

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2016-20
December 2016

Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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

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Summary

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. The FASB guidance was issued as Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In addition to the new revenue Topics and Subtopics, the Board made approximately 800 consequential amendments to the *FASB Accounting Standards Codification*[®].

The Board has an ongoing project on its agenda about Technical Corrections and Improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are of a similar nature to the items typically addressed in the Technical Corrections and Improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to Update 2014-09.

The amendments in this Update include items brought to the Board's attention through a variety of sources, including:

1. The Codification's online feedback mechanism
2. Submissions to the Transition Resource Group for Revenue Recognition (TRG)
3. Stakeholders' technical inquiries.

The amendments in this Update affect narrow aspects of the guidance issued in Update 2014-09 as described in the table below.

Area for Correction or Improvement	Summary of Amendments
<p><i>Issue 1: Loan Guarantee Fees</i></p> <p>Topic 606 specifically identifies a scope exception for guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees. Stakeholders indicated that a few consequential amendments included in Update 2014-09 are inconsistent on whether fees from financial guarantees are within the scope of Topic 606.</p>	<p>The amendments in this Update clarify that guarantee fees within the scope of Topic 460 (other than product or service warranties) are not within the scope of Topic 606. Entities should see Topic 815, Derivatives and Hedging, for guarantees accounted for as derivatives.</p>
<p><i>Issue 2: Contract Costs—Impairment Testing</i></p> <p>Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, includes impairment guidance for costs capitalized in accordance with the recognition provisions of that Subtopic. Stakeholders raised some questions about the impairment testing of those capitalized costs.</p>	<p>The amendments in this Update clarify that when performing impairment testing an entity should (a) consider expected contract renewals and extensions and (b) include both the amount of consideration it already has received but has not recognized as revenue and the amount it expects to receive in the future.</p>
<p><i>Issue 3: Contract Costs—Interaction of Impairment Testing with Guidance in Other Topics</i></p> <p>Some stakeholders raised questions about the interaction of the impairment testing in Subtopic 340-40 with guidance in other Topics.</p>	<p>The amendments in this Update clarify that impairment testing first should be performed on assets not within the scope of Topic 340, Topic 350, Intangibles—Goodwill and Other, or Topic 360, Property, Plant, and Equipment (such as Topic 330, Inventory), then assets within the scope of Topic 340, then asset groups and reporting units within the scope of Topic 360 and Topic 350.</p>

Area for Correction or Improvement	Summary of Amendments
<p><i>Issue 4: Provisions for Losses on Construction-Type and Production-Type Contracts</i></p> <p>When issuing Update 2014-09, the Board decided to exclude specific guidance in Topic 606 for onerous contracts. However, the Board decided to retain the guidance on the provision for loss contracts in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In the consequential amendments of Update 2014-09, the testing level was changed to the performance obligation level (from the segment level). Stakeholders indicated that this amendment, in some circumstances, may require an entity to perform the loss assessment at a lower level than current practice.</p>	<p>The amendments in this Update require that the provision for losses be determined at least at the contract level. However, the amendments allow an entity to determine the provision for losses at the performance obligation level as an accounting policy election.</p>
<p><i>Issue 5: Scope of Topic 606</i></p> <p>In Topic 606, a scope exception exists for insurance contracts within the scope of Topic 944, Financial Services—Insurance. The Board’s intention was to exclude from Topic 606 all contracts that are within the scope of Topic 944, not only insurance contracts (for example, investment contracts that do not subject an insurance entity to insurance risk).</p>	<p>The amendments in this Update remove the term <i>insurance</i> from the scope exception to clarify that all contracts within the scope of Topic 944 are excluded from the scope of Topic 606.</p>
<p><i>Issue 6: Disclosure of Remaining Performance Obligations</i></p> <p>Topic 606 requires an entity to disclose information about its remaining performance obligations, including the aggregate amount of the transaction price allocated to performance</p>	<p>The amendments in this Update provide optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an</p>

Area for Correction or Improvement	Summary of Amendments
<p>obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. Topic 606 also includes optional exemptions from that disclosure for contracts with an original duration of one year or less and performance obligations in which revenue is recognized in accordance with paragraph 606-10-55-18. Stakeholders questioned whether the Board intended for an entity to estimate variable consideration for disclosure in other circumstances in which an entity is not required to estimate variable consideration to recognize revenue.</p>	<p>entity need not estimate variable consideration to recognize revenue.</p> <p>The amendments in this Update also expand the information that is required to be disclosed when an entity applies one of the optional exemptions.</p>
<p><i>Issue 7: Disclosure of Prior-Period Performance Obligations</i></p> <p>Topic 606 requires an entity to disclose revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods. Stakeholders indicated that the placement of the disclosure in the Codification results in confusion about whether this disclosure applies only to performance obligations with corresponding contract balances or to all performance obligations.</p>	<p>The amendments in this Update clarify that the disclosure of revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods applies to all performance obligations and is not limited to performance obligations with corresponding contract balances.</p>
<p><i>Issue 8: Contract Modifications Example</i></p> <p>Example 7 in Topic 606 illustrates the application of the guidance on contract modifications. Some stakeholders perceived minor inconsistencies with the contract modifications guidance in Topic 606.</p>	<p>The amendments in this Update better align Example 7 with the principles in Topic 606.</p>

Area for Correction or Improvement	Summary of Amendments
<p>Issue 9: Contract Asset versus Receivable</p> <p>Example 38, Case B in Topic 606 illustrates the application of the presentation guidance on contract assets and receivables. Some stakeholders expressed concern that the example indicates that an entity cannot record a receivable before its due date.</p>	<p>The amendments in this Update provide a better link between the analysis in Example 38, Case B and the receivables presentation guidance in Topic 606.</p>
<p>Issue 10: Refund Liability</p> <p>Example 40 in Topic 606 illustrates the recognition of a receivable and a refund liability. Some stakeholders expressed concern that the example indicates that a refund liability should be characterized as a contract liability.</p>	<p>The amendment in this Update removes the reference to the term <i>contract liability</i> from the journal entry in Example 40.</p>
<p>Issue 11: Advertising Costs</p> <p>Update 2014-09 supersedes much of the guidance in Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs, because it would have conflicted with new cost capitalization guidance in Subtopic 340-40. Therefore, an entity that previously capitalized advertising costs in accordance with the guidance in Subtopic 340-20 would apply the capitalization guidance in Subtopic 340-40 upon the adoption of Update 2014-09. Guidance on when to recognize a liability had been included within Subtopic 340-20 and was inadvertently superseded by Update 2014-09.</p>	<p>The amendments in this Update reinstate the guidance on the accrual of advertising costs and also move the guidance to Topic 720, Other Expenses.</p>

Area for Correction or Improvement	Summary of Amendments
<p><i>Issue 12: Fixed-Odds Wagering Contracts in the Casino Industry</i></p> <p>Subtopic 924-605, Entertainment—Casinos—Revenue Recognition, currently includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific guidance was superseded by Update 2014-09, along with nearly all existing industry-specific revenue guidance in GAAP. Therefore, some stakeholders questioned whether fixed-odds wagering contracts are within the scope of Topic 606 or, rather, whether they should be accounted for as derivatives within the scope of Topic 815.</p>	<p>The amendments in this Update (a) create a new Subtopic 924-815, Entertainment—Casinos—Derivatives and Hedging, which includes a scope exception from derivatives guidance for fixed-odds wagering contracts and (b) includes a scope exception within Topic 815 for fixed-odds wagering contracts issued by casino entities.</p>
<p><i>Issue 13: Cost Capitalization for Advisors to Private Funds and Public Funds</i></p> <p>A consequential amendment included in Update 2014-09 moved cost guidance from Subtopic 946-605, Financial Services—Investment Companies—Revenue Recognition, to Subtopic 946-720, Financial Services—Investment Companies—Other Expenses. This amendment was intended to move the guidance only and was not intended to change practice. However, the consequential amendment in Update 2014-09 could have resulted in inconsistent accounting for offering costs among advisors to public funds and private funds.</p>	<p>The amendments in this Update align the cost-capitalization guidance for advisors to both public funds and private funds in Topic 946.</p>

When Will the Amendments Be Effective?

The amendments in this Update affect the guidance in Update 2014-09, which is not yet effective. The effective date and transition requirements for the amendments 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.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–46. 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: Loan Guarantee Fees

2. The following amendments clarify that guarantees (other than product or service warranties), including guarantee fees, within the scope of Topic 460, Guarantees, are not within the scope of Topic 606, Revenue from Contracts with Customers.

Amendments to Subtopic 310-10

3. Amend paragraph 310-10-60-4 and supersede its related heading, with a link to transition paragraph 606-10-65-1, as follows:

Receivables—Overall

Relationships

> ~~Revenue Recognition~~

310-10-60-4 For guidance on **loan** guarantees, in which an entity (guarantor) lends its creditworthiness to another party (borrower) for a fee, thereby enhancing that other party's ability to borrow funds, see Topic 460 on guarantees. See Topic 815 on derivatives and hedging for guarantees accounted for as a derivative ~~606 on revenue from contracts with customers~~.

Amendments to Subtopic 942-825

4. Amend paragraph 942-825-50-2, with a link to transition paragraph 606-10-65-1, as follows:

Financial Services—Depository and Lending—Financial Instruments

Disclosure

> Off-Balance-Sheet Credit Risk

Pending Content:

Transition Date: (P) December 16, 2017; (N) December 16, 2018 | **Transition Guidance:** 606-10-65-1

942-825-50-2 Examples of activities and financial instruments with off-balance-sheet credit risk include obligations for loans sold with recourse (with or without a floating-interest-rate provision), fixed-rate and variable-rate loan commitments, financial guarantees, note issuance facilities at floating rates, and letters of credit. An entity (guarantor) may “lend” its creditworthiness to another party (borrower) for a fee, thereby enhancing that other party’s ability to borrow funds. The guarantor may provide a general guarantee of repayment of the borrower’s obligation or may pledge specific assets that may be claimed by the creditor in the event of the borrower’s default. A loan guarantee typically involves two sets of fees: an initial fee due at the consummation of the transaction and a continuing (annual) fee due over the term of the guarantee. A guarantor ~~is~~ may be required to disclose and account for a financial guarantee under Topic 460 on guarantees. See Topic 815 on derivatives and hedging for guarantees accounted for as a derivative ~~606 on revenue from contracts with customers~~. See paragraph 825-10-55-3 regarding disclosures about fair value of financial instruments.

In addition, amend the following pending content for paragraph 942-825-50-2, with no additional link to a transition paragraph:

Transition Date: (P) December 16, 2017; (N) December 16, 2018 | **Transition Guidance:** 825-10-65-2

942-825-50-2 Examples of activities and financial instruments with off-balance-sheet credit risk include obligations for loans sold with recourse (with or without a floating-interest-rate provision), fixed-rate and variable-rate loan commitments, financial guarantees, note issuance facilities at floating rates, and letters of credit. An entity (guarantor) may “lend” its creditworthiness to another party (borrower) for a fee, thereby enhancing that other party’s ability to borrow funds. The guarantor may provide a general guarantee of repayment of the borrower’s obligation or may pledge specific assets that may be claimed by the creditor in the event of the borrower’s default. A loan guarantee typically involves two sets of fees: an initial fee due at the consummation of the transaction and a continuing (annual) fee due over the term of the guarantee. A guarantor ~~is~~ may be required to disclose and account for a financial guarantee under Topic 460 on guarantees. See Topic 815 on derivatives and hedging for guarantees accounted for as a derivative ~~606 on revenue from contracts with customers~~.

Issue 2: Contract Costs—Impairment Testing

5. The amendments clarify that when performing impairment testing an entity should (a) consider expected contract renewals and extensions and (b) include both the amount of consideration it already has received but has not recognized as revenue and the amount the entity expects to receive in the future.

Amendments to Subtopic 340-40

6. Amend paragraphs 340-40-35-3 through 35-4, with a link to transition paragraph 606-10-65-1, as follows:

Other Assets and Deferred Costs—Contracts with Customers

Subsequent Measurement

> Amortization and Impairment

340-40-35-3 An entity shall recognize an impairment loss in profit or loss to the extent that the carrying amount of an asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5 exceeds:

- a. The ~~remaining~~ amount of consideration that the entity expects to receive in the future and that the entity has received but has not recognized as revenue, in exchange for the goods or services to which the asset relates (“the consideration”), less
- b. The costs that relate directly to providing those goods or services and that have not been recognized as expenses (see ~~paragraph~~ paragraphs 340-40-25-2 and 340-40-25-7).

340-40-35-4 For the purposes of applying paragraph 340-40-35-3 to determine the ~~amount of consideration that an entity expects to receive~~, an entity shall use the principles for determining the **transaction price** (except for the guidance in paragraphs 606-10-32-11 through 32-13 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk. When determining the consideration for the purposes of paragraph 340-40-35-3, an entity also shall consider expected contract renewals and extensions (with the same customer).

Issue 3: Contract Costs—Interaction of Impairment Testing with Guidance in Other Topics

7. The following amendments clarify that impairment testing first should be performed on assets not within the scope of Topic 340, Other Assets and Deferred Costs; Topic 350, Intangibles—Goodwill and Other; or Topic 360, Property, Plant, and Equipment (such as Topic 330, Inventory), then assets within the scope of Topic 340, then asset groups and reporting units within the scope of Topics 350 and 360.

Amendments to Subtopic 340-40

8. Amend paragraph 340-40-35-5, with a link to transition paragraph 606-10-65-1, as follows:

Other Assets and Deferred Costs—Contracts with Customers

Subsequent Measurement

> Amortization and Impairment

340-40-35-5 Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5, the entity shall recognize any impairment loss for assets related to the contract that are recognized in accordance with another Topic other than Topic 340 on other assets and deferred costs, Topic 350 on goodwill and other intangible assets, or Topic 360 on property, plant, and equipment (for example, Topic 330 on ~~inventory; inventory and~~ Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed; ~~Topic 360 on property, plant, and equipment; and Topic 350 on goodwill and other intangibles~~). After applying the impairment test in paragraph 340-40-35-3, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5 in the carrying amount of the asset group or reporting unit to which it belongs for the purpose of applying the guidance in Topics 360 and 350 ~~to that asset group or reporting unit~~.

Issue 4: Provisions for Losses on Construction-Type and Production-Type Contracts

9. The following amendments require that the provision for losses be determined at least at the contract level. However, the amendments allow an entity to determine the provision for losses at the performance obligation level as an accounting policy election.

Amendments to Subtopic 605-35

10. Amend paragraph 605-35-25-47, with a link to transition paragraph 606-10-65-1, as follows:

Revenue Recognition—Construction-Type and Production-Type Contracts

Recognition

> Provisions for Losses on Contracts

605-35-25-45 For a contract on which a loss is anticipated, an entity shall recognize the entire anticipated loss as soon as the loss becomes evident.

605-35-25-46 When the current estimates of the amount of consideration that an entity expects to receive in exchange for transferring promised goods or services to the **customer**, determined in accordance with Topic 606, and contract cost indicate a loss, a provision for the entire loss on the contract shall be made. Provisions for losses shall be made in the period in which they become evident.

605-35-25-46A For the purpose of determining the amount that an entity expects to receive in accordance with paragraph 605-35-25-46, the entity shall use the principles for determining the transaction price in paragraphs 606-10-32-2 through 32-27 (except for the guidance in paragraphs 606-10-32-11 through 32-13 on constraining estimates of variable consideration) and allocating the transaction price in paragraphs 606-10-32-28 through 32-41. In addition, the entity shall adjust that amount to reflect the effects of the customer's credit risk.

605-35-25-47 If a group of contracts are combined based on the guidance in paragraph 606-10-25-9, they shall be treated as a unit in determining the necessity for a provision for a loss. If contracts are not combined, the loss is determined at the contract level (see paragraph 605-35-25-45). **Performance obligations** As an accounting policy election, performance obligations identified in accordance with paragraphs 606-10-25-14 through 25-22 ~~shall~~ may be considered separately in determining the need for a provision for a loss. That is, an entity can elect to

determine provisions for losses at either the contract level (including contracts that are combined in accordance with the guidance in paragraph 606-10-25-9) or the performance obligation level. An entity shall apply this accounting policy election in the same manner for similar types of contracts.

Issue 5: Scope of Topic 606

11. The following amendments remove the term *insurance* from the scope exception to clarify that all contracts within the scope of Topic 944, Financial Services—Insurance, are excluded from the scope of Topic 606.

Amendments to Subtopic 606-10

12. Amend paragraph 606-10-15-2, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Scope and Scope Exceptions

> Transactions

606-10-15-2 An entity shall apply the guidance in this Topic to all **contracts** with **customers**, except the following:

- a. Lease contracts within the scope of Topic 840, Leases.
- b. ~~Insurance contracts~~ Contracts within the scope of Topic 944, Financial Services—Insurance.
- c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:
 1. Topic 310, Receivables
 2. Topic 320, Investments—Debt and Equity Securities
 3. Topic 323, Investments—Equity Method and Joint Ventures
 4. Topic 325, Investments—Other
 5. Topic 405, Liabilities
 6. Topic 470, Debt
 7. Topic 815, Derivatives and Hedging
 8. Topic 825, Financial Instruments
 9. Topic 860, Transfers and Servicing.
- d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.
- e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree

to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

In addition, amend the following pending content for paragraph 606-10-15-2, with no additional link to a transition paragraph:

Pending Content:

Transition Date: (P) December 16, 2017; (N) December 16, 2018 | **Transition Guidance:** 825-10-65-2

606-10-15-2 An entity shall apply the guidance in this Topic to all **contracts** with **customers**, except the following:

- a. Lease contracts within the scope of Topic 840, Leases.
- b. ~~Insurance contracts~~ Contracts within the scope of Topic 944, Financial Services—Insurance.
- c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:
 1. Topic 310, Receivables
 2. Topic 320, Investments—Debt Securities
 - 2a. Topic 321, Investments—Equity Securities
 3. Topic 323, Investments—Equity Method and Joint Ventures
 4. Topic 325, Investments—Other
 5. Topic 405, Liabilities
 6. Topic 470, Debt
 7. Topic 815, Derivatives and Hedging
 8. Topic 825, Financial Instruments
 9. Topic 860, Transfers and Servicing.
- d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.
- e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

Pending Content:

Transition Date: (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

606-10-15-2 An entity shall apply the guidance in this Topic to all **contracts** with **customers**, except the following:

- a. Lease contracts within the scope of Topic 842, Leases.
- b. ~~Insurance contracts~~ Contracts within the scope of Topic 944, Financial Services—Insurance.
- c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:
 - 1. Topic 310, Receivables
 - 2. Topic 320, Investments—Debt Securities
 - 2a. Topic 321, Investments—Equity Securities
 - 3. Topic 323, Investments—Equity Method and Joint Ventures
 - 4. Topic 325, Investments—Other
 - 5. Topic 405, Liabilities
 - 6. Topic 470, Debt
 - 7. Topic 815, Derivatives and Hedging
 - 8. Topic 825, Financial Instruments
 - 9. Topic 860, Transfers and Servicing.
- d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.
- e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

Issue 6: Disclosure of Remaining Performance Obligations

13. The following amendments provide optional exemptions from the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration to recognize revenue. The following amendments also expand the information required to be disclosed when an entity applies one of the optional exemptions.

Amendments to Subtopic 606-10

14. Amend paragraphs 606-10-50-14 through 50-15 and add paragraphs 606-10-50-14A through 50-14B, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Disclosure

> > Transaction Price Allocated to the Remaining Performance Obligations

606-10-50-13 An entity shall disclose the following information about its remaining performance obligations:

- a. The aggregate amount of the **transaction price** allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period
- b. An explanation of when the entity expects to recognize as **revenue** the amount disclosed in accordance with paragraph 606-10-50-13(a), which the entity shall disclose in either of the following ways:
 1. On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations
 2. By using qualitative information.

606-10-50-14 ~~As a practical expedient, an~~ An entity need not disclose the information in paragraph 606-10-50-13 for a performance obligation if either of the following conditions is met:

- a. The performance obligation is part of a **contract** that has an original expected duration of one year or less.
- b. The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph 606-10-55-18.

606-10-50-14A An entity need not disclose the information in paragraph 606-10-50-13 for variable consideration for which either of the following conditions is met:

- a. The variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property accounted for in accordance with paragraphs 606-10-55-65 through 55-65B.
- b. The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b), for which the criteria in paragraph 606-10-32-40 have been met.

606-10-50-14B The optional exemptions in paragraphs 606-10-50-14(b) and 606-10-50-14A shall not be applied to fixed consideration.

606-10-50-15 An entity shall disclose which explain qualitatively whether it is applying the practical expedient optional exemptions in paragraph paragraphs 606-10-50-14 through 50-14A it is applying. In addition, an entity applying the optional exemptions in paragraphs 606-10-50-14 through 50-14A shall disclose the nature of the performance obligations, the remaining duration (see paragraph 606-10-25-3), and a description of the variable consideration (for example, the nature of the variability and how that variability will be resolved) that has been excluded from the information disclosed in accordance with paragraph 606-10-50-13. This information shall include sufficient detail to enable users of financial statements to understand the remaining performance obligations that the entity excluded from the information disclosed in accordance with paragraph 606-10-50-13. In addition, an entity shall explain and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 606-10-50-13. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 606-10-32-11 through 32-13).

15. Amend paragraph 606-10-55-300 and add paragraph 606-10-55-305A, with a link to transition paragraph 606-10-65-1, as follows:

Implementation Guidance and Illustrations

> Illustrations

> > Disclosure

> > > Example 42—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

606-10-55-298 On June 30, 20X7, an entity enters into three contracts (Contracts A, B, and C) with separate customers to provide services. Each contract has a two-year noncancellable term. The entity considers the guidance in paragraphs 606-10-50-13 through 50-15 in determining the information in each contract to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

> > > > Contract A

606-10-55-299 Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the customer pays an hourly rate of \$25.

606-10-55-300 Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph 606-10-55-18. Consequently, ~~no disclosure is necessary~~ if the entity ~~could elect~~elects to apply the ~~practical-expedient optional exemption~~ in paragraph 606-10-50-14(b). If the entity elects not to disclose the transaction price allocated to remaining performance obligations for Contract A, the entity would disclose that it has applied the optional exemption in paragraph 606-10-50-14(b). The entity also would disclose the nature of the performance obligation, the remaining duration, and a description of the variable consideration that has been excluded from the disclosure of remaining performance obligations in accordance with paragraph 606-10-50-15.

> > > Contract B

606-10-55-301 Cleaning services and lawn maintenance services are to be provided as and when needed with a maximum of four visits per month over the next two years. The customer pays a fixed price of \$400 per month for both services. The entity measures its progress toward complete satisfaction of the performance obligation using a time-based measure.

606-10-55-302 The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to recognize the amount as revenue. The information for Contract B included in the overall disclosure is as follows.

	<u>20X8</u>	<u>20X9</u>	<u>Total</u>
Revenue expected to be recognized on this contract as of December 31, 20X7	\$4,800 ^(a)	\$ 2,400 ^(b)	\$ 7,200

(a) \$4,800 = \$400 × 12 months

(b) \$2,400 = \$400 × 6 months

> > > Contract C

606-10-55-303 Cleaning services are to be provided as and when needed over the next two years. The customer pays fixed consideration of \$100 per month plus a one-time variable consideration payment ranging from \$0 – \$1,000 corresponding to a one-time regulatory review and certification of the customer's facility (that is, a performance bonus). The entity estimates that it will be entitled to \$750 of the variable consideration. On the basis of the entity's assessment of the factors in paragraph 606-10-32-12, the entity includes its estimate of \$750 of variable consideration in the transaction price because it is probable that a significant

reversal in the amount of cumulative revenue recognized will not occur. The entity measures its progress toward complete satisfaction of the performance obligation using a time-based measure.

606-10-55-304 The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to recognize the amount as revenue. The entity also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Contract C included in the overall disclosure is as follows.

	<u>20X8</u>	<u>20X9</u>	<u>Total</u>
Revenue expected to be recognized on this contract as of December 31, 20X7	\$ 1,575 ^(a)	\$ 788 ^(b)	\$ 2,363
(a) Transaction price = \$3,150 (\$100 × 24 months + \$750 variable consideration) recognized evenly over 24 months at \$1,575 per year			
(b) \$1,575 ÷ 2 = \$788 (that is, for 6 months of the year)			

606-10-55-305 In addition, in accordance with paragraph 606-10-50-15, the entity discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the guidance on constraining estimates of variable consideration.

606-10-55-305A The entity does not meet the criteria to apply the optional exemption in paragraph 606-10-50-14A because the monthly consideration is fixed and the variable consideration does not meet the condition in paragraph 606-10-50-14A(b).

Issue 7: Disclosure of Prior-Period Performance Obligations

16. The following amendments clarify that the disclosure of revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods applies to all performance obligations and is not limited to performance obligations with corresponding contract balances. The clarification is made by moving an existing disclosure requirement in paragraph 606-10-50-8(c) to paragraph 606-10-50-12A.

Amendments to Subtopic 606-10

17. Amend paragraph 606-10-50-8 and add paragraph 606-10-50-12A, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Disclosure

> > Contract Balances

606-10-50-8 An entity shall disclose all of the following:

- a. The opening and closing balances of receivables, **contract assets**, and **contract liabilities** from **contracts** with **customers**, if not otherwise separately presented or disclosed
- b. **Revenue** recognized in the reporting period that was included in the contract liability balance at the beginning of the period
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2016-20. Revenue recognized in the reporting period from **performance obligations** satisfied (or partially satisfied) in previous periods (for example, changes in **transaction price**).~~ **[Content amended and moved to paragraph 606-10-50-12A]**

> > Performance Obligations

606-10-50-12 An entity shall disclose information about its **performance obligations** in **contracts** with **customers**, including a description of all of the following:

- a. When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered, or upon completion of service) including when performance obligations are satisfied in a bill-and-hold arrangement
- b. The significant payment terms (for example, when payment typically is due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 606-10-32-11 through 32-13)
- c. The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent)
- d. Obligations for returns, refunds, and other similar obligations
- e. Types of warranties and related obligations.

606-10-50-12A An entity shall disclose ~~revenue~~Revenue recognized in the reporting period from ~~{remove glossary link}~~**performance obligations**~~{remove glossary link}~~ satisfied (or partially satisfied) in previous periods (for example,

changes in {remove glossary link}transaction price(remove glossary link}).
[Content amended as shown and moved from paragraph 606-10-50-8(c)]

Amendments to Subtopic 270-10

18. Amend paragraph 270-10-50-1A, with a link to transition paragraph 606-10-65-1, as follows:

Interim Reporting—Overall

Disclosures

270-10-50-1A Consistent with paragraph 270-10-50-1, 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, or an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission, shall disclose all of the following information about **revenue** from **contracts** with **customers** consistent with the guidance in Topic 606:

- a. A disaggregation of revenue for the period, see paragraphs 606-10-50-5 through 50-6 and paragraphs 606-10-55-89 through 55-91.
- b. The opening and closing balances of receivables, **contract assets**, and **contract liabilities** from contracts with customers (if not otherwise separately presented or disclosed), see paragraph 606-10-50-8(a).
- c. Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period, see paragraph 606-10-50-8(b).
- d. Revenue recognized in the reporting period from **performance obligations** satisfied (or partially satisfied) in previous periods (for example, changes in **transaction price**), see paragraph ~~606-10-50-8(e)~~ 606-10-50-12A.
- e. Information about the entity's remaining performance obligations as of the end of the reporting period, see paragraphs 606-10-50-13 through 50-15.

Issue 8: Contract Modifications Example

19. The following amendments better align Example 7 with the principles in Topic 606.

Amendments to Subtopic 606-10

20. Amend paragraphs 606-10-55-125 and 606-10-55-127 through 55-128, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Implementation Guidance and Illustrations

> Illustrations

> > Contract Modifications

> > > Example 7—Modification of a Services Contract

606-10-55-125 An entity enters into a three-year contract to clean a customer's offices on a weekly basis. The customer promises to pay \$100,000 per year. The standalone selling price of the services at contract inception is \$100,000 per year. The entity recognizes revenue of \$100,000 per year during the first 2 years of providing services. At the end of the second year, the contract is modified and the fee for the third year is reduced to \$80,000. In addition, the customer agrees to extend the contract for 3 additional years for consideration of \$200,000 payable in 3 equal annual installments of \$66,667 at the beginning of years 4, 5, and 6. ~~After the modification, the contract has 4 years remaining in exchange for total consideration of \$280,000.~~ The standalone selling price of the services for years 4 through 6 at the beginning of the third year is \$80,000 per year. The entity's standalone selling price at the beginning of the third year, multiplied by the remaining number of years to provide additional 3 years of services, is \$240,000, which is deemed to be an appropriate estimate of the standalone selling price of the multiyear contract ~~(that is, the standalone selling price is 4 years × \$80,000 per year = \$320,000).~~

606-10-55-126 At contract inception, the entity assesses that each week of cleaning service is distinct in accordance with paragraph 606-10-25-19. Notwithstanding that each week of cleaning service is distinct, the entity accounts for the cleaning contract as a single performance obligation in accordance with paragraph 606-10-25-14(b). This is because the weekly cleaning services are a series of distinct services that are substantially the same and have the same pattern of transfer to the customer (the services transfer to the customer over time and use the same method to measure progress—that is, a time-based measure of progress).

606-10-55-127 At the date of the modification, the entity assesses the remaining additional services to be provided and concludes that they are distinct. However,

the price change amount of remaining consideration to be paid (\$280,000) does not reflect the standalone selling price of the services to be provided (\$320,000).

606-10-55-128 Consequently, the entity accounts for the modification in accordance with paragraph 606-10-25-13(a) as if it were a termination of the original contract and the creation of a new contract with consideration of \$280,000 for 4 years of cleaning service. The entity recognizes revenue of \$70,000 per year ($\$280,000 \div 4$ years) as the services are provided over the remaining 4 years.

Issue 9: Contract Asset versus Receivable

21. The following amendments provide a better link between the analysis in Example 38, Case B and the receivables presentation guidance in Topic 606.

Amendments to Subtopic 606-10

22. Amend paragraphs 606-10-55-285 through 55-286, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Implementation Guidance and Illustrations

> Illustrations

>> Presentation

>>> Example 38—Contract Liability and Receivable

>>>> Case A—Cancellable Contract

606-10-55-284 On January 1, 20X9, an entity enters into a cancellable contract to transfer a product to a customer on March 31, 20X9. The contract requires the customer to pay consideration of \$1,000 in advance on January 31, 20X9. The customer pays the consideration on March 1, 20X9. The entity transfers the product on March 31, 20X9. The following journal entries illustrate how the entity accounts for the contract:

- a. The entity receives cash of \$1,000 on March 1, 20X9 (cash is received in advance of performance).

Cash	\$ 1,000	
Contract liability		\$ 1,000

- b. The entity satisfies the performance obligation on March 31, 20X9.

Contract liability	\$ 1,000	
Revenue		\$ 1,000

> > > **Case B—Noncancellable Contract**

606-10-55-285 The same facts as in Case A apply to Case B except that the contract is becomes noncancellable on January 31, 20X9. The following journal entries illustrate how the entity accounts for the contract:

- a. ~~The amount of consideration is due on January 31, 20X9 is the date at which~~ which ~~(which is when the entity recognizes a receivable because it has an unconditional right to consideration consideration).~~

Receivable	\$ 1,000	
Contract liability		\$ 1,000

- b. The entity receives the cash on March 1, 20X9.

Cash	\$ 1,000	
Receivable		\$ 1,000

- c. The entity satisfies the performance obligation on March 31, 20X9.

Contract liability	\$ 1,000	
Revenue		\$ 1,000

606-10-55-286 If the entity issued the invoice before January 31, 20X9 ~~(the due date of the consideration)~~, the entity would not recognize present the receivable and the contract liability ~~on a gross basis~~ in the statement of financial position because the entity does not yet have a right to consideration that is unconditional (the contract is cancellable before January 31, 20X9).

Issue 10: Refund Liability

23. The following amendment removes the reference to the term *contract liability* from the journal entry in Example 40.

Amendments to Subtopic 606-10

24. Amend paragraph 606-10-55-293, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Implementation Guidance and Illustrations

> Illustrations

> > Presentation

> > > Example 40—Receivable Recognized for the Entity's Performance

606-10-55-291 An entity enters into a contract with a customer on January 1, 20X9, to transfer products to the customer for \$150 per product. If the customer purchases more than 1 million products in a calendar year, the contract indicates that the price per unit is retrospectively reduced to \$125 per product.

606-10-55-292 Consideration is due when control of the products transfer to the customer. Therefore, the entity has an unconditional right to consideration (that is, a receivable) for \$150 per product until the retrospective price reduction applies (that is, after 1 million products are shipped).

606-10-55-293 In determining the transaction price, the entity concludes at contract inception that the customer will meet the 1 million products threshold and therefore estimates that the transaction price is \$125 per product. Consequently, upon the first shipment to the customer of 100 products the entity recognizes the following.

Receivable	\$ 15,000	^(a)	
Revenue			\$ 12,500 ^(b)
Refund liability (contract liability)			\$ 2,500

(a) \$150 per product × 100 products

(b) \$125 transaction price per product × 100 products

606-10-55-294 The refund liability (see paragraph 606-10-32-10) represents a refund of \$25 per product, which is expected to be provided to the customer for the volume-based rebate (that is, the difference between the \$150 price stated in the contract that the entity has an unconditional right to receive and the \$125 estimated transaction price).

Issue 11: Advertising Costs

25. The following amendments reinstate the guidance on accounting for accrual of advertising costs and also move the guidance to Topic 720, Other Expenses.

Amendments to Subtopic 720-35

26. Amend paragraph 720-35-05-1, with a link to transition paragraph 606-10-65-1, as follows:

Other Expenses—Advertising Costs

Overview and Background

720-35-05-1 This Subtopic provides guidance for annual financial statements on the following:

- a. Reporting the costs of advertising, ~~which shall be expensed either as incurred or the first time the advertising takes place~~
- b. The financial statement disclosures that shall be made about advertising.

27. Add paragraph 720-35-15-5, with a link to transition paragraph 606-10-65-1, as follows:

[See page 29 for paragraph 340-20-15-4, which has been previously superseded.]

720-35-15-5 The guidance in paragraph 720-35-25-1A applies to accounting for costs related to direct-response advertising activities. Direct-response advertising

activities exclude advertising that, though related to the direct-response advertising, is directed to an audience that could not be shown to have responded specifically to the direct-response advertising. For example, a television commercial announcing that order forms (that are direct-response advertising) soon will be distributed directly to some people in the viewing area would not be a direct-response advertising activity because the television commercial is directed to a broad audience, not all of which could be shown to have responded specifically to the direct-response advertising. **[Content amended as shown and moved from paragraph 340-20-15-4]**

28. Add paragraph 720-35-25-1A and its related heading, with a link to transition paragraph 606-10-65-1, as follows:

Recognition

720-35-25-1 The costs of advertising within the scope of this Subtopic shall be expensed either as incurred or the first time the advertising takes place. The accounting policy selected from these two alternatives shall be applied consistently to similar kinds of advertising activities. Deferring the costs of advertising until the advertising takes place assumes that the costs have been incurred for advertising that will occur. Such costs shall be expensed immediately if such advertising is not expected to occur. Examples of the first time advertising takes place include the first public showing of a television commercial for its intended purpose and the first appearance of a magazine advertisement for its intended purpose.

[See page 29 for paragraph 340-20-25-2, which has been previously superseded.]

> Direct-Response Advertising Costs

720-35-25-1A Expenditures for some advertising costs are made after recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers' advertising costs (cooperative advertising). When revenues related to the transactions creating those obligations are recognized before the expenditures are made, those obligations shall be accrued and the advertising costs expensed when the related revenues are recognized.

[In addition, the following paragraphs, which are being superseded upon transition, are included for reference.]

Other Assets and Deferred Costs—Capitalized Advertising Costs

Scope and Scope Exceptions

> Overall Guidance

340-20-15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 340-10-15, with specific transaction qualifications and exceptions noted below.

> Transactions

340-20-15-2 The guidance in this Subtopic applies to the following transactions and activities:

- a. Accounting for costs related to direct-response advertising activities.
- b. Accounting for tangible assets used for several advertising campaigns.

340-20-15-3 The guidance in this Subtopic does not apply to the following transactions and activities, which, for purposes of this Subtopic, are not costs of direct-response advertising activities:

- a. Administrative costs
- b. Rent
- c. Depreciation other than depreciation of assets used directly for advertising activities (see paragraph 340-20-35-6)
- d. Other occupancy costs.

340-20-15-4 Direct-response advertising activities exclude advertising that, though related to the direct-response advertising, is directed to an audience that could not be shown to have responded specifically to the direct-response advertising. For example, a television commercial announcing that order forms (that are direct-response advertising) soon will be distributed directly to some people in the viewing area would not be a direct-response advertising activity because the television commercial is directed to a broad audience, not all of which could be shown to have responded specifically to the direct-response advertising.

Recognition

> Criteria to Capitalize Direct-Response Advertising Costs

340-20-25-2 Expenditures for some advertising costs are made subsequent to recognizing revenues related to those costs. For example, some entities assume an obligation to reimburse their customers for some or all of the customers' advertising costs (cooperative advertising). Generally, revenues related to the transactions creating those obligations are earned and recognized before the expenditures are made. For purposes of applying the guidance in this Subtopic,

those obligations shall be accrued and the advertising costs expensed when the related revenues are recognized.

Issue 12: Fixed-Odds Wagering Contracts in the Casino Industry

29. The following amendments create a scope exception within Topic 815 for fixed-odds wagering contracts issued by casino entities to clarify that those contracts are within the scope of Topic 606.

Amendments to Subtopic 815-10

30. Amend paragraph 815-10-15-13 and add paragraph 815-10-15-82A and its related heading, with a link to transition paragraph 606-10-65-1, as follows:

Derivatives and Hedging—Overall

Scope and Scope Exceptions

> Instruments

> > Instruments Not within Scope

815-10-15-13 Notwithstanding the conditions in paragraphs 815-10-15-83 through 15-139, the following contracts are not subject to the requirements of this Subtopic if specified criteria are met:

- a. Regular-way security trades
- b. Normal purchases and normal sales
- c. Certain insurance contracts
- d. Certain financial guarantee contracts
- e. Certain contracts that are not traded on an exchange
- f. Derivative instruments that impede sales accounting
- g. Investments in life insurance
- h. Certain investment contracts
- i. Certain loan commitments
- j. Certain interest-only strips and principal-only strips
- k. Certain contracts involving an entity's own equity
- l. Leases
- m. Residual value guarantees
- n. **Registration payment arrangements.**
- o. Certain fixed-odds wagering contracts.

> > Certain Fixed-Odds Wagering Contracts

815-10-15-82A Fixed-odds wagering contracts for an entity operating as a casino and for the casino operations of other entities are within the scope of Topic 606 on revenue from contracts with customers. See paragraph 924-815-15-1.

Amendments to Subtopic 924-10

31. Amend paragraph 924-10-05-1, with a link to transition paragraph 606-10-65-1, as follows:

Entertainment—Casinos—Overall

Overview and Background

924-10-05-1 The Entertainment—Casinos Topic includes the following Subtopics:

- a. Overall
- b. Segment Reporting
- c. Liabilities
- d. Subparagraph superseded by Accounting Standards Update No. 2014-09
- e. Other Expenses
- f. Income Taxes.
- g. Derivatives and Hedging.

Addition of Subtopic 924-815

32. Add Subtopic 924-815, with a link to transition paragraph 606-10-65-1, as follows:

[For ease of readability, the new Subtopic is not underlined.]

Entertainment—Casinos—Derivatives and Hedging

Overview and Background

General

924-815-05-1 This Subtopic includes the accounting and reporting standards for entities operating as casinos and for the casino operations of other entities, for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities.

Scope and Scope Exceptions

General

> Overall Guidance

924-815-15-1 The scope of this Subtopic is the same as Scope and Scope Exceptions as outlined in the Overall Subtopic (see Section 924-10-15).

Recognition

General

924-815-25-1 Wagering contracts placed by bettors for which the odds of winning at the time the bets are placed with a casino are known or knowable (for example, certain sports and race wagers) are fixed-odds wagering contracts. The issuer of those contracts shall not account for such contracts under the guidance in Topic 815 on derivatives and hedging. Rather, those contracts are revenue transactions for a casino and shall be recognized in accordance with Topic 606 on revenue from contracts with customers.

Issue 13: Cost Capitalization for Advisors to Private Funds and Public Funds

33. The following amendments align the cost-capitalization guidance for advisors to both public funds and private funds in Topic 946, Financial Services—Investment Companies.

Amendments to Subtopic 946-720

34. Amend paragraph 946-720-25-3 and add the heading preceding it and supersede the heading preceding paragraph 946-720-25-4, with a link to transition paragraph 606-10-65-1, as follows:

Financial Services—Investment Companies—Other Expenses

Recognition

> Distribution Costs for Funds

946-720-25-3 The guidance in paragraph 946-720-25-2 applies also to distribution plans of open-end investment companies permitted under Rule 12b-1. Some

closed-end interval funds incur distribution-related fees (similar to 12b-1 fees) and impose early withdrawal charges (similar to contingent-deferred sales fees) pursuant to exemptive orders issued under the Investment Company Act of 1940. In addition, certain offshore funds not subject to regulation under the Investment Company Act of 1940 also may incur fees and impose charges that are substantially the same as 12b-1 fees and contingent-deferred sales fees, respectively. In those instances, an entity shall defer and amortize the incremental direct costs and shall account for offering costs incurred for distribution of those funds in a manner similar to the accounting specified in paragraph 946-720-25-4. Offering costs paid by an investment adviser for distribution of those funds shall be expensed as incurred unless those costs are eligible for capitalization in accordance with the guidance on incremental costs of obtaining a contract in paragraphs 340-40-25-1 through 25-4.

> ~~Distribution Costs for Mutual Funds with No Front-End Sales Fee~~

946-720-25-4 Distributors of mutual funds that do not have a **front-end load** shall defer and amortize the incremental direct costs and shall expense the indirect costs when incurred.

Amendments to Section 606-10-65

35. Amend paragraph 606-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standard Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606), and 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, and No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers:

606-10-65-1 The following represents the transition and effective date information related to Accounting Standard Updates No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and No. 2016-08, *Revenue from Contracts with Customer (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*, and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*:

[The remainder of this paragraph is not shown here because it is unchanged.]

Amendments to Status Sections

36. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

270-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
270-10-50-1A	Amended	2016-20	12/21/2016

37. Amend paragraph 310-10-00-1, by adding the following item to the table, as follows:

310-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
310-10-60-4	Amended	2016-20	12/21/2016

38. Amend paragraph 340-40-00-1, by adding the following item to the table, as follows:

340-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
340-40-35-3 through 35-5	Amended	2016-20	12/21/2016

39. Amend paragraph 605-35-00-1, by adding the following item to the table, as follows:

605-35-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action		Accounting Standards Update	Date
605-35-25-47	Amended		2016-20	12/21/2016

40. 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.

Paragraph	Action	Accounting Standards Update	Date
606-10-15-2	Amended	2016-20	12/21/2016
606-10-50-8	Amended	2016-20	12/21/2016
606-10-50-12A	Added	2016-20	12/21/2016
606-10-50-14	Amended	2016-20	12/21/2016
606-10-50-14A	Added	2016-20	12/21/2016
606-10-50-14B	Added	2016-20	12/21/2016
606-10-50-15	Amended	2016-20	12/21/2016
606-10-55-125	Amended	2016-20	12/21/2016
606-10-55-127	Amended	2016-20	12/21/2016
606-10-55-128	Amended	2016-20	12/21/2016
606-10-55-285	Amended	2016-20	12/21/2016
606-10-55-286	Amended	2016-20	12/21/2016
606-10-55-293	Amended	2016-20	12/21/2016
606-10-55-300	Amended	2016-20	12/21/2016
606-10-55-305A	Added	2016-20	12/21/2016
606-10-65-1	Amended	2016-20	12/21/2016

41. Amend paragraph 720-35-00-1, by adding the following items to the table, as follows:

720-35-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
720-35-05-1	Amended	2016-20	12/21/2016
720-35-15-5	Added	2016-20	12/21/2016
720-35-25-1A	Added	2016-20	12/21/2016

42. Amend paragraph 815-10-00-1, by adding the following items to the table, as follows:

815-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
815-10-15-13	Amended	2016-20	12/21/2016
815-10-15-82A	Added	2016-20	12/21/2016

43. Amend paragraph 924-10-00-1, by adding the following item to the table, as follows:

924-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
924-10-05-1	Amended	2016-20	12/21/2016

44. Add paragraph 924-815-00-1 as follows:

924-815-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
924-815-05-1	Added	2016-20	12/21/2016
924-815-15-1	Added	2016-20	12/21/2016
924-815-25-1	Added	2016-20	12/21/2016

45. Amend paragraph 942-825-00-1, by adding the following item to the table, as follows:

942-825-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
942-825-50-2	Amended	2016-20	12/21/2016

46. Amend paragraph 946-720-00-1, by adding the following items to the table, as follows:

946-720-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
946-720-25-3	Amended	2016-20	12/21/2016
946-720-25-4	Amended	2016-20	12/21/2016

The amendments in this Update were adopted by the affirmative vote of four members of the Financial Accounting Standards Board. Messrs. Schroeder and Siegel dissented and Ms. Botosan abstained.

Messrs. Schroeder and Siegel dissent from the issuance of this Accounting Standards Update because Issue 6, Disclosure of Remaining Performance Obligations, lays on additional disclosure exemptions for entities, while failing to adequately consider users’ informational needs. The dissent relates only to Issue 6; they support the remaining aspects of this Update.

Originally labeled as a “practical expedient” in Update 2014-09, certain quantitative information about remaining performance obligations does not have to be disclosed. Combining those exemptions with the additional exemptions in Issue 6 of this Update leaves users with relatively inconsequential disclosures about a shrinking subset of remaining performance obligations.

Messrs. Schroeder and Siegel highlight that since the 2010 Exposure Draft was issued, users advocated for a complete, cohesive, and quantitative disclosure of all remaining performance obligations and subsequent to the issuance of Update 2014-09 users have opposed continuing preparer efforts to change these disclosure requirements. Such strong, consistent user opposition—both pre- and post-issuance of Update 2014-09—is based on users’ view that the current exemptions already limit the usefulness of related disclosures, resulting in additional costs being borne by the user to interpret the limited information provided. Users commented that any additional disclosure exemptions, including

those resulting from this Update, further contribute to an incomplete picture of remaining performance obligations.

As originally issued, the amendments in Update 2014-09 require an entity to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at each reporting period (paragraph 606-10-50-13). However, it also already exempts an entity from providing the paragraph 606-10-50-13 disclosure for contracts with an original expected duration of one year or less, as well as for contracts that provide a right to consideration “in an amount that corresponds directly with the value to the customer of the entity’s performance completed to date” (commonly referred to as the $P \times Q$ practical expedient) (paragraph 606-10-55-18).

Based on preparers’ feedback, Messrs. Schroeder and Siegel understand that those two existing disclosure exemptions can encompass large portions of revenue. Therefore, they are concerned that the decision usefulness of the required remaining performance obligations disclosure is substantively diminished. This Update increases their concerns by providing additional disclosure exemptions for contracts containing sales- and usage-based royalties for licenses of intellectual property, as well as some contracts accounted for using the “series” guidance in Topic 606. Combining these with the existing disclosure exemptions restricts the paragraph 606-10-50-13 disclosure to an even smaller fraction of revenue and further diminishes its decision usefulness.

For entities applying any of the existing or new disclosure exemptions, there is a new requirement in 606-10-50-15 to disclose the nature of the remaining performance obligations, as well as the “remaining duration” (a discussion of “duration” is provided in paragraph 606-10-25-3) and a description of the variable consideration that has been excluded from the information currently required to be disclosed by paragraph 606-10-50-13. Messrs. Schroeder’s and Siegel’s objection hinges on a requirement in paragraph 606-10-50-15 that the information shall be in “sufficient detail to enable users . . . to understand the remaining performance obligations that the entity excluded.” As noted previously, users have been very clear in their need for *quantitative* information about remaining performance obligations. However, not requiring *quantitative* information grants entities free rein to satisfy the added disclosure requirement with a *qualitative* discussion.

Users already have a general understanding of an entity’s remaining performance obligations, often based on an entity’s discussions about “backlog.” Disclosure of remaining performance obligations differs from backlog because backlog may include, among other differences, anticipated contracts, wholly unperformed contracts, renewal options, and estimates of variable consideration that are constrained. For some industries, backlog is a key performance indicator, voluntarily disclosed, and typically presented outside the financial statements. Backlog may not be comparable across entities because there is no common definition. Additionally, an entity’s definition of backlog may evolve from period to period.

While there is no uniform definition of backlog, it provides a needed, more comprehensive quantitative measure that has proven decision useful. Therefore, Messrs. Schroeder and Siegel believe that the practical result of the additional disclosure exemptions provided in Issue 6 of this Update will be a more limited, largely qualitative discussion that users will not consider decision useful.

Furthermore, Messrs. Schroeder and Siegel note an inconsistency between the basis for the new exemptions and their application. Paragraphs BC22 and BC23 note that the Board added these new exemptions to avoid requiring an entity to estimate future royalties for disclosures, if the entity did not already need to require the estimate for recognition purposes. However, during the November 9, 2016 Transition Resource Group (TRG) meeting, there was consensus that even if an entity decides to estimate future royalties in selecting and applying a measure of progress, that entity is still able to avail itself of the optional disclosure exemption in this Update.

To avoid diluting the usefulness of the remaining performance obligations disclosure required by Update 2014-09, Mr. Siegel first would have preferred that Issue 6 be deleted from this Update. However, Mr. Schroeder believes that the usefulness of the currently required disclosure is so minimal that enhanced disclosures should be included in Issue 6 of this Update. Therefore, given that the majority of the Board supported this Update, Messrs. Schroeder and Siegel alternatively would have required additional information when an entity applies the disclosure exemptions to mitigate the diminished usefulness of the remaining performance obligations disclosure.

While the Board agreed to add a requirement to disclose the “remaining duration,” there is no quantitative context by which to assess that duration. To avoid requiring any forward-looking estimates of variable consideration, Messrs. Schroeder and Siegel believe that an entity using the various disclosure exemptions should have been required to disclose either (1) the portion of current-period reported revenues covered by the various disclosure exemptions or (2) a breakout of the current-period reported revenues for contracts subject to the disclosure exemptions based on the portion that was fixed and the portion that was variable. The variable revenue portions would have then been linked to the remaining duration disclosures included in Issue 6 of this Update. Messrs. Schroeder and Siegel believe that any incremental cost of tracking which current-period revenue transactions are covered by the various exemptions is justified by the benefits of providing data that investors could use to derive their own estimates of remaining performance obligations.

Messrs. Schroeder and Siegel observe that users have consistently stated that there would be substantive benefits to providing audited quantitative information that allows them to assess non-GAAP backlog amounts. Therefore, the costs to provide full disclosures about remaining performance obligations would have to be extremely high for them not to be justified. Additionally, they believe that a central principle of Update 2014-09 is the need to determine and allocate the transaction

price for revenue to be recognized. For contracts now covered by the disclosure exemptions (for example, “cost plus” or “time and materials” contracts), they believe that an entity that enters into those contracts has internal estimates of their value to manage its businesses. Therefore, any incremental cost incurred to quantitatively disclose the estimated remaining performance obligation would be justified by the significant benefits to users, such as reducing diversity and subjecting to audit a notable component of backlog amounts already discussed outside of the financial statements.

Members of the Financial Accounting Standards Board:

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

Background Information and Basis for Conclusions

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 and the International Accounting Standards Board (IASB) issued a converged standard on recognition of revenue from contracts with customers. The FASB's guidance was issued as Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In addition to the new revenue Topics and Subtopics, the Board made approximately 800 consequential amendments to the Accounting Standards Codification.

BC3. The Board has an ongoing project on its agenda about Technical Corrections and Improvements to clarify the Codification or to correct unintended application of guidance. Those items generally are not expected to have a significant effect on current accounting practice or create a significant administrative cost for most entities. The amendments in this Update are of a similar nature to the items typically addressed in the Technical Corrections and Improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholder awareness of the proposals and to expedite making improvements to the amendments in Update 2014-09.

BC4. The amendments in this Update include issues given to the Board through a variety of sources, including:

- a. The Codification's online feedback mechanism
- b. Submissions to the Transition Resource Group for Revenue Recognition (TRG)
- c. Stakeholders' technical inquiries.

The amendments in this Update affect narrow aspects of the guidance issued in Update 2014-09 and do not change any of the principles of the guidance in Topic 606 or the other Topics amended by Update 2014-09.

BC5. The FASB issued a proposed Accounting Standards Update, *Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)*, on May 18, 2016, with a 45-day comment period. The FASB received 20 comment letters on the proposed Update. Overall, respondents

supported the proposed amendments. However, no financial statement users submitted comment letters.

BC6. The FASB issued a proposed Accounting Standards Update, *Technical Corrections and Improvements to Update No. 2014-09*, Revenue from Contracts with Customers (Topic 606)— *Additional Corrections*, on September 19, 2016, with a 15-day comment period. The FASB received seven comment letters on the proposed Update. Overall, respondents to the proposed Update supported the proposed amendments.

Topic 460, Guarantees (Issue 1)

BC7. Paragraph 606-10-15-2(d) specifically identifies a scope exception from Topic 606 for “guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.” Financial guarantees generally are within the scope of Topic 460 unless they meet the scope exceptions listed in paragraph 460-10-15-7 (such as guarantees accounted for as a credit derivative under Topic 815, Derivatives and Hedging) or are listed in paragraph 460-10-55-16(a) (such as commercial letters of credit that are akin to a loan commitment).

BC8. While guarantees that are within the scope of Topic 460 (other than product warranties) are listed among the scope exceptions for Topic 606, stakeholders raised concerns that there are instances within generally accepted accounting principles (GAAP) that indicate that fees from financial guarantees should be accounted for under Topic 606. The issue was discussed at the April 2016 TRG meeting. At that meeting, TRG members and Board members observed that guarantee fees within the scope of Topic 460 (other than product or service warranties) are not within the scope of Topic 606. TRG members observed that consequential amendments in paragraphs 310-10-60-4 and 942-825-50-2 that were included in Update 2014-09 are inconsistent with the guidance on scope in paragraph 606-10-15-2. The amendments clarify that guarantee fees within the scope of Topic 460 (other than product or service warranties) are not within the scope of Topic 606. Thus, an entity may account for those fees in accordance with the guidance in Topic 460. For guarantees accounted for as derivatives, entities should see Topic 815.

Subtopic 340-40, Other Assets and Deferred Costs— Contracts with Customers (Issues 2 and 3)

BC9. The guidance in Subtopic 340-40 requires an entity to recognize an asset for the incremental costs to obtain a contract and the costs to fulfill a contract with a customer if certain criteria are met. Subtopic 340-40 also requires an entity to test those capitalized contract costs for impairment. Stakeholders submitted a few implementation questions to the TRG on the application of the impairment testing. The amendments in this Update clarify how an entity should measure the

remaining amount of consideration that it expects to receive in exchange for the goods or services to which the contract asset relates when testing capitalized contract cost assets for impairment. The information used for the impairment testing in paragraphs 340-40-35-3 through 35-7 should be consistent with information used in determining the amortization period in paragraphs 340-40-35-1 through 35-2 (for example, the inclusion of expected contract renewals and extensions). If the asset relates to goods or services in specific anticipated contracts, when estimating the amount in paragraph 340-40-35-3(a), the Board would expect that the entity also would include renewal costs (for example, renewal commissions) in the amount in paragraph 340-40-35-3(b). In addition, these amendments clarify the interaction of the impairment testing guidance in Subtopic 340-40 with the impairment guidance in other Topics.

Topic 605, Revenue Recognition (Issue 4)

BC10. Update 2014-09 supersedes most of the guidance in Section 605-35-25, Revenue Recognition—Construction-Type and Production-Type Contracts—Recognition. However, the guidance on the provision for loss contracts was retained in Topic 605 because the Board decided not to include specific guidance on onerous contracts in Topic 606.

BC11. Current guidance in Section 605-35-25 requires that the loss contract test be performed at the total contract level unless the contract is segmented or combined. Update 2014-09 includes consequential amendments to Section 605-35-25 to update the guidance on the provision for loss contracts. Specifically, the term *individual segments* in paragraph 605-35-25-47 was replaced with the term *performance obligation* for determining a provision for a loss contract at a level lower than the contract level. In some circumstances, this would require an entity to perform the loss assessment at a lower level than the level used in current practice.

BC12. Topic 606 does not include a contract segmentation concept. Although the purpose of the consequential amendment to reference performance obligations was to align terminology with that used in Topic 606, the concept of a performance obligation is not equivalent to the concept of an individual segment. The amendment specifies that the contract level is the lowest level required for determining loss provisions. However, the Board decided to allow an entity to determine the loss at the performance obligation level as an accounting policy election, because, in some cases, performance obligations might equate to individual segments and, in those cases, it might be more operable for the entity to determine the loss at the performance obligation level. Application of this amendment may result in a loss amount that is different from what would occur in current GAAP.

Topic 606, Revenue from Contracts with Customers (Issues 5 through 10)

Scope of Topic 606 (Issue 5)

BC13. The amendment to paragraph 606-10-15-2(b) clarifies that all contracts (that is, not only insurance contracts) within the scope of Topic 944, Financial Services—Insurance, are excluded from the scope of Topic 606. This exclusion applies to contracts within the scope of Topic 944 such as life and health insurance, property and liability insurance, title insurance, and mortgage guarantee insurance. Topic 944 provides guidance on accounting and financial reporting for those contracts, including guidance that is applied to both insurance and investment contracts to determine the revenue recognition for fees. Investment contracts (defined in the Master Glossary as long-duration contracts that do not subject the insurance entity to risks arising from policyholder mortality or morbidity) are included within the scope of Topic 944. For example, Subtopic 944-825 provides guidance on the accounting for and the financial reporting of financial instruments, including guidance on investment contracts. Those contracts are accounted for under a deposit accounting model, similar to financial instrument contracts issued by entities other than insurance entities. As noted in paragraph 606-10-15-2(c), financial instruments issued by entities other than insurance entities also are excluded from the scope of Topic 606, and, therefore, this technical correction is consistent with the existing scope exceptions for insurance and financial instrument contracts.

BC14. Contracts within the scope of Topic 944 are excluded from the scope of Topic 606. That scope exception applies to contracts within the scope of Topic 944 and does not apply to all contracts of insurance entities. An insurance entity might need to consider whether a contract with a customer is for goods or services that are not within the scope of Topic 944. For example, the Board understands that a contract for administrative services (such as claims processing) without any insurance element is at present accounted for as a revenue arrangement within the scope of Topic 605. The Board expects that those types of service arrangements will be accounted for under Topic 606.

BC15. The Board received questions about the interaction between the guidance in paragraph 606-10-15-2 and the guidance in paragraph 606-10-15-4. Some stakeholders questioned whether the guidance in paragraph 606-10-15-4 requires an insurance entity to bifurcate contracts (within the scope of Topic 944) into elements within the scope of Topic 944 and elements within the scope of Topic 606. The guidance in paragraph 606-10-15-4 is applied *after* applying the guidance in paragraph 606-10-15-2. For example, if an entity reaches an appropriate conclusion that it has a contract entirely within the scope of Topic 944, then the entity would not apply the guidance in paragraph 606-10-15-4. This is because there are no elements of the contract within the scope of Topic 606 based on the entity's conclusion that the entire contract is included within the scope of Topic

944. This assessment is similar to how an insurance entity determines whether elements of contracts are within the scope of Topic 944 or Topic 605 currently. There could be other activities in the contract, such as insurance risk mitigation or cost containment activities that relate to costs to fulfill the contract within the scope of Topic 944. Those fulfillment activities would not be within the scope of Topic 606 and, instead, similar to current practice, would be considered part of the contract within the scope of Topic 944. This assessment is similar to how an insurance entity determines whether elements of a contract are within the scope of Topic 944 or Topic 605 today.

Disclosure of Remaining Performance Obligations (Issue 6)

BC16. Topic 606 includes a comprehensive set of disclosure requirements that are a significant improvement from previous revenue disclosure requirements. The Board conducted extensive outreach with financial statement users, preparers, auditors, and others on the revenue disclosures to include in Update 2014-09. During the development of Update 2014-09, different stakeholder groups had polarizing views on disclosures that were included in the proposed Updates issued in June 2010 and November 2011. Many users of financial statements explained that information about the amount and timing of revenue that an entity expects to recognize from its existing contracts would be useful in their analyses of revenue. They also explained that the information would be most useful for long-term contracts because those contracts typically have the most significant amounts of potential future revenue. They further noted that while many entities voluntarily provide information outside the financial statements about potential future revenue, there currently is limited information about potential future revenue from contracts with customers within the disclosures in the financial statements. Most preparers disagreed with disclosing that information in the financial statements because the information in certain cases would be difficult and costly to prepare and audit, the information could be misinterpreted because the disclosure might give prominence to only a subset of potential future revenue, and the information appeared to be forward-looking in nature.

BC17. The Board decided in the amendments in Update 2014-09 to require the disclosure of the aggregate transaction price allocated to remaining performance obligations (in paragraph 606-10-50-13). In its deliberations of Update 2014-09, the Board observed that the requirement to disclose information about remaining performance obligations should not impose significant incremental costs on an entity because the entity already is required to determine and allocate the transaction price to the remaining performance obligations. The Board included two optional exemptions (in paragraph 606-10-50-14) to address preparers' concerns about the costs of preparation.

BC18. As described above, the Board already has made cost-benefit decisions about the disclosure requirements included in Update 2014-09. Therefore, the Board decided not to broadly reconsider those disclosure requirements as part of this Update. However, as stakeholders have proceeded with the implementation of Topic 606, there has been a learning curve on new aspects of the revenue guidance (that is, concepts that did not exist in previous GAAP). Those new aspects of the revenue guidance and the interaction with Topic 606 disclosure requirements led stakeholders to raise a few issues that were not included in the cost-benefit discussions held when determining the disclosures to be included in Update 2014-09.

BC19. In July 2015, the TRG discussed the application of the series provision in paragraph 606-10-25-14 and the allocation of variable consideration in accordance with paragraph 606-10-32-40. The series provision is a concept that was introduced by the amendments in Update 2014-09 and did not exist in previous GAAP. Questions raised by preparers and auditors indicated that there was a lack of understanding about when the series provision should be applied as well as how to apply the guidance on allocating variable consideration in paragraph 606-10-32-40. Because of this educational process, some stakeholders highlighted that for certain performance obligations that are a series of distinct goods or services, variable consideration might be allocated to one or more distinct goods or services within that performance obligation and, therefore, might not need to be estimated for purposes of recognizing revenue. However, to disclose the transaction price allocated to that remaining performance obligation, an entity would need to estimate the overall transaction price, including the variable consideration that would not need to be estimated for revenue recognition purposes.

BC20. The Board observed that in situations in which variable consideration is allocated entirely to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b) (for example, a contract to provide hotel management services discussed in paragraph BC285 of Update 2014-09), an entity need not estimate the total variable consideration for the single performance obligation because the uncertainty related to the consideration is resolved as each distinct good or service is transferred to the customer. In many cases, the revenue recognition for variable consideration that meets the allocation criteria in paragraph 606-10-32-40 may be similar to the recognition method for contracts that meet the practical expedient in paragraph 606-10-55-18. That is, revenue is recognized in the amount to which the entity has a right to invoice and is allocated directly to a satisfied performance obligation or to a satisfied promise to transfer a distinct good or service. In Update 2014-09, the Board decided to extend the relief on measuring progress for those performance obligations that meet the criteria in paragraph 606-10-55-18 to the disclosure of remaining performance obligations. The Board included this relief to avoid requiring entities to estimate the total transaction price and incur costs for a disclosure when that information would not be required for revenue recognition purposes. As a result, the Board decided that as part of this Update the exemption

from the disclosure of remaining performance obligations should be extended to variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b), for which the criteria in paragraph 606-10-32-40 have been met.

BC21. The Board decided in Update 2014-09 that for a license of intellectual property for which the consideration is based on a customer's subsequent sales or usage, an entity should not recognize revenue for the variable amounts until the uncertainty is resolved (the royalty recognition constraint). Revenue derived from a sales-based or usage-based royalty on a license of intellectual property is not recognized until the later of (a) the customer's subsequent sales or usage occurs and (b) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

BC22. Paragraphs BC415 through BC416 in Update 2014-09 describe the Board's rationale for providing the royalty recognition constraint. The Board observed that recognizing a minimum amount of revenue for contracts with a sales-based or usage-based royalty on licenses of intellectual property would not result in relevant information, particularly for contracts in which the sales-based or usage-based royalty is paid over a long time frame.

BC23. The amendments in this Update provide additional exemptions from the disclosure of remaining performance obligations for the two specific situations described above in which an entity does not need to estimate the transaction price for recognizing revenue. The additional exemptions in this Update maintain the relief provided in paragraphs 606-10-32-40 and 606-10-55-65 for the allocation of variable consideration and the recognition of sales-based and usage-based royalties, respectively.

BC24. The Board decided to link the additional exemptions to existing guidance in Topic 606 to ensure that it is clear which transactions qualify for the exemptions. The Board also decided that the additional exemptions apply only to the portion of the transaction price that is variable consideration and that meets the requirements in paragraph 606-10-32-40 or 606-10-55-65. Therefore, the additional exemptions cannot be applied to fixed consideration or to variable consideration that does not meet one of the conditions in the additional exemptions. If an arrangement includes both fixed consideration and variable consideration and the variable consideration meets one of the conditions to apply the exemptions in paragraph 606-10-50-14A, an entity still would be required to disclose the fixed consideration (for example, a guaranteed minimum amount of consideration included in a sales-based or usage-based royalty would be fixed consideration). In addition, the disclosure relief in paragraph 606-10-50-14A(b) only applies to wholly unsatisfied performance obligations or wholly unsatisfied promises to transfer distinct goods or services in a series. The term *wholly unsatisfied* refers to a performance obligation that is completely unsatisfied and it does not refer to a performance obligation that is partially, but not completely, satisfied. If a performance obligation or a promise to

transfer a distinct good or service in a series is partially satisfied, an entity would need to estimate the variable consideration for revenue recognition purposes and disclose the amount in accordance with paragraph 606-10-50-13. The Board concluded that the variable consideration that has been estimated for revenue recognition should be included in the disclosure of remaining performance obligations. The requirements in paragraph 606-10-50-14B also clarify that entities are required to disclose fixed consideration for performance obligations in which revenue is recognized in accordance with paragraph 606-10-55-18. That is, the disclosure exemption in paragraph 606-10-50-14(b) is applicable only to the portion of the transaction price that is variable consideration.

BC25. All stakeholders who commented on the proposed Update supported the Board's decision to provide additional exemptions from the disclosure of remaining performance obligations. Those stakeholders commented that they expect the amendments will reduce the cost and complexity of applying the disclosure requirements in Topic 606. Although no users commented on the proposed Update, the Board considered feedback from users who participated in outreach in the development of Update 2014-09 and this Update. Users were strongly opposed to any change to the previous disclosure requirements in Topic 606. Users stated that the optional exemptions limit the usefulness of the disclosure information and result in an incomplete picture of remaining performance obligations. The Board views this amendment as a clarification of the Board's intent for the two specific situations in which an entity need not estimate variable consideration to recognize revenue. In Update 2014-09, the Board did not intend for an entity to estimate variable consideration for disclosure when those amounts are not needed to recognize revenue.

BC26. The Board considered and rejected an alternative approach that would have articulated the additional exemptions in this Update as a principle. The principle would have stated that an entity need not disclose variable consideration that is not required to be estimated as of the reporting date for purposes of allocating the transaction price to each performance obligation (or distinct good or service within a series) identified in the contract. The Board decided the alternative approach may have been difficult to apply because of its lack of specificity. The Board observed that the amendments in this Update address all circumstances identified to date by stakeholders for which an entity might need to estimate the transaction price for disclosure purposes only. In the proposed Update, the Board asked respondents a question about whether there are other circumstances in which an entity would not be required to estimate the transaction price for recognizing revenue but would be required to estimate the transaction price for disclosure. Comment letter respondents did not identify other circumstances.

BC27. Paragraph 606-10-50-15 includes a disclosure requirement that is applicable when an entity is applying one of the exemptions from the disclosure of remaining performance obligations. When deciding to provide additional exemptions in this Update, the Board reconsidered that related disclosure requirement. This is because the Board was concerned that the disclosure might

not adequately address the informational needs of users in situations in which an entity elects to apply the disclosure exemptions. Therefore, the Board decided to specify that an entity applying one or more of the exemptions should disclose the nature of the performance obligations, the remaining duration (see paragraph 606-10-25-3), and a description of the variable consideration that has been excluded from the disclosure.

BC28. The objective of the disclosure in paragraph 606-10-50-15 is to enable users of financial statements to understand the remaining performance obligations that an entity excluded from the information disclosed in accordance with paragraph 606-10-50-13. To comply with this disclosure requirement, an entity could disclose, for example, the proportion of its current-period revenue that is variable consideration and that meets the criteria for the exemptions in paragraph 606-10-50-14A. In addition, or instead, an entity could disclose the remaining contract duration for each significant customer (as defined in Topic 280, Segment Reporting). This information would provide a user of financial statements with some context about the remaining performance obligations that have not been disclosed without requiring an entity to estimate future variable consideration.

BC29. Stakeholders largely supported the Board's decision to amend paragraph 606-10-50-15. However, some stakeholders expressed concern about the disclosure of remaining contract duration. Those stakeholders commented that there is no representative way to calculate the average remaining duration without estimating the transaction price. The Board considered stakeholders' feedback but observed that paragraph 606-10-50-15 does not prescribe a specific way an entity should comply with the disclosure for contract duration. Thus, an entity may comply by providing information about the range of maturities or in other ways, such as an estimated weighted average. Therefore, an entity will have discretion over the nature of the contract duration information to be disclosed.

BC30. The amendments do not necessarily require an entity to disclose quantitative information to comply with paragraph 606-10-50-15. However, some stakeholders have stated that a requirement to provide quantitative information using current-period amounts would provide users of financial statements with information about the magnitude of performance obligations and variable consideration that have not been disclosed because an entity applied one or more of the exemptions.

BC31. The Board included a question in the proposed Update to solicit feedback on additional information that could be disclosed when an entity applies one of the disclosure exemptions. Specifically, the Board asked whether entities should disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts in which the entity applies one or more of the exemptions. Also, the Board asked whether an entity that applies one or more of the exemptions should be required to disclose quantitative information about each major customer as that term is used in Topic 280 (that is, customers with revenue equal to or greater than 10 percent of total revenue). The Board also considered

whether an entity that applies one or more of the exemptions should be required to disclose the current-period revenue for those performance obligations in which one or more of the exemptions was applied (contracts less than one year, paragraph 606-10-55-18, the series provision, and royalties).

BC32. A majority of respondents to the proposed Update did not support additional quantitative disclosures because identifying current-period revenue information by type of variable consideration would add significant costs. Those respondents commented that revenue transactions are typically not tracked on the basis of the recognition model used or by the type or term of contract. In addition, disclosure of the amount of variable consideration in current-period revenue might not result in information that is meaningful to users of financial statements. This is because the definition of variable consideration is broad and includes items such as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, and other contingencies. Thus, entities might conclude that substantially all of their revenue comprises variable consideration because it is subject to one or more of the items listed above. Primarily because of stakeholders' operability concerns and the effective date of Topic 606, the Board decided not to require disclosure of quantitative information about current-period revenue when an entity applies one of the disclosure exemptions.

Disclosure of Prior-Period Performance Obligations (Issue 7)

BC33. Paragraph 606-10-50-8(c) requires disclosure of revenue recognized in the reporting period from performance obligations satisfied in previous periods. Because the location of this disclosure requirement is under the heading "Contract Balances," stakeholders indicated that there is confusion about whether this disclosure applies only to performance obligations with corresponding contract balances or to all performance obligations. The Board's intent for this disclosure is that the requirement is applicable to revenue recognized from all performance obligations and not only performance obligations with corresponding contract balances. Therefore, the Board decided to move the guidance to paragraph 606-10-50-12A under the heading "Performance Obligations" to clarify that the disclosure applies to all performance obligations. The Board observed that this amendment does not change the disclosure requirement.

Contract Modifications Example (Issue 8)

BC34. Example 7 in paragraphs 606-10-55-125 through 55-128 illustrates the contract modifications guidance in paragraphs 606-10-25-10 through 25-13. Paragraph 606-10-25-12 provides criteria for determining when a contract modification should be accounted for as a separate contract. Although the amendment does not affect the conclusion in that example, the Board decided to amend the example so that the reasoning for the conclusion better aligns with the guidance it is intended to illustrate.

Contract Asset versus Receivable (Issue 9)

BC35. Stakeholders raised questions about the point in time at which an asset resulting from a contract with a customer under Topic 606 should be presented as a receivable on the balance sheet. The question is not about when revenue should be recognized. Rather, the question is limited to whether an asset should be presented as a receivable or some other asset (for example, a contract asset). The question arises because of confusion about the meaning of the reference to *due date* in paragraph 606-10-55-286 of Example 38, Case B. For this reason, the Board decided to amend that example so that there is a better link between the analysis in the example and the guidance in paragraph 606-10-45-4.

BC36. Paragraph 606-10-45-4 provides guidance about the presentation of an asset as a receivable. That guidance states that “a receivable is an entity’s right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.” The Board observed that the guidance in paragraph 606-10-45-4 should be sufficient to enable organizations to assess whether an asset should be presented as a receivable. The guidance in paragraph 606-10-45-4 does not exist in current GAAP. Therefore, an entity should evaluate the guidance when presenting an asset as a receivable. In the Board’s view, this guidance generally should not result in a significant change in practice from current GAAP in most cases. The Board notes that there is some diversity in practice today for presentation of receivables and the guidance in Topic 606 might not eliminate that diversity.

Refund Liability (Issue 10)

BC37. Example 40 in paragraphs 606-10-55-291 through 55-294 illustrates the recognition of a receivable and a refund liability. Stakeholders indicated that the term *contract liability* in the journal entry in paragraph 606-10-55-293 indicates that a refund liability should be characterized as a contract liability. Stakeholders expressed concerns that the characterization of a refund liability as a contract liability might have implications on accounting for foreign currency remeasurement (for example, whether a refund liability is considered a monetary or nonmonetary item for determining which foreign currency exchange rate to use for remeasurement). In the example, the Board did not intend to conclude that a refund liability is a contract liability and, therefore, the amendments in this proposed Update remove the term *contract liability* from the journal entry in paragraph 606-10-55-293. An entity should determine whether a refund liability should be characterized as a contract liability on the basis of the specific facts and circumstances of the arrangement. The reference to a contract liability in paragraph 606-10-32-10 is not about describing the refund liability as a contract liability. Instead, it states that both the refund liability and the contract liability should be updated at the end of each reporting period for changes in circumstances. Accordingly, no amendments have been made to the guidance in that paragraph.

Topic 720, Other Expenses (Issue 11)

BC38. The amendments in Update 2014-09 supersede much of the guidance in Subtopic 340-20, Other Assets and Deferred Costs—Capitalized Advertising Costs, because it would have conflicted with the new cost capitalization guidance in Subtopic 340-40. Therefore, an entity that previously capitalized advertising costs in accordance with the guidance in Subtopic 340-20 is required to apply the capitalization guidance in Subtopic 340-40 upon the adoption of Update 2014-09. Guidance on when to recognize a liability had been included within Subtopic 340-20 and was superseded by Update 2014-09. However, the Board did not intend to supersede the guidance on when to recognize a liability for advertising costs that was included in paragraph 340-20-25-2. The amendments in this Update reinstate the guidance on the accounting for the accrual of advertising costs, which retains the current language in the Codification. Because much of the guidance in the original Subtopic has been superseded by Update 2014-09 and because this guidance relates to cost accrual guidance, the paragraph is being included in an expense Topic (Topic 720) rather than in an asset Topic (Topic 340).

BC39. Some stakeholders questioned whether the scope of the accrual guidance only applies to direct-response advertising costs or if it also applies to other advertising costs. The scope of the guidance in paragraph 340-20-25-2 is described in paragraph 340-20-15-2 as “accounting for costs related to direct-response advertising activities.” The Board retained the same scope as current GAAP when reinstating and relocating the guidance to Topic 720. Some stakeholders noted that the scope of the guidance in paragraph 340-20-15-2 is not aligned with the source guidance in AICPA Statement of Position (SOP) No. 93-7, *Reporting on Advertising Costs*. The scope of SOP 93-7 was not limited to direct-response advertising. The Board understands that in practice the guidance in paragraph 340-20-25-2 is applied by some entities on the basis of the scope in SOP 93-7. The objective of the amendment in this Update is a technical correction to reinstate guidance that was inappropriately superseded. An amendment that would have aligned the scope of this guidance in the Codification with the source guidance in SOP 93-7, which would have reduced diversity in practice, is beyond the scope of this project.

Topic 924, Entertainment—Casinos (Issue 12)

BC40. Current GAAP includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific guidance was superseded by the amendments in Update 2014-09.

BC41. The amendments in this Update clarify that fixed-odds wagering contracts for entities within the scope of Topic 924, are not within the scope of the derivatives guidance in Topic 815. Rather, those contracts should be accounted for in accordance with Topic 606. The treatment of fixed-odds wagering contracts as

revenue transactions is consistent with the current guidance in Subtopic 924-605, Entertainment—Casinos—Revenue Recognition.

Topic 946, Financial Services—Investment Companies (Issue 13)

BC42. Consequential amendments to paragraphs 946-720-25-3 through 25-4 in Update 2014-09 would have resulted in incomparable accounting for offering costs incurred among advisors to private and public funds. The purpose of those consequential amendments was to move the cost guidance for investment companies from a revenue Subtopic to a cost Subtopic. However, those consequential amendments inadvertently created a difference between the accounting for costs incurred between advisors to private and public funds. The amendments in this Update clarify that the guidance for offering costs for advisors to private funds is consistent with the accounting for advisors to public funds in accordance with paragraph 946-720-25-4. Therefore, incremental direct costs of advisors to both public funds and private funds with similar distribution arrangements should be capitalized and amortized.

Pre-Production Costs Related to Long-Term Supply Arrangements

BC43. After the issuance of Update 2014-09, stakeholders raised questions about the scope of the guidance on accounting for pre-production costs related to long-term supply arrangements in Subtopic 340-10, Other Assets and Deferred Costs—Overall. This issue was discussed at the November 2015 TRG meeting. TRG members generally agreed that the Board should supersede the pre-production cost guidance within Subtopic 340-10 and that issue was included in the May 2016 proposed Update.

BC44. Several comment letter respondents questioned the Board's decision to supersede this guidance. Specifically, three respondents had concerns about superseding the guidance on the capitalization of molds, tools, and dies. Because of this feedback, additional outreach was performed with stakeholders to understand whether to supersede the guidance in its entirety, retain the guidance in its entirety, or retain portions of the guidance related to tooling. The feedback received during outreach was mixed and very little input was received from preparers that would be affected by the issue. The Board decided to remove this issue from this final Update because of the mixed feedback, limited feedback from preparers, and the wide range of the transactions. Because entities can elect to early adopt the amendments in Update 2014-09 for reporting periods beginning after December 15, 2016, the Board thought it was important to finalize the more consequential amendments in this Update as soon as possible. The Board was concerned that performing additional research on pre-production costs would delay the issuance of this Update.

BC45. The Board's view is that the original scope question that was discussed with the TRG has been answered and should not delay an entity's implementation of Update 2014-09. Paragraph BC305 of Update 2014-09 explains that the new cost guidance in Subtopic 340-40 is intended to fill the gap arising from the withdrawal of previous revenue guidance, including previous guidance for construction-type contracts within the scope of the guidance in Subtopic 605-35. Therefore, the Board expects that costs currently accounted for in the scope of the guidance in Subtopic 605-35 will be accounted for in accordance with the guidance in Subtopic 340-40 when applying the amendments in Update 2014-09. The Board expects that the adoption of the amendments in Update 2014-09 will not require more entities to apply the guidance in Subtopic 340-10 as compared with current practice.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] 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 2018 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at www.fasb.org, and finalized as part of the annual release process.