

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2016-12  
May 2016

### Revenue from Contracts with Customers (Topic 606)

Narrow-Scope Improvements and Practical Expedients

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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### Narrow-Scope Improvements and Practical Expedients

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# Summary

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## Why Is the FASB Issuing This Accounting Standards Update (Update)?

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 guidance. The TRG also assists stakeholders in understanding specific aspects of the new revenue guidance. 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.

To address certain issues identified by the TRG in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition, the Board decided to add a project to its technical agenda to improve Topic 606, Revenue from Contracts with Customers, by reducing:

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

## Who Is Affected by the Amendments in This Update?

The amendments in this Update 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 to the recognition and measurement provisions of Topic 606 also affect entities with transactions included within the scope of Topic 610, Other Income.

## What Are the Main Provisions and How Are They an Improvement?

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

<b>Area for Improvement</b>	<b>Summary of Amendments</b>
<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 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</p>	<p>The amendments in this Update 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 substantive 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 Update also 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 allows an entity to recognize revenue in the amount of consideration received when</p>



<b>Area for Improvement</b>	<b>Summary of Amendments</b>
<p>in paragraph 606-10-25-7 have been met.</p> <p>Some TRG members and other stakeholders 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 entity has transferred control of the goods or services, the entity has stopped transferring goods or services (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable.</p>
<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 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 Update 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>

<b>Area for Improvement</b>	<b>Summary of Amendments</b>
<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. However, Topic 606 does not specify the measurement date for noncash consideration. Additionally, some stakeholders 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>The amendments in this Update specify that the measurement date for noncash consideration is contract inception.</p> <p>The amendments in this Update also clarify that the variable consideration guidance applies only to variability resulting 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 beginning of the earliest period presented in accordance with Topic 606. TRG members 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</p>	<p>The amendments in this Update provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with Topic 606 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.</p>

<b>Area for Improvement</b>	<b>Summary of Amendments</b>
<p>modifications have occurred over a long period of time.</p>	
<p><b>Completed Contracts at Transition</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 is in effect before the date of initial application.”</p> <p>TRG members informed the Board that it is unclear when a contract should be considered “completed” for purposes of applying the transition guidance.</p>	<p>The amendments in this Update 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 elements of a contract that do not affect revenue under legacy GAAP are irrelevant to the assessment of whether a contract is complete.</p> <p>In addition, the amendments in this Update permit an entity to apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts.</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 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 Update 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 is still required to disclose the effect of the changes on any prior periods retrospectively adjusted.</p>

## When Will the Amendments Be Effective?

The amendments in this Update 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 Update are 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 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 the FASB's and the IASB's joint project. Although the amendments in this Update are not identical, and some are incremental, to the amendments the IASB decided to make to its final standard, *Clarifications to IFRS 15*, the FASB expects that the amendments generally will maintain the convergence that was achieved with the issuance of Update 2014-09 and IFRS 15 by reducing the potential for diversity arising in practice. Significant diversity in application could substantially reduce the benefits achieved by converged guidance.

The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide clarifying guidance in a few narrow areas and add some practical expedients to the guidance. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance.

There are four principal areas of this Update that could create generally minor differences in financial reporting outcomes between GAAP and IFRS:

1. This Update provides a policy election that permits an entity to exclude all sales (and other similar) taxes from the measurement of the transaction price. A similar policy election does not exist under IFRS 15.
2. This Update specifies that noncash consideration should be measured at contract inception and that the variable consideration guidance applies only to variability resulting from reasons other than the form of the noncash consideration. IFRS 15 does not prescribe the measurement date.
3. This Update and IFRS 15 both 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 at transition. Guidance in Topic 606 requires that the expedient be applied as of the beginning of the earliest period presented in accordance with the guidance in that Topic. IFRS 15 allows an entity that elects the modified retrospective method the option to select the beginning of the earliest period presented or the date of initial application of IFRS 15.

4. This Update defines a completed contract as a contract for which all (or substantially all) of the revenue has been recognized under legacy GAAP before the date of initial application. IFRS 15 defines a completed contract as one for which an entity has transferred all goods or services identified in accordance with existing IFRS. IFRS 15 also provides an additional practical expedient that permits an entity electing the full retrospective method to apply IFRS 15 retrospectively only to contracts that are not completed contracts as of the beginning of the earliest period presented. No such expedient is included in Topic 606.



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

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. 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)

2. 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 guidance. 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

3. 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). 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). However, if an entity determines that all of the criteria in paragraph 606-10-25-1 are met, the remainder of the guidance in this Topic shall be applied to all of the promised goods or services in the contract.

**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 one or more either of the following events ~~has~~ have 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 or services to the customer (if applicable) and has no obligation under the contract 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

4. 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. Assessing collectibility (paragraphs 606-10-55-3A through 55-3C)  
~~Performance obligations satisfied over time (paragraphs 606-10-55-4 through 55-15)~~ **[Content moved to paragraph 606-10-55-3(aa)]**
- aa. **Performance obligations** satisfied over time (paragraphs 606-10-55-4 through 55-15) **[Content moved from paragraph 606-10-55-3(a)]**
- 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 55-60 and 606-10-55-62 through 55-65B)
- 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 the

**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 consideration to which the entity will be entitled 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 contract to be accounted for under the revenue model in this Topic.

**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 promised consideration for the entire duration of the contract.

**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 additional 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 additional 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 transferred to a customer should not be considered for the purpose of assessing the entity's ability to mitigate its exposure to credit risk.

5. Amend paragraphs 606-10-55-94 and 606-10-55-96 through 55-98 and add the heading preceding paragraph 606-10-55-95 and paragraphs 606-10-55-98A through 55-98L 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—Collectibility Is Not Probable

**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 control of the building at contract inception.~~

**606-10-55-97** ~~The entity concludes that not all of the criteria in paragraph 606-10-25-1 are met. In assessing whether the contract meets the criteria in paragraph 606-10-25-1, the~~ 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 and it has not 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 derecognize the real estate asset. 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.~~

### **>>> Case B—Credit Risk Is Mitigated**

**606-10-55-98A** 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.

**606-10-55-98B** 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. Both parties are subject to termination penalties if the contract is cancelled.

**606-10-55-98C** 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 is expected to make the payments required under the contract for at least 9 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 and to pursue collection for the unpaid services.

**606-10-55-98D** 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 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.

**606-10-55-98E** It is not probable that the entity will collect the entire transaction price (\$720) because of the customer's low credit rating. However, the entity's exposure to credit risk is mitigated because 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, the entity concludes that the contract meets the criterion in paragraph 606-10-25-1(e) because it is probable that the customer will pay substantially all of the consideration to which the entity is entitled for the services the entity will transfer 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). Consequently, assuming the criteria in paragraph 606-10-25-1(a) through (d) are met, the entity would apply the remaining guidance in this Topic to recognize revenue and only reassess the criteria in paragraph 606-10-25-1 if there is an indication of a significant change in facts or circumstances such as the customer not making its required payments.

### **>>> Case C—Credit Risk Is Not Mitigated**

**606-10-55-98F** The same facts as in Case B apply to Case C, except that the entity's history with this class of customer indicates that there is a risk that the customer will not pay substantially all of the consideration for services received from the entity, including the risk that the entity will never receive any payment for any services provided.

**606-10-55-98G** 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.

**606-10-55-98H** 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 will be entitled under the contract for the services that will be transferred to the customer. The entity concludes that not only is there a risk that the customer will not pay for services received from the entity, but also there is a risk that the entity will never receive any payment for any services provided. Subsequently, when the customer initially pays for one 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.

**606-10-55-98I** Assume that the customer has made timely payments for several months. In accordance with paragraph 606-10-25-6, the entity assesses 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 specific customer. 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—Advance Payment**

**606-10-55-98J** 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.

**606-10-55-98K** 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 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.

**606-10-55-98L** The contract meets the criterion in paragraph 606-10-25-1(e) because it is probable that 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).

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

6. 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

7. 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 make an accounting policy election 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

8. 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

9. 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 estimated fair value of the noncash consideration at contract inception (that is, the date at which the criteria in paragraph 606-10-25-1 are met) (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 606-10-32-5 through 32-14 ~~606-10-32-11 through 32-13~~. 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 32-14 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

10. 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 estimated 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 measures its progress toward complete satisfaction of the performance obligation and recognizes revenue as each week of service is complete. The entity does not reflect any ~~subsequent~~ changes in the fair value of the 5,200 shares after contract inception received (or receivable) in revenue the transaction price. However, the entity assesses any related contract asset or receivable for impairment. Upon receipt of the noncash consideration, the entity would apply the guidance related to the form of the noncash consideration to determine whether and how any changes in fair value that occurred after contract inception should be recognized.

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

11. 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

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

#### Transition and Open Effective Date Information

**> Transition Related to Accounting Standards Update ~~Update~~ Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606), and Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, and No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients:**

**606-10-65-1** The following represents the transition and effective date information related to Accounting Standards Update ~~Update~~ Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606), and Accounting Standards Update No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, and No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients:

- 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 ~~50-2~~ ~~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 is 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~~ An entity need not restate contracts that begin and ~~end~~ are completed 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. For contracts that were modified before the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph, an entity need not retrospectively restate the contract for those contract modifications in accordance with paragraphs 606-10-25-12 through 25-13. Instead, an entity shall reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with the pending content that links to this paragraph when:
  - i. Identifying the satisfied and unsatisfied performance obligations
  - ii. Determining the transaction price
  - iii. Allocating the transaction price to the satisfied and unsatisfied performance obligations.
- 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). An entity shall disclose whether it has applied this guidance to all contracts at the date of initial application or only to contracts that are not completed at the date of initial application. Under this transition method, an entity may apply the practical expedient for contract modifications in (f)(4). If an entity applies the practical expedient for contract modifications in (f)(4), it shall comply with the guidance in (g).
- i. For reporting periods that include the date of initial application, an entity shall disclose the nature of and reason for the change in accounting principle and 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).

## Amendments to the Status Section

13. Amend paragraph 606-10-00-1, by adding the following items to the table, as follows:

**606-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
606-10-25-1	Amended	2016-12	05/09/2016
606-10-25-3	Amended	2016-12	05/09/2016
606-10-25-5	Amended	2016-12	05/09/2016
606-10-25-7	Amended	2016-12	05/09/2016
606-10-32-2A	Added	2016-12	05/09/2016
606-10-32-21	Amended	2016-12	05/09/2016
606-10-32-23	Amended	2016-12	05/09/2016
606-10-55-3	Amended	2016-12	05/09/2016
606-10-55-3A through 55-3C	Added	2016-12	05/09/2016
606-10-55-94 through 55-98	Amended	2016-12	05/09/2016
606-10-55-98A through 55-98L	Added	2016-12	05/09/2016
606-10-55-250	Amended	2016-12	05/09/2016
606-10-65-1	Amended	2016-12	05/09/2016

*The amendments in this Update were adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Kroeker and Schroeder dissented.*

Mr. Kroeker supports the objective of this Update to improve Topic 606 by (1) providing clarifications and amendments aimed at reducing the potential for diversity stemming from different interpretations of the guidance and (2) 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 amendments that he believes are consistent with those two

objectives. However, Mr. Kroeker dissents from the issuance of this 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 amendments will 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.

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 before 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 BC19 in this 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 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 Update, is a lower bar and that more transactions will meet the threshold than would be the case under existing guidance. That is, transactions in practice for which collectibility is not considered to be reasonably assured often will appear to be considered to be substantive and/or genuine. Thus, rather than providing clarity, Mr. Kroeker believes that the amendments add to the potential for misunderstanding the purpose of the collectibility threshold.

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 guidance establishes (and the amendments will 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 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 FASB Concepts Statement No. 6, *Elements of Financial Statements*. 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 BC21 in this Update, and yet consideration received must be reflected as a liability.

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 BC18 of this 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 approach would result in substantial changes in outcomes when compared with the requirements of Topic 606, as amended by this 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 BC18 of this 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 will create further divergence.

Mr. Schroeder dissents from the issuance of this Update. Consistent with his dissent from the issuance of Update 2014-09, he believes that incorporating a collectibility threshold is inconsistent with its performance-based revenue recognition model.



Guidance before the 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 that 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.

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.

The collectibility-related amendments in this 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, while his views about retaining the “probable” threshold are discussed below.

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 the amendments in this 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.

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).

Mr. Schroeder believes that 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 (1) an entity has transferred a good or a service to a customer and (2) 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.

*Members of the Financial Accounting Standards Board:*

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 and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this 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 guidance). 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 guidance. The TRG also assists stakeholders in understanding specific aspects of the new revenue guidance. 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 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. Completed contracts at transition was discussed on July 13, 2015. From those discussions, the Boards learned about potential challenges with consistent application of those aspects of the new revenue guidance. 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 guidance and that would reduce the cost and complexity of implementation.

BC4. The FASB issued a proposed Update, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, on September 30, 2015. The proposed Update was open for public comment for 45 days, and the Board received 21 comment letters. Overall, respondents supported the proposed amendments, citing improvements to operability and

reduced cost and complexity in applying the guidance. The IASB issued its Exposure Draft, *Clarifications to IFRS 15*, on July 30, 2015.

BC5. The FASB's amendments on collectibility, sales taxes and other similar taxes, noncash consideration, and completed contracts at transition are not addressed in the IASB's final standard, *Clarifications to IFRS 15*. The IASB has included a similar practical expedient as the FASB on contract modifications at transition in its guidance; however, IFRS allows an entity that elects the modified retrospective method the option to apply the practical expedient either at the beginning of the earliest period presented or the date of initial application of IFRS 15. The IASB also included a practical expedient that permits an entity electing the full retrospective method to apply IFRS 15 retrospectively only to contracts that are not completed contracts as of the beginning of the earliest period presented.

BC6. The FASB concluded that the benefits of converged guidance in a standard on revenue will be diminished if there is significant diversity in applying main aspects of the guidance. That is, converged guidance cannot achieve consistency and comparability across jurisdictions if there will be significant diversity in application of that guidance within each jurisdiction. Therefore, the benefits of converged guidance will be enhanced by amending Topic 606 to promote greater consistency in application within and across jurisdictions 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 substantially consistent, even if the articulation of the guidance in GAAP and IFRS is not identical and the financial reporting outcomes will not be the same in all cases. The Board expects that the amendments in this Update will help reduce the cost and complexity of implementation by enhancing the operability and understandability of the guidance and will result in substantially consistent financial reporting outcomes in the vast majority of cases.

## Scope

BC7. The scope of the guidance is the same as Topic 606 (see paragraphs 606-10-15-1 through 15-5). The amendments in this 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 and paragraphs 606-10-32-2 through 32-27, some of which are being amended in this 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)

BC8. 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)

BC9. 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 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 contracts. Other stakeholders asserted that those contracts might be valid 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.

BC10. The Board expects 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.

BC11. 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 the 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 on the basis of the customary business practices of the entity in dealing with its exposure to the customer's credit risk throughout the contract. This 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.

BC12. 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 Update clarifies that the collectibility assessment should 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 consideration to which the entity will be entitled in exchange for the goods or services that will be transferred to the customer, not necessarily for 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 substantive transaction even if it is not probable the entity will collect 100 percent of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. If an entity expects to 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, the contract would still represent a substantive transaction.

BC13. 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 or 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, or 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 duration of the contract.

BC14. 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 substantive. That is, the entity considers whether a valid 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.

BC15. 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.

BC16. 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.

BC17. A majority of stakeholders supported the Board’s decision to clarify the objective of the collectibility assessment. Those stakeholders commented that they expect the clarifications to reduce the number of contracts that do not meet the collectibility criterion, resulting in a more appropriate determination of whether a contract exists. In particular, stakeholders commented that the clarification that an entity can consider its ability to mitigate its exposure to credit risk was an improvement to the guidance. Similarly, stakeholders agreed that clarifying that the collectibility assessment should be performed for goods or services that an entity expects to transfer, and not necessarily the overall transaction price, would

clarify some of the implementation questions. However, several stakeholders opposed the amendments and stated that the Board should consider an alternative approach whereby collectibility would have been assessed when recognizing revenue. The Board previously considered and rejected this alternative approach during deliberations.

BC18. In reaching its decision to clarify the guidance on collectibility in this 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, 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 approach 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.

BC19. 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 guidance, 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.

BC20. The Board considered whether a change in the threshold to "more likely than not" might be viewed by stakeholders as an improvement to Topic 606 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, which is



to identify nonsubstantive arrangements. Those stakeholders suggested that a contract might be nonsubstantive in situations in which it is more likely than not that the customer will not pay. 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. However, other stakeholders observed that the collectibility threshold in Topic 606 is consistent with previous revenue recognition guidance and is well understood and consistently applied in practice. The Board decided not to change the collectibility threshold from *probable* to *more likely than not* because it wanted to maintain consistency with the collectibility threshold in previous revenue recognition guidance. This is, in part, because that threshold is understood well by investors and practitioners. In addition, the Board noted that the collectibility threshold was not causing confusion with stakeholders’ implementation of Topic 606.

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

BC21. 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 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.

BC22. 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 contract does not exist between the entity and the customer. Any consideration received by the entity is not recognized as revenue until either (a) the contract meets the criteria in paragraph 606-10-25-1 or (b) the criteria in paragraph 606-10-25-7 are met because if there is not a valid contract between the parties, there can be no assurance that the payments received from the customer are solely for past performance.

BC23. In addition to some stakeholders' concerns about the accounting outcomes, other stakeholders raised questions about applying the alternate recognition model. In particular, some stakeholders 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 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 the customer and has no further obligation to transfer additional goods or services to the customer.

BC24. In response to those concerns, the Board decided to add criterion (c) to paragraph 606-10-25-7, which clarifies that revenue in the amount of consideration received should be recognized when the entity has transferred control of the goods or services to which the consideration relates, the entity has stopped transferring goods or services to the customer (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable. 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 applies when any of the criteria in paragraph 606-10-25-1 have not been met. This amendment to the alternate 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 under the contract to transfer additional goods or services to the customer) or not have any additional promised goods or services to transfer.

BC25. 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.

BC26. 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, the Board 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 because that event is included in the alternate recognition guidance in IFRS 15 and because event (c) addresses situations in which a partial nonrefundable payment may have been received.

BC27. Stakeholders largely supported the Board's decision. However, some stakeholders expressed concern about the phrase *the entity has stopped transferring goods or services to the customer*. Those stakeholders stated that it should not be a necessary condition to stop transferring goods or services in order to recognize revenue. The Board considered that stakeholder feedback, but observed that removing this phrase would raise a concern about whether the cash received is for goods or services that have already been transferred, or goods or services that are expected to be transferred in the future. Furthermore, removing the requirement to stop transferring goods or services would have introduced complexity in how an entity would attribute the cash receipt to goods or services transferred under a contract with multiple performance obligations.

BC28. Some stakeholders raised concerns about whether the 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 amendments require an entity, in some cases, to recognize a significant upfront loss. In deliberating the amendments in this 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 FASB 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 a portion of the revenue for completing the sale of that asset is constrained for a reason unrelated to the entity not having 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). The amendments in this Update do 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. The Board decided to amend Example 1, Case A to focus the example on illustrating the collectibility guidance in paragraph 606-10-25-1 and not on the assessment of whether or not control of the building transfers to the customer. The Board observed that an assessment of whether or not control of the building transfers to the customer in this example requires judgment and additional information about the transaction.

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

BC29. The guidance on determining the transaction price in Topic 606 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.

BC30. 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 revenues and costs). However, the Board learned from that discussion about stakeholders' concerns regarding 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 is collected on behalf of a third party.

BC31. The Board directed its staff to perform 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 (and other similar) taxes on a net basis (that is, excluded from both revenues and costs) would provide the most useful financial information.

BC32. 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 (and other similar) taxes in the scope of the policy election.

BC33. The Board decided that the scope of the election for taxes is the same scope as existing guidance in Subtopic 605-45, Revenue Recognition—Principal Agent Considerations, because the scope of that 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.

BC34. If an entity elects not to present all taxes within the scope of the policy election on a net basis, then the entity applies the guidance on determining the

transaction price in paragraph 606-10-32-2 and considers 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.

BC35. Most stakeholders supported the accounting policy election for sales (and other similar) taxes and agreed that it would reduce the cost and complexity of applying Topic 606. Some stakeholders suggested supplemental disclosure requirements. However, the Board observed that an entity that makes this election is required to comply with the accounting policy disclosure requirements in Topic 235, Notes to Financial Statements.

## Noncash Consideration

BC36. 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 directed its staff to perform 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.

BC37. 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.

BC38. 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 (that is, the date at which the criteria in paragraph 606-10-25-1 are met) 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 should 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).

BC39. The Board decided not to specify how the fair value of noncash consideration should be measured, in part, because the form of noncash consideration varies widely. Rather, the Board observed that the concept of fair value exists in other parts of Topic 606 (for example, the guidance on consideration payable to a customer) and that choosing the appropriate basis for measuring the fair value of noncash consideration requires judgment. Many stakeholders agreed with the Board's decision to measure noncash consideration at contract inception. However, some stakeholders expressed the view that measurement of noncash consideration at contract inception could create the need to determine whether a contract contains an embedded derivative that must be accounted for in accordance with Topic 815, Derivatives and Hedging. The Board observed that the measurement date for noncash consideration does not, by itself, create an embedded derivative. However, the Board indicated that, as with other contracts, an entity should evaluate a contract that includes noncash consideration for the potential existence of an embedded derivative. Based on feedback from stakeholders, the Board understands that one of the most common forms of noncash consideration is shares (or share options) of a nonpublic entity. Those stakeholders indicated that shares (or share options) of a nonpublic entity likely would not meet the definition of an embedded derivative in Topic 815 because they are not readily convertible to cash.

BC40. As a result of measuring noncash consideration at contract inception, any changes in the fair value of noncash consideration after contract inception will not be reflected in the transaction price. Instead, an entity will apply the GAAP related to the form of the noncash consideration to determine whether and how any changes in fair value that occurred after contract inception should be recognized upon receipt of the noncash consideration. For example, if the GAAP related to the form of the noncash consideration requires that asset to be measured at fair value, then an entity will recognize a gain or loss (outside of revenue) upon receipt of the asset if the fair value of the noncash consideration increased or decreased since contract inception. 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 or receivable for impairment.

BC41. Stakeholders observed that the guidance in Topic 606 is unclear about whether the variable consideration guidance in paragraphs 606-10-32-5 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.

BC42. The Board concluded that the variable consideration guidance applies only to variability resulting from other than the form of consideration. The Board decided 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.

BC43. Stakeholders largely supported the Board's decision. However, some stakeholders expressed concern that differentiating between variability resulting from the form of consideration and variability that is unrelated to the form of the consideration might be challenging in some cases. The Board understands that differentiating variability might sometimes be complex for preparers and might sometimes require judgment on the basis of the facts and circumstances of the arrangement. However, the other approach (that is, not differentiating variability) would be complex for investors because economically similar transactions sometimes would be accounted for differently.

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

## Contract Modifications at Transition

BC44. 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.

BC45. 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 entities 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.

BC46. The Board decided to provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with Topic 606 when identifying the satisfied and unsatisfied performance obligations in a modified contract, when determining the transaction price, and when allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. The Board concluded that the practical expedient should reduce the cost and complexity of applying the contract modification guidance for some entities by not requiring an entity to separately evaluate the effects of contract modifications before the beginning of the earliest period presented in accordance with Topic 606. However, the Board acknowledges that even with this practical expedient, an entity will need to use judgment and make estimates to account for contract modifications at transition. For example, an entity will need to use judgment to estimate standalone selling prices when there has been a wide range of selling prices and to allocate the transaction price to satisfied and unsatisfied performance obligations if there have been several performance obligations or contract modifications over an extended period. The Board concluded that the practical expedient provides financial information that most closely aligns with the financial information that otherwise would have been presented absent the use of an expedient.



BC47. A majority of stakeholders supported the Board's decision because, to them, the practical expedient will reduce the cost and complexity of applying Topic 606 for entities with legacy contracts that have been modified before the date of initial application of Topic 606. However, several respondents stated that the practical expedient will be difficult and costly to apply because an entity would still be required to identify all contract modifications, all satisfied and unsatisfied performance obligations, and the standalone selling prices for the goods or services underlying each performance obligation. Those respondents suggested that the Board provide a practical expedient that would have permitted an entity to account for a modified contract by permitting an entity to account for only 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. The Board previously considered and rejected that approach because it was concerned that permitting an entity to disregard the effects of the contract modification guidance in Topic 606 on modifications before the beginning of the earliest period presented in accordance with Topic 606 could result in financial information (for example, contract assets and contract liabilities) that differs significantly from what would have been presented absent use of the expedient. The Board also rejected the approach so that Topic 606 and IFRS 15 would remain converged on this aspect.

BC48. 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 guidance 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

BC49. 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.

BC50. Paragraph 606-10-65-1(f) includes several practical expedients related to completed contracts for entities electing to apply the guidance in Topic 606 retrospectively 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.

BC51. 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.

BC52. 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. Accounting for elements of a contract that do not affect revenue under current GAAP is irrelevant in assessing whether a contract is complete. The Board concluded 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 recognizes any remaining revenue (for example, an adjustment to the sales returns reserve) in accordance with legacy GAAP. The Board acknowledges that an entity will need to apply judgment in some cases to determine whether a contract is completed.

BC53. 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 concluded 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 concluded 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

BC54. 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. Paragraph 250-10-50-3 requires that similar information as required by paragraph 250-10-50-1(b)(2) be disclosed for the current interim periods. In other words, an entity would apply the new revenue guidance retrospectively to all periods presented and would disclose what its financial information would have been under former GAAP in the annual and interim periods 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 guidance 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 paragraphs 250-10-50-1(b)(2) and 250-10-50-3. An entity still is required to disclose the effect of the changes on any prior periods that were retrospectively adjusted.

## Benefits and Costs

BC55. 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.

BC56. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update because the amendments affect guidance that currently is not effective. The objective of this Update is to reduce the risk of diversity in practice before organizations implement Topic 606, which will benefit financial statement users by providing more comparable information. Additionally, the amendments in this Update should reduce the cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

## Appendix

### Comparison of Topic 606 and IFRS 15

- A1. Topic 606, together with the IASB's IFRS 15, is a joint effort by the FASB and the IASB to improve financial reporting by creating common revenue recognition guidance for GAAP and IFRS that can be applied consistently across various transactions, industries, and capital markets. In Topic 606 and IFRS 15, the Boards achieved their goal of reaching the same conclusions on requirements for the accounting for revenue from contracts with customers. However, there are some minor differences, as follows:
- a. Collectibility threshold—The Boards included an explicit collectibility threshold as one of the criteria that a contract must meet before an entity can recognize revenue. For a contract to meet that criterion, an entity must conclude that it is probable that it 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 setting the threshold, the Boards acknowledged that the term *probable* has different meanings in GAAP and IFRS. However, the Boards decided to set the threshold at a level that is consistent with previous revenue recognition practices and requirements in GAAP and IFRS (see paragraphs BC42–BC46 of Update 2014-09).
  - b. Interim disclosure requirements—The Boards noted that the general guidance in their respective interim reporting guidance (Topic 270, Interim Reporting, and IAS 34, *Interim Financial Reporting*) would apply to revenue from contracts with customers. However, the IASB decided to also amend IAS 34 to specifically require the disclosure of disaggregated information of revenue from contracts with customers in interim financial statements. The FASB similarly decided to amend Topic 270 to require a public entity to disclose disaggregated revenue information in interim financial statements. The FASB also decided to require that information about both contract balances and remaining performance obligations be disclosed on an interim basis (see paragraphs BC358–BC361 of Update 2014-09).
  - c. Early application and effective date—The effective date for IFRS 15 is for annual reporting periods beginning on or after January 1, 2018; whereas, Topic 606 has an effective date for public entities for annual reporting periods beginning after December 15, 2017. Early application is permitted for IFRS 15. Topic 606 also permits early application, but only as of annual reporting periods beginning after December 15, 2016.
  - d. Impairment loss reversal—Consistent with other areas of GAAP, Topic 340 does not allow an entity to reverse an impairment on an

asset that is recognized in accordance with the guidance on costs to obtain or fulfill a contract. In contrast, IFRS 15 requires an entity to reverse an impairment, which is consistent with the requirements on the impairment of assets within the scope of IAS 36, *Impairment of Assets* (see paragraphs BC309–BC311 of Update 2014-09).

- e. Nonpublic entity requirements—Topic 606 applies to nonpublic entities and includes some specific relief for nonpublic entities relating to disclosure, transition, and effective date. No such guidance is included in IFRS 15. IFRS for small- and medium-sized entities is available for entities that do not have public accountability (see paragraphs BC504–BC521 of Update 2014-09).
- f. Determining the nature of an entity’s promise in granting a license of intellectual property—Topic 606 and IFRS 15 require an entity to assess whether the nature of its promise in granting a license is a right to use or a right to access the entity’s intellectual property, which results in point in time or over time revenue recognition, respectively. Under Topic 606, an entity makes this determination by classifying the intellectual property underlying the license as functional or symbolic on the basis of whether the intellectual property has significant standalone functionality. A license to functional intellectual property is considered a right to use, while a license to symbolic intellectual property is considered a right to access the underlying intellectual property. Under IFRS 15, determining whether the nature of an entity’s promise in granting a license is a right to use or a right to access the entity’s intellectual property is based on whether the customer can direct the use of and obtain substantially all of the remaining benefits from a license at the point in time the license is granted, which occurs if the underlying intellectual property is not significantly affected by the entity’s ongoing activities. Although most licenses to symbolic intellectual property would be recognized over time under IFRS 15, revenue may be recognized at a point in time in those cases in which the entity will undertake no activities that significantly affect the ability of the customer to obtain benefit from the intellectual property during the license period. Under Topic 606, revenue for all licenses to symbolic intellectual property is recognized over time (over the license period or the remaining economic life of the intellectual property, if shorter) (see paragraphs BC51–BC65 of Update 2016-10.)
- g. Renewals of licenses of intellectual property—Topic 606 specifies that a renewal or extension of a license is subject to the use and benefit guidance in paragraph 606-10-55-58C, which generally will result in revenue recognition at the beginning of the renewal period. Under IFRS 15, the use and benefit guidance (paragraph

- B61) does not explicitly refer to renewals. Consequently, in some cases, this may result in the recognition of revenue with respect to the renewal or extension at a later date under Topic 606 than under IFRS 15 (see paragraphs BC48–BC50 in Update 2016-10).
- h. Shipping and handling activities—Topic 606 provides an accounting policy election that permits an entity to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good. IFRS 15 does not contain a similar policy election (see paragraphs BC19–BC25 of Update 2016-10).
  - i. Noncash consideration—Topic 606 specifies that noncash consideration should be measured at estimated fair value at contract inception and that the variable consideration guidance applies only to variability resulting from reasons other than the form of the noncash consideration. IFRS 15 does not prescribe the measurement date and whether the variable consideration guidance applies only to variability resulting from reasons other than the form of the noncash consideration (see paragraphs BC36–BC43 of this Update).
  - j. Presentation of sales (and other similar) taxes—Topic 606 provides an accounting policy election that permits an entity to exclude all sales (and other similar) taxes from the measurement of the transaction price. IFRS 15 does not contain a similar policy election (see paragraphs BC29–BC35 of this Update).
  - k. Date of application of the contract modifications practical expedient (modified retrospective transition)—For an entity applying Topic 606 in accordance with paragraph 606-10-65-1(d)(2) (equivalent to paragraph C3(b) of IFRS 15), an entity should apply the practical expedient at the date of initial application. However, an entity applying IFRS 15 in accordance with paragraph C3(b) may apply the practical expedient either (1) at the beginning of the earliest period presented or (2) at the date of initial application (see paragraphs BC44–BC48 of this Update).
  - l. Completed contracts at transition—Topic 606 defines *completed contract* as a contract for which all (or substantially all) of the revenue has been recognized under legacy GAAP before the date of initial application. IFRS 15 defines *completed contract* as one for which an entity has transferred all goods or services identified in accordance with existing IFRS. Furthermore, the IASB added a practical expedient to allow an entity applying the full retrospective method of transition (paragraph C3[a] of IFRS 15) not to restate contracts that are completed contracts at the beginning of the earliest period presented. Topic 606 does not contain this practical expedient (see paragraphs BC49–BC53 of this Update).

- A2. Topic 606 and IFRS 15 include different articulations of the guidance in the following areas:
- a. Collectibility criterion—The guidance in Topic 606 explains that the objective of the collectibility threshold is to determine if there is a substantive transaction based on whether the customer has the ability and intention to pay the promised consideration in exchange for goods or services that will be transferred to the customer (rather than assessing collectibility of the consideration promised in the contract for all of the promised goods or services). Additional guidance (including examples) on the application of the collectibility threshold is included in the implementation guidance in Topic 606. This guidance is not included in IFRS 15 (see paragraphs BC9–BC20 of this Update).
  - b. Revenue recognition for contracts with customers that do not meet the criteria for Step 1—Topic 606 includes an additional criterion for revenue recognition compared with IFRS 15 when a contract does not meet the criteria in paragraph 606-10-25-1. The additional criterion allows 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 goods or services (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable (see paragraphs BC21–BC28 of this Update).
  - c. Promised goods or services—The guidance in Topic 606 states that items that are immaterial in the context of the contract are not required to be assessed as promised goods or services for purposes of identifying performance obligations. IFRS 15 does not include a similar provision. Entities applying IFRS should consider the overall objective of IFRS 15 and materiality considerations in assessing promised goods or services and identifying performance obligations (see paragraphs BC8–BC18 of Update 2016-10).
  - d. When to consider the nature of an entity's promise in granting a license—Topic 606 explicitly states that when a single performance obligation includes a license of intellectual property and one or more other goods or services, the entity considers the nature of the combined good or service (including whether the license that is part of the single performance obligation provides the customer with a right to use or a right to access intellectual property in accordance with paragraphs 606-10-55-59 through 55-60 and 606-10-55-62 through 55-64A) in determining whether that combined good or service is satisfied over time or at a point in time and in selecting an appropriate method for measuring progress. Under IFRS 15, the requirement to specifically consider the nature



of a license included in a single performance obligation that contains one or more other goods or services is less explicit (see paragraphs BC66–BC69 of Update 2016-10).

- e. Contractual restrictions in a license and identifying performance obligations—Topic 606 explicitly states that contractual provisions that, explicitly or implicitly, require the entity to transfer control of additional goods or services to the customer (for example, by requiring the entity to transfer control of additional rights of use or rights of access that the customer does not already control) should be distinguished from contractual provisions that, explicitly or implicitly, define the attributes of a single promised license (for example, restrictions of time, geographical region, or use). Attributes of a promised license define the scope of a customer’s right to use or right to access the entity’s intellectual property and, therefore, do not define whether the entity satisfies its performance obligation at a point in time or over time. While this guidance is not included in IFRS 15, the basis for conclusions in IFRS 15 explains that the licensing implementation guidance does not override the revenue recognition model, and an entity is expected to apply the general requirements for identifying performance obligations to identify whether a contract includes one or multiple licenses (see paragraphs BC41–BC47 of Update 2016-10).

- A3. Topic 606 and IFRS 15 were structured to be consistent with the style of the Codification and other standards in IFRS, respectively. As a result, the paragraph numbers of Topic 606 and IFRS 15 are not the same. The wording in most of the paragraphs is consistent because Topic 606 and IFRS 15 were issued as common revenue guidance for GAAP and IFRS. However, as noted in paragraphs A1 and A2, the wording in some paragraphs differs. The following table illustrates how the paragraphs of IFRS 15 and Topic 606, and the related illustrative examples, correspond. Paragraphs for which the wording differs are indicated with an asterisk (\*):

<b>MAIN FEATURES</b>		<b>OVERVIEW AND BACKGROUND</b>	
N/A		606-10-05-1	
IN7		606-10-05-2	
IN8		606-10-05-3	
IN8		606-10-05-4	
IN9		606-10-05-5	
N/A		606-10-05-6	
<b>OBJECTIVES</b>			
1		606-10-10-1	
> Meeting the Objective			
2		606-10-10-2	
3		606-10-10-3	
4		606-10-10-4	
<b>SCOPE AND SCOPE EXCEPTIONS</b>			
> Entities			
N/A		606-10-15-1	
> Transactions			
5		606-10-15-2	
6		606-10-15-3	
7		606-10-15-4	
8		606-10-15-5	
<b>RECOGNITION</b>			
> Identifying the Contract			
9		606-10-25-1*	
10		606-10-25-2	
11		606-10-25-3*	
12		606-10-25-4	
13		606-10-25-5	

14	606-10-25-6
15	606-10-25-7*
16	606-10-25-8
> Combination of Contracts	
17	606-10-25-9
> Contract Modifications	
18	606-10-25-10
19	606-10-25-11
20	606-10-25-12
21	606-10-25-13
> Identifying Performance Obligations	
22	606-10-25-14
23	606-10-25-15
>> Promises in Contracts with Customers	
24	606-10-25-16*
N/A	606-10-25-16A
N/A	606-10-25-16B
25	606-10-25-17*
>> Distinct Goods or Services	
26	606-10-25-18
N/A	606-10-25-18A
N/A	606-10-25-18B
27	606-10-25-19
28	606-10-25-20
29	606-10-25-21
30	606-10-25-22

<b>&gt; Satisfaction of Performance Obligations</b>	
31	606-10-25-23
32	606-10-25-24
33	606-10-25-25
34	606-10-25-26
<b>&gt;&gt; Performance Obligations Satisfied Over Time</b>	
35	606-10-25-27
36	606-10-25-28
37	606-10-25-29
<b>&gt;&gt; Performance Obligations Satisfied at a Point in Time</b>	
38	606-10-25-30
<b>&gt;&gt; Measuring Progress toward Complete Satisfaction of a Performance Obligation</b>	
39	606-10-25-31
40	606-10-25-32
<b>&gt;&gt;&gt; Methods for Measuring Progress</b>	
41	606-10-25-33
42	606-10-25-34
43	606-10-25-35
<b>&gt;&gt;&gt; Reasonable Measures of Progress</b>	
44	606-10-25-36
45	606-10-25-37
<b>MEASUREMENT</b>	
46	606-10-32-1
<b>&gt; Determining the Transaction Price</b>	
47	606-10-32-2
N/A	606-10-32-2A
48	606-10-32-3
49	606-10-32-4

<b>&gt; &gt; Variable Consideration</b>	
50	606-10-32-5
51	606-10-32-6
52	606-10-32-7
53	606-10-32-8
54	606-10-32-9
<b>&gt; &gt; Refund Liabilities</b>	
55	606-10-32-10
<b>&gt; &gt; Constraining Estimates of Variable Consideration</b>	
56	606-10-32-11
57	606-10-32-12
58	606-10-32-13
<b>&gt; &gt; Reassessment of Variable Consideration</b>	
59	606-10-32-14
<b>&gt; &gt; The Existence of a Significant Financing Component in the Contract</b>	
60	606-10-32-15
61	606-10-32-16
62	606-10-32-17
63	606-10-32-18
64	606-10-32-19
65	606-10-32-20
<b>&gt; &gt; Noncash Consideration</b>	
66	606-10-32-21*
67	606-10-32-22
68	606-10-32-23*
69	606-10-32-24

> > Consideration Payable to a Customer	
70	606-10-32-25
71	606-10-32-26
72	606-10-32-27
> Allocating the Transaction Price to Performance Obligations	
73	606-10-32-28
74	606-10-32-29
75	606-10-32-30
> > Allocation Based on Standalone Selling Prices	
76	606-10-32-31
77	606-10-32-32
78	606-10-32-33
79	606-10-32-34
80	606-10-32-35
> > Allocation of a Discount	
81	606-10-32-36
82	606-10-32-37
83	606-10-32-38
> > Allocation of Variable Consideration	
84	606-10-32-39
85	606-10-32-40
86	606-10-32-41
> Changes in the Transaction Price	
87	606-10-32-42
88	606-10-32-43
89	606-10-32-44
90	606-10-32-45

<b>CONTRACT COSTS</b>	
<b>&gt; Overview and Background</b>	
N/A	340-40-05-1
N/A	340-40-05-2
<b>&gt; Scope and Scope Exceptions</b>	
N/A	340-40-15-1
N/A	340-40-15-2
N/A	340-40-15-3
<b>&gt;&gt; Incremental Costs of Obtaining a Contract</b>	
91	340-40-25-1
92	340-40-25-2
93	340-40-25-3
94	340-40-25-4
<b>&gt;&gt; Costs to Fulfill a Contract</b>	
95	340-40-25-5
96	340-40-25-6
97	340-40-25-7
98	340-40-25-8
<b>&gt;&gt; Amortization and Impairment</b>	
99	340-40-35-1
100	340-40-35-2
101	340-40-35-3
102	340-40-35-4
103	340-40-35-5
104	340-40-35-6

<b>OTHER PRESENTATION MATTERS</b>	
105	606-10-45-1
106	606-10-45-2
107	606-10-45-3
108	606-10-45-4
109	606-10-45-5
<b>DISCLOSURE</b>	
110	606-10-50-1
111	606-10-50-2
112	606-10-50-3
> Contracts with Customers	
113	606-10-50-4
> > Disaggregation of Revenue	
114	606-10-50-5
115	606-10-50-6
N/A	606-10-50-7
> > Contract Balances	
116	606-10-50-8
117	606-10-50-9
118	606-10-50-10
N/A	606-10-50-11
> > Performance Obligations	
119	606-10-50-12
> > Transaction Price Allocated to the Remaining Performance Obligations	
120	606-10-50-13
121	606-10-50-14
122	606-10-50-15
N/A	606-10-50-16



<b>&gt; Significant Judgments in the Application of the Guidance</b>	
123	606-10-50-17
<b>&gt; &gt; Determining the Timing of Satisfaction of Performance Obligations</b>	
124	606-10-50-18
125	606-10-50-19
<b>&gt; &gt; Determining the Transaction Price and the Amounts Allocated to Performance Obligations</b>	
126	606-10-50-20
N/A	606-10-50-21
<b>&gt; Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer</b>	
N/A	340-40-50-1
127	340-40-50-2
128	340-40-50-3
N/A	340-40-50-4
129	340-40-50-5
N/A	340-40-50-6
<b>&gt; Practical Expedients</b>	
129	606-10-50-22
N/A	606-10-50-23
<b>TRANSITION AND EFFECTIVE DATE</b>	
Appendix C	606-10-65-1*
<b>IMPLEMENTATION GUIDANCE</b>	
B1	606-10-55-3*
N/A	606-10-55-3A
N/A	606-10-55-3B
N/A	606-10-55-3C

> > Performance Obligations Satisfied Over Time	
B2	606-10-55-4
> > > Simultaneous Receipt and Consumption of the Benefits of the Entity's Performance	
B3	606-10-55-5
B4	606-10-55-6
> > > Customer Controls the Asset As It Is Created or Enhanced	
B5	606-10-55-7
> > > Entity's Performance Does Not Create an Asset with an Alternative Use	
B6	606-10-55-8
B7	606-10-55-9
B8	606-10-55-10
> > > Right to Payment for Performance Completed to Date	
B9	606-10-55-11
B10	606-10-55-12
B11	606-10-55-13
B12	606-10-55-14
B13	606-10-55-15
> > Methods for Measuring Progress toward Complete Satisfaction of a Performance Obligation	
B14	606-10-55-16
> > > Output Methods	
B15	606-10-55-17
B16	606-10-55-18
B17	606-10-55-19

<b>&gt; &gt; &gt; Input Methods</b>	
B18	606-10-55-20
B19	606-10-55-21
<b>&gt; &gt; Sale with a Right of Return</b>	
B20	606-10-55-22
B21	606-10-55-23
B22	606-10-55-24
B23	606-10-55-25
B24	606-10-55-26
B25	606-10-55-27
B26	606-10-55-28
B27	606-10-55-29
<b>&gt; &gt; Warranties</b>	
B28	606-10-55-30
B29	606-10-55-31
B30	606-10-55-32
B31	606-10-55-33
B32	606-10-55-34
B33	606-10-55-35
<b>&gt; &gt; Principal versus Agent Considerations</b>	
B34	606-10-55-36
B34A	606-10-55-36A
B35	606-10-55-37
B35A	606-10-55-37A
B35B	606-10-55-37B
B36	606-10-55-38
B37	606-10-55-39
B37A	606-10-55-39A

B38	606-10-55-40
> > Customer Options for Additional Goods or Services	
B39	606-10-55-41
B40	606-10-55-42
B41	606-10-55-43
B42	606-10-55-44
B43	606-10-55-45
> > Customers' Unexercised Rights	
B44	606-10-55-46
B45	606-10-55-47
B46	606-10-55-48
B47	606-10-55-49
> > Nonrefundable Upfront Fees (and Some Related Costs)	
B48	606-10-55-50
B49	606-10-55-51
B50	606-10-55-52
B51	606-10-55-53
> > Licensing	
B52	606-10-55-54*
B53	606-10-55-55
B54	606-10-55-56
B55	606-10-55-57*
B56	606-10-55-58*
B60	606-10-55-58A*
B61	606-10-55-58B*
B61	606-10-55-58C*

> > > Determining the Nature of the Entity's Promise	
N/A	606-10-55-59
B58	606-10-55-60*
B59	N/A
B59A	N/A
N/A	606-10-55-62
N/A	606-10-55-63
N/A	606-10-55-63A
B62	606-10-55-64*
B62	606-10-55-64A*
> > > Sales-Based or Usage-Based Royalties	
B63	606-10-55-65
B63A	606-10-55-65A
B63B	606-10-55-65B
> > > Repurchase Agreements	
B64	606-10-55-66
B65	606-10-55-67
> > > A Forward or a Call Option	
B66	606-10-55-68
B67	606-10-55-69
B68	606-10-55-70
B69	606-10-55-71
> > > A Put Option	
B70	606-10-55-72
B71	606-10-55-73
B72	606-10-55-74
B73	606-10-55-75
B74	606-10-55-76

B75	606-10-55-77
B76	606-10-55-78
> > Consignment Arrangements	
B77	606-10-55-79
B78	606-10-55-80
> > Bill-and-Hold Arrangements	
B79	606-10-55-81
B80	606-10-55-82
B81	606-10-55-83
B82	606-10-55-84
> > Customer Acceptance	
B83	606-10-55-85
B84	606-10-55-86
B85	606-10-55-87
B86	606-10-55-88
> > Disclosure of Disaggregated Revenue	
B87	606-10-55-89
B88	606-10-55-90
B89	606-10-55-91
<b>ILLUSTRATIONS</b>	
IE1	606-10-55-92
N/A	606-10-55-93
<b>Identifying the Contract</b>	
IE2	606-10-55-94*

Example 1—Collectibility of the Consideration	
IE3	606-10-55-95
IE4	606-10-55-96*
IE5	606-10-55-97*
IE6	606-10-55-98*
N/A	606-10-55-98A
N/A	606-10-55-98B
N/A	606-10-55-98C
N/A	606-10-55-98D
N/A	606-10-55-98E
N/A	606-10-55-98F
N/A	606-10-55-98G
N/A	606-10-55-98H
N/A	606-10-55-98I
N/A	606-10-55-98J
N/A	606-10-55-98K
N/A	606-10-55-98L
Example 2—Consideration Is Not the Stated Price—Implicit Price Concession	
IE7	606-10-55-99
IE8	606-10-55-100
IE9	606-10-55-101
Example 3—Implicit Price Concession	
IE10	606-10-55-102
IE11	606-10-55-103
IE12	606-10-55-104
IE13	606-10-55-105
Example 4—Reassessing the Criteria for Identifying a Contract	
IE14	606-10-55-106

IE15	606-10-55-107
IE16	606-10-55-108
IE17	606-10-55-109
<b>Contract Modifications</b>	
IE18	606-10-55-110
<b>Example 5—Modification of a Contract for Goods</b>	
IE19	606-10-55-111
IE20	606-10-55-112
IE21	606-10-55-113
IE22	606-10-55-114
IE23	606-10-55-115
IE24	606-10-55-116
<b>Example 6—Change in the Transaction Price after a Contract Modification</b>	
IE25	606-10-55-117
IE26	606-10-55-118
IE27	606-10-55-119
IE28	606-10-55-120
IE29	606-10-55-121
IE30	606-10-55-122
IE31	606-10-55-123
IE32	606-10-55-124
<b>Example 7—Modification of a Services Contract</b>	
IE33	606-10-55-125
IE34	606-10-55-126
IE35	606-10-55-127
IE36	606-10-55-128
<b>Example 8—Modification Resulting in a Cumulative Catch-Up Adjustment to Revenue</b>	
IE37	606-10-55-129



IE38	606-10-55-130
IE39	606-10-55-131
IE40	606-10-55-132
IE41	606-10-55-133
<b>Example 9—Unapproved Change in Scope and Price</b>	
IE42	606-10-55-134
IE43	606-10-55-135
<b>Identifying Performance Obligations</b>	
IE44	606-10-55-136*
<b>Example 10—Goods and Services Are Not Distinct</b>	
IE45	606-10-55-137
IE46	606-10-55-138
IE47	606-10-55-139
IE48	606-10-55-140
IE48A	606-10-55-140A
IE48B	606-10-55-140B
IE48C	606-10-55-140C
N/A	606-10-55-140D
N/A	606-10-55-140E
N/A	606-10-55-140F
<b>Example 11—Determining Whether Goods or Services Are Distinct</b>	
IE49	606-10-55-141
IE50	606-10-55-142
IE51	606-10-55-143*
IE52	606-10-55-144
IE53	606-10-55-145
IE54	606-10-55-146
IE55	606-10-55-147

IE56	606-10-55-148
IE57	606-10-55-149
IE58	606-10-55-150*
IE58A	606-10-55-150A
IE58B	606-10-55-150B
IE58C	606-10-55-150C
IE58D	606-10-55-150D
IE58E	606-10-55-150E
IE58F	606-10-55-150F
IE58G	606-10-55-150G
IE58H	606-10-55-150H
IE58I	606-10-55-150I
IE58J	606-10-55-150J
IE58K	606-10-55-150K
<b>Example 12—Explicit and Implicit Promises in a Contract</b>	
IE59	606-10-55-151
IE60	606-10-55-152
IE61	606-10-55-153
IE61A	606-10-55-153A
IE62	606-10-55-154
IE63	606-10-55-155*
IE65	606-10-55-157
IE65A	606-10-55-157A
<b>Example 12A—Series of Distinct Goods or Services</b>	
N/A	606-10-55-157B
N/A	606-10-55-157C
N/A	606-10-55-157D
N/A	606-10-55-157E

<b>Performance Obligations Satisfied Over Time</b>	
IE66	606-10-55-158
<b>Example 13—Customer Simultaneously Receives and Consumes the Benefits</b>	
IE67	606-10-55-159
IE68	606-10-55-160
<b>Example 14—Assessing Alternative Use and Right to Payment</b>	
IE69	606-10-55-161
IE70	606-10-55-162
IE71	606-10-55-163
IE72	606-10-55-164
<b>Example 15—Asset Has No Alternative Use to the Entity</b>	
IE73	606-10-55-165
IE74	606-10-55-166
IE75	606-10-55-167
IE76	606-10-55-168
<b>Example 16—Enforceable Right to Payment for Performance Completed to Date</b>	
IE77	606-10-55-169
IE78	606-10-55-170
IE79	606-10-55-171
IE80	606-10-55-172
<b>Example 17—Assessing Whether a Performance Obligation Is Satisfied at a Point in Time or Over Time</b>	
IE81	606-10-55-173
IE82	606-10-55-174
IE83	606-10-55-175
IE84	606-10-55-176
IE85	606-10-55-177
IE86	606-10-55-178
IE87	606-10-55-179

IE88	606-10-55-180
IE89	606-10-55-181
IE90	606-10-55-182
<b>Measuring Progress toward Complete Satisfaction of a Performance Obligation</b>	
IE91	606-10-55-183
<b>Example 18—Measuring Progress When Making Goods or Services Available</b>	
IE92	606-10-55-184
IE93	606-10-55-185
IE94	606-10-55-186
<b>Example 19—Uninstalled Materials</b>	
IE95	606-10-55-187
IE96	606-10-55-188
IE97	606-10-55-189
IE98	606-10-55-190
IE99	606-10-55-191
IE100	606-10-55-192
<b>Variable Consideration</b>	
IE101	606-10-55-193
<b>Example 20—Penalty Gives Rise to Variable Consideration</b>	
IE102	606-10-55-194
IE103	606-10-55-195
IE104	606-10-55-196
<b>Example 21—Estimating Variable Consideration</b>	
IE105	606-10-55-197
IE106	606-10-55-198
IE107	606-10-55-199
IE108	606-10-55-200

<b>Constraining Estimates of Variable Consideration</b>	
IE109	606-10-55-201
<b>Example 22—Right of Return</b>	
IE110	606-10-55-202
IE111	606-10-55-203
IE112	606-10-55-204
IE113	606-10-55-205
IE114	606-10-55-206
IE115	606-10-55-207
<b>Example 23—Price Concessions</b>	
IE116	606-10-55-208
IE117	606-10-55-209
IE118	606-10-55-210
IE119	606-10-55-211
IE120	606-10-55-212
IE121	606-10-55-213
IE122	606-10-55-214
IE123	606-10-55-215
<b>Example 24—Volume Discount Incentive</b>	
IE124	606-10-55-216
IE125	606-10-55-217
IE126	606-10-55-218
IE127	606-10-55-219
IE128	606-10-55-220
<b>Example 25—Management Fees Subject to Constraint</b>	
IE129	606-10-55-221
IE130	606-10-55-222
IE131	606-10-55-223

IE132	606-10-55-224
IE133	606-10-55-225
<b>The Existence of a Significant Financing Component in the Contract</b>	
IE134	606-10-55-226
<b>Example 26—Significant Financing Component and Right of Return</b>	
IE135	606-10-55-227
IE136	606-10-55-228
IE137	606-10-55-229
IE138	606-10-55-230
IE139	606-10-55-231
IE140	606-10-55-232
<b>Example 27—Withheld Payments on a Long-Term Contract</b>	
IE141	606-10-55-233
IE142	606-10-55-234
<b>Example 28—Determining the Discount Rate</b>	
IE143	606-10-55-235
IE144	606-10-55-236
IE145	606-10-55-237
IE146	606-10-55-238
IE147	606-10-55-239
<b>Example 29—Advance Payment and Assessment of Discount Rate</b>	
IE148	606-10-55-240
IE149	606-10-55-241
IE150	606-10-55-242
IE151	606-10-55-243
<b>Example 30—Advance Payment</b>	
IE152	606-10-55-244
IE153	606-10-55-245

IE154	606-10-55-246
<b>Noncash Consideration</b>	
IE155	606-10-55-247
<b>Example 31—Entitlement to Noncash Consideration</b>	
IE156	606-10-55-248
IE157	606-10-55-249
IE158	606-10-55-250*
<b>Consideration Payable to a Customer</b>	
IE159	606-10-55-251
<b>Example 32—Consideration Payable to a Customer</b>	
IE160	606-10-55-252
IE161	606-10-55-253
IE162	606-10-55-254
<b>Allocating the Transaction Price to Performance Obligations</b>	
IE163	606-10-55-255
<b>Example 33—Allocation Methodology</b>	
IE164	606-10-55-256
IE165	606-10-55-257
IE166	606-10-55-258
<b>Example 34—Allocating a Discount</b>	
IE167	606-10-55-259
IE168	606-10-55-260
IE169	606-10-55-261
IE170	606-10-55-262
IE171	606-10-55-263
IE172	606-10-55-264
IE173	606-10-55-265
IE174	606-10-55-266
IE175	606-10-55-267

IE176	606-10-55-268
IE177	606-10-55-269
<b>Example 35—Allocation of Variable Consideration</b>	
IE178	606-10-55-270
IE179	606-10-55-271
IE180	606-10-55-272
IE181	606-10-55-273
IE182	606-10-55-274
IE183	606-10-55-275
IE184	606-10-55-276
IE185	606-10-55-277
IE186	606-10-55-278
IE187	606-10-55-279
<b>Contract Costs</b>	
IE188	340-40-55-1
<b>Example 36—Incremental Costs of Obtaining a Contract</b>	
IE189	340-40-55-2
IE190	340-40-55-3
IE191	340-40-55-4
<b>Example 37—Costs That Give Rise to an Asset</b>	
IE192	340-40-55-5
IE193	340-40-55-6
IE194	340-40-55-7
IE195	340-40-55-8
IE196	340-40-55-9
<b>Presentation</b>	
IE197	606-10-55-283



Example 38—Contract Liability and Receivable	
IE198	606-10-55-284
IE199	606-10-55-285
IE200	606-10-55-286
Example 39—Contract Asset Recognized for the Entity's Performance	
IE201	606-10-55-287
IE202	606-10-55-288
IE203	606-10-55-289
IE204	606-10-55-290
Example 40—Receivable Recognized for the Entity's Performance	
IE205	606-10-55-291
IE206	606-10-55-292
IE207	606-10-55-293
IE208	606-10-55-294
Disclosure	
IE209	606-10-55-295
Example 41—Disaggregation of Revenue—Quantitative Disclosure	
IE210	606-10-55-296
IE211	606-10-55-297
Example 42—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations	
IE212	606-10-55-298
IE213	606-10-55-299
IE214	606-10-55-300
IE215	606-10-55-301
IE216	606-10-55-302
IE217	606-10-55-303
IE218	606-10-55-304
IE219	606-10-55-305

<b>Example 43—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations—Qualitative Disclosure</b>	
IE220	606-10-55-306
IE221	606-10-55-307
<b>Warranties</b>	
IE222	606-10-55-308
<b>Example 44—Warranties</b>	
IE223	606-10-55-309*
IE224	606-10-55-310
IE225	606-10-55-311
IE226	606-10-55-312
IE227	606-10-55-313
IE228	606-10-55-314
IE229	606-10-55-315
<b>Principal versus Agent Considerations</b>	
IE230	606-10-55-316
<b>Example 45—Arranging for the Provision of Goods or Services (Entity Is an Agent)</b>	
IE231	606-10-55-317
IE232	606-10-55-318
IE232A	606-10-55-318A
IE232B	606-10-55-318B
IE232C	606-10-55-318C
IE233	606-10-55-319
<b>Example 46—Promise to Provide Goods or Services (Entity Is a Principal)</b>	
IE234	606-10-55-320
IE235	606-10-55-321
IE236	606-10-55-322
IE237	606-10-55-323
IE237A	606-10-55-323A

IE237B	606-10-55-323B
IE238	606-10-55-324
Example 46A—Promise to Provide Goods or Services (Entity Is a Principal)	
IE238A	606-10-55-324A
IE238B	606-10-55-324B
IE238C	606-10-55-324C
IE238D	606-10-55-324D
IE238E	606-10-55-324E
IE238F	606-10-55-324F
IE238G	606-10-55-324G
Example 47—Promise to Provide Goods or Services (Entity Is a Principal)	
IE239	606-10-55-325
IE240	606-10-55-326
IE241	606-10-55-327
IE242	606-10-55-328
IE242A	606-10-55-328A
IE242B	606-10-55-328B
IE242C	606-10-55-328C
IE243	606-10-55-329
Example 48—Arranging for the Provision of Goods or Services (Entity Is an Agent)	
IE244	606-10-55-330
IE245	606-10-55-331
IE246	606-10-55-332
IE247	606-10-55-333
IE247A	606-10-55-333A
IE247B	606-10-55-333B
IE248	606-10-55-334

<b>Example 48A—Entity Is a Principal and an Agent in the Same Contract</b>	
IE248A	606-10-55-334A
IE248B	606-10-55-334B
IE248C	606-10-55-334C
IE248D	606-10-55-334D
IE248E	606-10-55-334E
IE248F	606-10-55-334F
<b>Customer Options for Additional Goods or Services</b>	
IE249	606-10-55-335
<b>Example 49—Option That Provides the Customer with a Material Right (Discount Voucher)</b>	
IE250	606-10-55-336
IE251	606-10-55-337
IE252	606-10-55-338
IE253	606-10-55-339
<b>Example 50—Option That Does Not Provide the Customer with a Material Right (Additional Goods or Services)</b>	
IE254	606-10-55-340
IE255	606-10-55-341
IE256	606-10-55-342
<b>Example 51—Option That Provides the Customer with a Material Right (Renewal Option)</b>	
IE257	606-10-55-343
IE258	606-10-55-344
IE259	606-10-55-345
IE260	606-10-55-346
IE261	606-10-55-347
IE262	606-10-55-348
IE263	606-10-55-349
IE264	606-10-55-350

IE265	606-10-55-351
IE266	606-10-55-352
<b>Example 52—Customer Loyalty Program</b>	
IE267	606-10-55-353
IE268	606-10-55-354
IE269	606-10-55-355
IE270	606-10-55-356
<b>Nonrefundable Upfront Fees</b>	
IE271	606-10-55-357
<b>Example 53—Nonrefundable Upfront Fee</b>	
IE272	606-10-55-358
IE273	606-10-55-359
IE274	606-10-55-360
<b>Licensing</b>	
IE275	606-10-55-361*
<b>Example 54—Right to Use Intellectual Property</b>	
IE276	606-10-55-362
IE277	606-10-55-363*
N/A	606-10-55-363A
N/A	606-10-55-363B
<b>Example 55—License of Intellectual Property</b>	
IE278	606-10-55-364
IE279	606-10-55-365
IE279A	606-10-55-365A
IE280	606-10-55-366*
<b>Example 56—Identifying a Distinct License</b>	
IE281	606-10-55-367*
IE282	606-10-55-368*
IE283	606-10-55-369

IE284	606-10-55-370*
IE285	606-10-55-371
IE286	606-10-55-372
IE286A	606-10-55-372A
IE287	606-10-55-373*
IE288	606-10-55-374*
<b>Example 57—Franchise Rights</b>	
IE289	606-10-55-375*
IE290	606-10-55-376*
IE291	606-10-55-377
IE292	606-10-55-378*
IE293	606-10-55-379*
IE294	606-10-55-380*
IE295	606-10-55-381*
IE296	606-10-55-382*
<b>Example 58—Access to Intellectual Property</b>	
IE297	606-10-55-383*
IE298	606-10-55-384
IE299	606-10-55-385*
IE300	606-10-55-386*
IE301	606-10-55-387*
IE302	606-10-55-388*
<b>Example 59—Right to Use Intellectual Property</b>	
IE303	606-10-55-389
IE304	606-10-55-390
IE305	606-10-55-391*
IE306	606-10-55-392*
N/A	606-10-55-392A

N/A	606-10-55-392B
N/A	606-10-55-392C
N/A	606-10-55-392D
<b>Example 60— Sales-Based Royalty Promised in Exchange for a License of Intellectual Property and Other Goods or Services</b>	
IE307	606-10-55-393
IE308	606-10-55-394
<b>Example 61—Access to Intellectual Property</b>	
IE309	606-10-55-395
IE310	606-10-55-396*
IE311	606-10-55-397*
IE312	606-10-55-398*
IE313	606-10-55-399*
<b>Example 61A—Right to Use Intellectual Property</b>	
N/A	606-10-55-399A
N/A	606-10-55-399B
N/A	606-10-55-399C
N/A	606-10-55-399D
N/A	606-10-55-399E
N/A	606-10-55-399F
N/A	606-10-55-399G
N/A	606-10-55-399H
N/A	606-10-55-399I
N/A	606-10-55-399J
<b>Example 61B—Distinguishing Multiple Licenses from Attributes of a Single License</b>	
N/A	606-10-55-399K
N/A	606-10-55-399L
N/A	606-10-55-399M

N/A	606-10-55-399N
N/A	606-10-55-399O
<b>Repurchase Agreements</b>	
IE314	606-10-55-400
<b>Example 62—Repurchase Agreements</b>	
IE315	606-10-55-401
IE316	606-10-55-402
IE317	606-10-55-403
IE318	606-10-55-404
IE319	606-10-55-405
IE320	606-10-55-406
IE321	606-10-55-407
<b>Bill-and-Hold Arrangements</b>	
IE322	606-10-55-408
<b>Example 63—Bill-and-Hold Arrangement</b>	
IE323	606-10-55-409
IE324	606-10-55-410
IE325	606-10-55-411
IE326	606-10-55-412
IE327	606-10-55-413



## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2017 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.