each identified performance obligation on the basis of an estimate of the relative standalone selling price of each performance obligation.

BC40. The Board believes that accounting for only the unsatisfied performance obligations in a modified contract at transition might significantly reduce the cost and complexity of applying the contract modification guidance by eliminating the need to evaluate the effects of modifications taking place before transition. The Board believes that determining the transaction price for all satisfied and unsatisfied performance obligations from contract inception and performing a single allocation of the transaction price to each identified performance obligation on the basis of an estimate of the relative standalone selling price of each performance obligation may not significantly reduce the cost and complexity of

applying the contract modification guidance for some entities. It would, however, provide some level of relief by not requiring an entity to separately evaluate the effects of contract modifications before the beginning of the earliest reporting period presented. It also would provide financial information that more closely aligns with the financial information that otherwise would have been presented absent the use of an expedient. The Board considered permitting an entity to account for the unsatisfied performance obligations in a modified contract at transition. However, the Board decided to permit an entity to determine the transaction price and allocate the transaction price on the basis of all satisfied and unsatisfied performance obligations in a modified contract from contract inception so that its decision on the IASB's tentative decision would converge. The Board decided that the expedient should be applied at the beginning of the earliest reporting period presented in accordance with Topic 606.

BC41. The Board also discussed a third potential expedient that was not mutually exclusive of the other two potential expedients. The third potential expedient would have permitted an entity electing to apply the guidance in Topic 606 retrospectively to each reporting period presented to apply the guidance in Topic 606 only to contracts that are not completed contracts as of the beginning of the earliest period presented. That is, an entity would not have been required to apply the new revenue standard to contracts for which the entity has transferred all of the goods and services identified in accordance with GAAP that is in effect before the beginning of the earliest period presented. A similar expedient currently exists for entities electing the modified retrospective approach. The Board decided not to add this expedient to the transition guidance in Topic 606 because it concluded that application of the expedient would not faithfully depict retrospective application to each reporting period presented of the guidance in Topic 606.

## Completed Contracts at Transition

BC42. The TRG discussed a potential implementation issue related to the guidance in Topic 606 for completed contracts at transition at its July 13, 2015 meeting. The Board learned from that discussion about potential practical challenges with application of the transition guidance in Topic 606 for completed contracts at transition.

BC43. Paragraph 606-10-65-1(f) includes several practical expedients related to completed contracts for entities electing to apply the guidance in Topic 606 retrospective to each reporting period presented. Paragraph 606-10-65-1(h) requires entities electing the modified retrospective approach to apply the guidance in Topic 606 retrospectively only to contracts that are not completed contracts at the date of initial application. Paragraph 606-10-65-1(c)(2) explains that a completed contract is a contract for which an entity has transferred all of the goods or services identified in accordance with revenue guidance that is in effect before the date of initial application.

BC44. Some stakeholders observed that the *transfer* of goods and services is a concept that does not exist in current revenue GAAP. Rather, it is a notion included in Topic 606. However, the transition guidance in Topic 606 requires that the assessment of what contracts are completed be performed under accounting guidance in effect before the adoption of Topic 606. As a result, it was unclear to some stakeholders how to evaluate whether a contract is completed.

BC45. The Board considered several alternatives to clarify which contracts are considered completed for purposes of applying the transition provisions in Topic 606. The Board decided to clarify that a completed contract is one for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that is in effect before the date of initial application. The Board believes that the objective of the transition guidance in Topic 606 is to ensure that all (or substantially all) of the revenue from contracts with customers that is recognized after the date of initial application should be recognized in accordance with the guidance in Topic 606. Accordingly, the Board decided to clarify that contracts for which all (or substantially all) of the revenue was not recognized in accordance with revenue guidance that is in effect before the date of initial application are not completed contracts and, therefore, are subject to the guidance in Topic 606. The Board decided to include the phrase *substantially all* in the practical expedient because it did not intend to preclude an entity from applying the practical expedient in all circumstances in which less than 100 percent of the revenue from a contract was recognized under legacy GAAP because of, for example, a sales returns reserve. In those circumstances, an entity would recognize any remaining revenue (for example, an adjustment to the sales returns reserve) in accordance with legacy GAAP. The Board acknowledges that an entity would need to apply judgment in some cases to determine whether a contract is completed.

BC46. The Board also decided to permit an entity to elect whether it applies the modified retrospective approach to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application. The Board believes that doing so may help mitigate some of the unanticipated financial reporting consequences that some entities may experience as a result of the Board's clarification of a completed contract. The Board acknowledges that permitting optionality in how the modified retrospective approach is applied could affect the comparability of financial information provided under that transition approach. However, the Board also believes that application of the modified retrospective approach to all contracts could result in financial information that is more comparable with financial information provided by entities using the full retrospective approach.

## Technical Correction

BC47. The Board decided to make a technical correction to the transition guidance in paragraph 606-10-65-1(e), which states that an entity applying the guidance in Topic 606 retrospectively to each reporting period presented should

provide the accounting change disclosures in paragraphs 250-10-50-1 through 50-3 in the period of adoption. Paragraph 250-10-50-1(b)(2) requires an entity electing to apply the guidance in Topic 606 retrospectively to each reporting period presented to disclose the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted. In other words, an entity would apply the new revenue standard retrospectively to all periods presented and would disclose what its financial information would have been under former GAAP in the period of adoption. This outcome was not the Board's intention, and it would significantly increase transition costs because an entity would have to account for contracts with customers under former GAAP and the new revenue standard in the period of adoption. Accordingly, the Board decided to remove the requirement for an entity applying the guidance in Topic 606 retrospectively to each reporting period presented to provide the current-period information required by paragraph 250-10-50-1(b)(2). An entity would still be required to disclose the effect of the changes on any prior periods that were retrospectively adjusted.

## Benefits and Costs

BC48. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC49. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update because the amendments are to guidance that currently is not effective. The objective of this proposed Update is to reduce the risk of diversity in practice before entities implement Topic 606, which should benefit financial statement users by providing more comparable information. Additionally, the amendments in this proposed Update should reduce the cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

## Alternative Views

BC50. Messrs. Kroeker and Schroeder disagree with the publication of this proposed Update.

BC51. Mr. Kroeker supports the objective of this proposed Update to improve Topic 606 by (a) providing clarifications and amendments aimed at reducing the potential for diversity stemming from different interpretations of the standard and (b) providing practical expedients and amendments aimed at reducing the implementation and ongoing costs that may result from applying Topic 606. Accordingly, Mr. Kroeker supports the proposed amendments that he believes are consistent with those two objectives. However, Mr. Kroeker disagrees with the issuance of this proposed Update because the amendments addressing the assessment of the collectibility criterion and the related amendments addressing the accounting for contracts that do not meet the criteria in Step 1 fail to meet the objectives stated above. He believes that those proposed amendments would not significantly increase the understanding and consistency of application of the collectibility guidance. Furthermore, Mr. Kroeker believes that the amendments have the potential to increase the cost and complexity of applying Topic 606 when compared with existing practice.

BC52. Legacy revenue guidance generally requires that collectibility of amounts due be “reasonably assured” as a condition precedent to recognizing revenue. That is, there must be a high degree of certainty that an entity ultimately will get paid prior to recognizing revenue for a transaction. Mr. Kroeker strongly agrees with the continued requirement to pass a collectibility threshold before recognizing a transaction as a revenue transaction. Additionally, he believes that the establishment of collectibility thresholds in prior revenue guidance was not done haphazardly but, rather, in response to observed and potential financial reporting weaknesses. Accordingly, Mr. Kroeker agrees that Topic 606 should require a high degree of certainty of payment before recognizing revenue. Furthermore, as noted in paragraph BC16 in this proposed Update, in adopting a threshold of probable in Topic 606, “the FASB understood that, in practice, the terms *probable* and *reasonably assured* were applied similarly.” Accordingly, Mr. Kroeker believes, on the one hand, that it is reasonable to conclude that Topic 606 retains the notion that a high threshold must be achieved in terms of collection risk before recognizing any revenue, consistent with legacy GAAP. Under that view, for those transactions for which collectibility is not reasonably assured, it would seem reasonable to conclude that collectibility would not meet the condition of probable. On the other hand, the proposed amendments indicate that the objective of the collectibility threshold is simply to make an assessment of whether or not a transaction should be considered substantive (or whether it represents a “genuine transaction”). Mr. Kroeker believes that under that view one could likely conclude that the collectibility threshold in Topic 606, as modified by the amendments in this proposed Update, is a lower bar and that more transactions would meet the



threshold than would be the case under existing standards. That is, transactions in practice for which collectibility is not considered to be reasonably assured often would appear to be considered to be substantive and/or genuine. Thus, rather than providing clarity, Mr. Kroeker believes that the proposed amendments add to the potential for misunderstanding the purpose of the collectibility threshold.

BC53. Mr. Kroeker also believes that retaining the notion of collectibility in Step 1 of the model further perpetuates the potential for misunderstanding because one must conclude that a contract (solely for the purposes of Topic 606) does not exist if collectibility is not considered to be probable. This is the case notwithstanding the fact that a contract from a legal perspective is not defined the same way and may well exist. Thus, the issued standard establishes (and the proposed amendments would retain) a definition of a contract (a legal notion) that is inconsistent with the legal definition. Mr. Kroeker believes that this has the potential to create confusion and may lead to, in his view, a dilemma when the two parties begin to perform under the legal arrangement. Specifically, it led to the need for additional guidance on how to account for consideration received from a customer under a legal contract that fails to meet the accounting definition of a contract (for example, the guidance in paragraphs 606-10-25-7 through 25-8). In current practice (and in the alternative supported by Mr. Kroeker), this would not be an issue because revenue would be recognized on a cash basis when collectibility is not reasonably assured (probable). However, under the approach in Topic 606, as amended by this proposed Update, even after performance under a legal contract and receipt of nonrefundable consideration, one must still evaluate whether an accounting contract exists and, separately, whether revenue can be recognized in the absence of meeting the criteria in Step 1 of the model. That procedure leads to the potential to recognize a liability that does not meet the definition of a liability in Concepts Statement 6. That is, under this approach, situations may arise in which an entity has no further obligation related to such consideration, as illustrated in Example 1, Case C, and as discussed in paragraph BC18 in this proposed Update, and yet consideration received must be reflected as a liability.

BC54. Mr. Kroeker believes that the guidance that exists in current GAAP, in which collectibility is considered when recognizing revenue under a contract rather than using collectibility as a criterion to redefine whether a contract exists, is broadly understood and works well in practice. Thus, he supports the alternative approach discussed in paragraph BC15 of this proposed Update. Furthermore, he does not agree that the incorporation of such an approach would be a “substantial change” to the model in Topic 606 as stated in the basis for conclusions. He believes that for the vast majority of arrangements, the pattern of revenue recognition would not be affected by retaining current guidance on collectibility and thus the change would not be substantial. However, if the alternative would result in substantial changes in outcomes when compared with the requirements of Topic 606, as amended by this proposed Update, it would seem logical to conclude that Topic 606 and the amendments represent a substantial departure from existing

practice, an outcome Mr. Kroeker believes is undesirable. Finally, Mr. Kroeker acknowledges the adoption of such an approach would depart from the collectibility guidance in IFRS 15 as noted in paragraph BC15 in this proposed Update. However, he notes that the guidance is not currently converged (as a result of different definitions of the term *probable* in IFRS compared with GAAP) and the amendments supported by the majority of the Board, if adopted, would create further divergence.

BC55. Mr. Schroeder disagrees with the issuance of this proposed Update. Consistent with his dissent from the issuance of Update 2014-09, he believes incorporating a collectibility threshold is inconsistent with its performance-based revenue recognition model. Guidance before adoption of Update 2014-09 also includes a collectibility threshold; therefore, some stakeholders, including many investors, may not view collectibility as a significant concern. He believes this is because some portion of credit losses is effectively hidden from view by being netted against revenue. Therefore, Mr. Schroeder thinks investors may not fully understand how much credit risk an entity is taking and how that risk changes over time.

BC56. Mr. Schroeder maintains that for the purposes of presenting revenue, combining the separate obligations of an entity to perform, and its customer to pay for that performance, into a single revenue amount contradicts the core principle of Topic 606, which is stated in paragraph 606-10-10-2 as “an entity shall recognize **revenue** . . . in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services” provided by the entity (emphasis added). Mr. Schroeder maintains that a contradictory outcome can result in information that does not faithfully represent the transaction, for example, when no revenue is recognized despite the entity transferring to the customer a good or a service and receiving from the customer nonrefundable consideration. In this example, an entity would recognize an asset for the cash received, while recognizing an offsetting liability. However, Mr. Schroeder believes that this “liability” fails to meet the definition of a *liability* in Concepts Statement 6 because the entity already has satisfied its obligation to transfer a good or a service. Those anomalous results could add analytic complexities for users.

BC57. The collectibility-related amendments in this proposed Update neither eliminate nor reduce Mr. Schroeder’s concerns. His concerns about retaining any collectibility threshold are detailed in his dissent to Update 2014-09. If a threshold is to be retained, his views on maintaining the current “probable” threshold are discussed below.

## Different Thresholds

BC58. Mr. Schroeder continues to be concerned with the different GAAP and IFRS meanings of *probable* in the context of the collectibility threshold that is retained by this proposed Update. During joint redeliberations of Update 2014-09,

the Board and the IASB agreed to use the same term. However, using the same term does not equate to the same threshold. Under GAAP, the term *probable* is defined in Topic 450, Contingencies, as “likely to occur,” whereas under IFRS it is defined as a lower threshold of “more likely than not.” Therefore, because the collectibility thresholds are not the same, revenue recognition under GAAP may not be the same as revenue recognition under IFRS.

BC59. If any threshold is to be required, Mr. Schroeder’s preference would be a converged solution that produces the same results (although different words are used).

BC60. Mr. Schroeder believes lowering the collectibility threshold to “more likely than not” would not eliminate all of the issues raised by stakeholders, but it might be viewed by many as an improvement over Update 2014-09. This is because it would reduce the population of contracts for which no revenue is recognized despite the fact that (a) an entity has transferred a good or a service to a customer and (b) the customer has paid nonrefundable consideration. He also believes that a collectibility threshold set at the *more likely than not* level is more conceptually consistent with the objective—identifying nonsubstantive arrangements—of considering collectibility in Step 1.

## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at [www.fasb.org](http://www.fasb.org) and finalized as part of the annual release process.