



## Revenue Transition Resource Group Discusses Nine Issues

The Joint Transition Resource Group for Revenue Recognition (TRG) met for the fifth time on July 13, 2015, and discussed nine issues related to the joint FASB/IASB revenue recognition standard.<sup>1</sup> This edition of *Defining Issues* summarizes the key points discussed at the meeting.

### Key Facts

- Fees charged by credit-card issuing banks to cardholders are generally outside the scope of the revenue standard under U.S. GAAP. Because IFRS does not have explicit guidance on the accounting for credit card fees, differences between IFRS and U.S. GAAP could arise.
- Depending upon the facts and circumstances of an arrangement, the standard's guidance related to allocating variable consideration to the distinct goods or services that constitute a series may be applied to many service contracts as a practical accommodation.
- Consideration payable to a customer that is a reduction of revenue generally will be accounted for as variable consideration. The guidance on the timing of the recognition of consideration payable to a customer would only apply in the limited circumstance that an entity does not have the intention or an established practice of providing a payment to its customers at contract inception.
- TRG members had differing views on how to define a completed contract when applying the transition guidance.<sup>2</sup> This will be discussed again at the next TRG meeting.

### Key Impacts

- Applying the series guidance could simplify application of the revenue model for some IT outsourcers, transaction processors, and other long-term service providers.
- TRG members generally agreed with the FASB and IASB staff's views on most of the issues, which likely means that the Boards will not undertake standard setting on those issues.

### Contents

Consideration Payable to a Customer .....	2
Credit Card Fees and Loyalty Programs .....	3
Series Provision and Allocation of Variable Consideration .....	4
Practical Expedient for Measuring Progress .....	7
Measuring Progress for Multiple Goods or Services in a Single Performance Obligation.....	8
Determining When Control of a Commodity Transfers .....	9
Accounting for Restocking Fees and Related Costs .....	9
Practical Expedient for Portfolio of Contracts .....	10
Completed Contracts at Transition ..	11
Next Steps .....	12

<sup>1</sup> Transition Resource Group papers are available at [www.fasb.org](http://www.fasb.org) and [www.ifrs.org](http://www.ifrs.org). FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, and IFRS 15, Revenue from Contracts with Customers.

<sup>2</sup> FASB ASC paragraph 606-10-65-1(c)(2), available at [www.fasb.org](http://www.fasb.org), and IFRS.C2(b).

## Consideration Payable to a Customer

This topic has been discussed at two previous meetings including the March 31, 2015, TRG meeting. However, technology issues prevented the U.S. and international TRG members from holding a joint discussion.

The standard states that consideration payable to a customer includes amounts that an entity pays, or expects to pay, to a customer or to other parties that purchase the entity's goods or services from the customer. An entity should treat consideration payable to a customer as a reduction of the transaction price, unless the payment is in exchange for a distinct good or service, and the entity can reasonably estimate the fair value of the good or service. The guidance on consideration payable to a customer states that it is recognized at the *later of* when the entity recognizes revenue or when the entity pays or promises to pay the consideration (later of guidance). However, because consideration payable to a customer can be included in the transaction price, it also can be a form of variable consideration.

Because the timing of recognition would differ if it is deemed to be variable consideration versus using the later of guidance, stakeholders have asked when the guidance on consideration payable to a customer and variable consideration should be applied.

### Example 1: Variable Consideration versus Consideration Payable to a Customer

Manufacturer A sells its product to Distributor A for \$100 on December 1 and recognizes revenue at that time. Manufacturer A has a history of offering a \$25 cash-back rebate to end-consumers in the following February.

Under the variable consideration guidance, Manufacturer A would reflect the \$25 rebate in its transaction price on December 1 based on its previous business practice and intent to continue to offer this incentive. Under the later of guidance, the transaction price would be reduced in February when Manufacturer A pays the rebate to the end consumer.

In the March meeting, TRG members had differing views on whether payments made to customers should be evaluated at the contract level or more broadly at the customer-relationship level. U.S. members noted that evaluating payments broadly at the customer-relationship level is consistent with current U.S. GAAP.<sup>3</sup> However, many believe that the new standard was not written in that way. Most TRG members indicated that something between the broad customer-relationship view and narrow customer contract level was appropriate.

In the July meeting, both U.S. and international TRG members observed that a reasonable application of either view should result in similar financial reporting outcomes. Members also had differing views about how broadly payments within the distribution chain should be evaluated. Some members stated that customers are only those parties that are within the direct distribution chain.

<sup>3</sup> FASB ASC Section 605-50-25, available at [www.fasb.org](http://www.fasb.org).

Others thought a broader view of a customer's customer should be used, citing the reference in the Basis for Conclusions to situations where an entity is acting as a marketing agent.<sup>4</sup> These marketing companies view the principal as their customer, but they also may view the principal's end customer (i.e., customer's customer) as their customer and therefore believe this guidance should be applied to them.

TRG members generally agreed that an entity's customer might include a customer's customer that extends beyond the direct distribution chain, and that sometimes an entity may have more than one customer. As a consequence, judgment will be needed to evaluate a specific fact pattern to determine whether a payment is treated as a reduction of revenue.

Variable consideration is estimated and included in the transaction price at contract inception and at each subsequent financial reporting date, differing from the recognition timing under the later of guidance. TRG members generally agreed that the guidance can be reconciled because not all consideration payable to a customer is variable consideration. However, this discrepancy puts pressure on determining, at contract inception, whether the entity intends to provide an incentive. This evaluation will include an assessment of the entity's past practices and other activities that could give rise to an expectation at contract inception that the transaction price is variable. The later of guidance would only be used when the entity does not have this history and has no expectation of providing incentives, which the TRG expects will occur only in limited circumstances when an entity has not implicitly (including through its customary business practices) or explicitly promised a payment to the customer at contract inception.

## Credit Card Fees and Loyalty Programs

The revenue standard excludes from its scope other contractual rights and obligations that are within the scope of certain ASC Topics, including receivables. Current U.S. GAAP includes guidance on accounting for credit-card fees as part of the receivables guidance.<sup>5</sup> Because credit card fees may entitle the cardholder to other services (e.g., airport lounge access or roadside assistance), some have questioned whether all services embedded within the credit-card fee arrangement are within the scope of the receivables guidance or whether some of those services should be separated from the credit card fee and included in the scope of the revenue standard.

Current U.S. GAAP states that credit card fees can cover many cardholder services.<sup>6</sup> To the extent a fee compensates the entity for a service provided during the loan commitment period, the separate components of a commitment fee are not identifiable and reliably measurable to allow for separate accounting recognition for each component part.<sup>7</sup>

<sup>4</sup> ASU No. 2014-09, Revenue from Contracts with Customers, paragraphs BC92 and BC255, available at [www.fasb.org](http://www.fasb.org).

<sup>5</sup> FASB ASC Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs, available at [www.fasb.org](http://www.fasb.org).

<sup>6</sup> FASB ASC paragraphs, 310-20-05-03 and 25-15, available at [www.fasb.org](http://www.fasb.org).

<sup>7</sup> FASB Statement No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, paragraph BC48, available at [www.fasb.org](http://www.fasb.org).



Instructions for submitting an issue to the TRG can be found on the FASB's Web site.

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

The FASB staff's outreach showed that under current practice credit card fees are accounted for using the receivables guidance. In addition, constituents noted that the revenue standard scopes out transactions that are within the scope of the receivables guidance and pointed out that the revenue standard did not change the scope of the receivables guidance. Therefore, they believe that credit card fees continue to be within the scope of the receivables guidance and outside of the revenue standard's scope. While the FASB staff generally agreed with that view, it also noted that a credit card issuing bank should not assume that all of its arrangements are outside the scope of the revenue standard. In particular, the FASB staff was concerned about potential arrangements being labelled as credit-card lending arrangements, when the substance is clearly the sale of other goods or services. The TRG members generally agreed with the FASB staff's analysis.

Questions have also arisen about whether loyalty programs included in credit card arrangements are within the scope of the revenue standard. Similar to the analysis above, the determination is based on whether the credit card fee that gives the right to participate in the loyalty program falls within scope of the receivables guidance or the revenue standard. Therefore, the card-issuing bank should evaluate its specific facts and circumstances.

Under IFRS, arrangements within the scope of the financial instruments standard are scoped out of the revenue standard.<sup>8</sup> Because IFRS does not have explicit guidance on the accounting for credit card fees, TRG members noted that differences between IFRS and U.S. GAAP could arise.

## Series Provision and Allocation of Variable Consideration

At contract inception an entity is required to account for each good or service or bundle of goods or services as a performance obligation if (a) they are distinct, or (b) they are a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer (the series provision). The series provision was included in the standard to simplify the accounting for repetitive services and to promote consistency in identifying performance obligations.<sup>9</sup>

In a contract to provide a repetitive service, such as a monthly cleaning service, an entity would treat the promise to provide cleaning services as a single performance obligation rather than treating each increment of service (e.g., year, month, day, or hour) as a performance obligation. Based on previous TRG discussions, the FASB included a question in its recent exposure draft about whether the series guidance should be optional.<sup>10</sup>

<sup>8</sup> IFRS 9, Financial Instruments.

<sup>9</sup> ASU 2014-09, BC113, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.BC113.

<sup>10</sup> FASB Proposed Accounting Standards Update, Identifying Performance Obligations and Licensing, available at [www.fasb.org](http://www.fasb.org).

## Consideration of Whether Goods or Services Are Distinct and Substantially the Same

Stakeholders have questioned how to determine when more than one good or service is considered substantially the same. More specifically, the question is whether *all* of the tasks in each increment of service need to be substantially the same.

The FASB and IASB staff noted that an entity must first determine whether its promise is to provide goods or services or to stand ready to provide goods or services when requested by the customer.<sup>11</sup> If the nature of the promise is the delivery of a specified quantity of a service, the evaluation should consider whether each service is distinct and substantially the same. If the promise is to stand ready or to provide a single service for a period of time (i.e., there is not a specified quantity to be delivered), the evaluation would likely focus on whether each time increment, rather than the underlying activities, is distinct and substantially the same.

An entity also should consider which of the three criteria for concluding that a performance obligation is satisfied over time is met.<sup>12</sup> If a performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits of the services as the entity performs, that may indicate that each increment of service is capable of being distinct. If a promise is satisfied over time based on either of the other criteria, the nature of that promise could be for a single specified good or service and would not generally represent a series (e.g., a promise to provide a piece of equipment or a professional opinion).

TRG members generally agreed with the staff that a promise to perform an unspecified quantity of services for a fixed price represents an obligation to stand ready to perform the underlying services. Given the nature of the entity's promise to stand ready to perform, each day of service may be distinct because the customer can benefit from each one on its own and each day of service is separately identifiable. Even if the individual activities vary from day to day, the nature of the overall promise (e.g., hotel management services) is substantially the same. However, an entity will need to carefully evaluate specific facts and circumstances when its stand-ready obligation involves goods or services that are occasionally or sporadically provided and that do not align with the manner in which variable consideration is contractually determined.

## Evaluating Whether Consideration Is Variable

TRG members agreed that the determination of whether an arrangement includes variable consideration depends on the evaluation of the entity's underlying promise. If the consideration to be received is based on the quantity of goods or services provided by the entity and the quantity is not specified in the arrangement, the transaction price is variable. TRG members agreed that an entity should consider all substantive contract terms, including contractual minimums, that could make all or a portion of the consideration fixed.

<sup>11</sup> TRG Paper 16 for the January 25, 2015, TRG meeting, available at [www.fasb.org](http://www.fasb.org) and [www.ifrs.org](http://www.ifrs.org).

<sup>12</sup> FASB ASC paragraph 606-10-25-27, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.35.

Additionally, some TRG members noted that the November 9, 2015, meeting is expected to include a discussion of optional goods and services, which might also affect this analysis.

### Allocation of Transaction Price

The standard requires variable consideration to be allocated to one or more distinct goods or services in a series if specified criteria are met.<sup>13</sup> The TRG members discussed various fact patterns and agreed that allocating variable consideration entirely to a distinct good or service may be acceptable when (1) the fee is the same over the duration of the contract; (2) the fee declines in a manner commensurate with the decline in the entity's cost to deliver the goods or services; (3) the fee is commensurate with the entity's standard pricing practices with similar customers; or (4) the fee is commensurate with the value of the goods or services delivered to the customer.

Applying the series guidance to a broader population of service contracts is not explicitly required by the standard. However, if the guidance is applied in a reasonable way when supported by the fact pattern, it will allow revenue to be recognized for amounts billed and modifications accounted for prospectively. When this approach is not appropriate for a fact pattern, the entity will need to estimate prices and quantities for services to be performed in the future and account for modifications using a cumulative catch-up approach.

#### Example 2: Allocation of Transaction Price

A company agrees to provide outsourced IT services to a customer for five years. Unit pricing is specified in the contract and is billed based on the quantity of each service provided during the period.

The company determines that the services are not separately identifiable and therefore has a single performance obligation. The customer simultaneously receives and consumes the benefits of the service as the company performs, which means the performance obligation is satisfied over time. The volumes of each type of service are undefined. Each day of service could be viewed as a distinct service, leading the company to conclude that it is providing a series of distinct services.

Rather than forecasting service quantities to estimate the transaction price for a single performance obligation to deliver IT outsourcing services over a five-year period, the company allocates the variable consideration associated with services provided in a day to the distinct increment of service (the day). At the end of each month, assuming the company has determined the contractual pricing is representative of the value to the customer, the company recognizes revenue based on the amount billed. Modifications to the contract are likely to be accounted for prospectively because additional services are distinct from the services in the original contract.

If the entity concluded that the contract included multiple performance obligations satisfied over time (not a series), the entity would estimate the quantities of services to be provided to estimate the transaction price. The

<sup>13</sup> FASB ASC paragraphs 606-10-32-39 to 32-41, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.84 to 86.



**Example 2: Allocation of Transaction Price**

transaction price would be allocated to the performance obligations and recognized as each of those services is provided. As actual quantities are determined, the entity would update the transaction price and allocate to the performance obligations on the same basis as at contract inception. Modifications to the contract that add services that are not distinct from the services in the original contract would be accounted for on a cumulative catch-up basis.

**Practical Expedient for Measuring Progress**

For performance obligations that are satisfied over time, an entity should identify the method that most faithfully depicts the pattern of transfer of control of the goods or services to the customer. This may be either an input or output method depending on the specific facts and circumstances of an arrangement. As a practical expedient, an entity may recognize revenue using the amount it has the right to invoice, if the amount directly corresponds with the value delivered by the entity to the customer.<sup>14</sup> In addition, an entity may use a similar practical expedient when disclosing information about its remaining performance obligations.<sup>15</sup>

Similar to the discussion on the application of the series guidance, some stakeholders have questioned whether the practical expedient can be applied to contracts with rates that change during the contract term (such as rates based on forward market prices, rates with a contractual minimum, or contracts with volume discounts) or contracts that contain multiple goods and services. The TRG generally agreed that in order for an entity to apply the practical expedient one of the following circumstances must exist:

- The price needs to change during the contract period in response to changes in the value of the goods or services to the customer;
- All of the goods or services in the contract qualify for the practical expedient; or
- The existence of a contractual minimum is nonsubstantive (i.e., the entity expects that amounts will be exceeded).

An entity will need to use judgment to assess whether the right to consideration from a customer corresponds directly to the value to the customer for the performance completed to date. In addition, if a contract contains an upfront fee, rebates, or volume discounts, an entity will need to use judgment to determine whether the payments or future discounts relate to a specific good or service. The significance of the amount in relation to the contract also will need to be evaluated when determining whether the right to payments corresponds to the value to the customer. The more significant these amounts are when they do not relate to the transfer of a good or service, the more difficult it will be for the entity to conclude that the practical expedient applies to its arrangement.

<sup>14</sup> FASB ASC paragraph 606-10-55-18, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.B16.

<sup>15</sup> FASB ASC paragraph 606-10-50-14, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.121.

An entity will need to apply similar judgment to determine whether it can apply the practical expedient on the disclosure of remaining performance obligations.

## Measuring Progress for Multiple Goods or Services in a Single Performance Obligation

If an entity satisfies a performance obligation over time, the standard requires it to recognize revenue by measuring its progress toward complete satisfaction of the performance obligation using a single method.<sup>16</sup> The objective when measuring progress is to depict an entity's performance in transferring control of goods or services to a customer.

Although stakeholders agree the guidance is clear that only one measure of progress can be used, some stakeholders have expressed concern that it could be challenging to select and apply a single method when the entity is transferring control of multiple goods or services over time that have been combined into a single performance obligation.

TRG members generally agreed that using multiple methods of measuring progress for the same performance obligation would not be appropriate. While acknowledging that selecting a single measure of progress will require significant judgment in some situations, the TRG members generally agreed that evaluating the nature of the entity's overall promise will help identify an appropriate measure of progress for the bundle of goods and services.

For example, in an arrangement where an entity promises to provide a software license (right to use intellectual property) and integration services that will customize the software to add significant new functionality, the entity likely would conclude that the software and installation services are not separately identifiable and should be combined into a single performance obligation. TRG members generally agreed that the measure of progress should be based on a method that reflects the entity's progress toward completion of the customized software solution. In other words, revenue would be recognized over the period that the integration services are performed.

In another example, assume a professional services entity provides a professional opinion to a customer, and it concludes that the arrangement meets the criteria for recognition of revenue over time (the fee is a fixed amount plus reimbursement of out-of-pocket expenses). Because a single method of revenue recognition is required, the entity may need to estimate the total consideration, including the reimbursement of out-of-pocket expenses, and then use a single attribution method such as direct labor hours for recognizing the estimated revenue over the period that the professional services are provided.

TRG members emphasized that difficulties in identifying a single measure of progress may mean that the entity needs to revisit its assessment of whether the goods or services are distinct.

---

<sup>16</sup> FASB ASC paragraph 606-10-25-32, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.40.



## Determining When Control of a Commodity Transfers

When a commodity is not accounted for as a derivative (i.e., normal purchase normal sale exception is applied), stakeholders have questioned whether control of the commodity transfers to a customer over time or at a point in time. Specifically, when evaluating whether a customer simultaneously receives and consumes the benefits of a commodity as the seller produces the commodity, some believe the seller should evaluate only the inherent characteristics of the commodity. Others believe the seller should also consider other factors including the contract terms, infrastructure of the parties, and other delivery mechanisms.

For example, considering other factors beyond the inherent characteristics of the commodity might lead a gas producer to conclude that its performance obligation is satisfied over time if the gas is continuously fed into a customer's power plant and immediately consumed.

Conversely, the gas producer would conclude that its performance obligation is satisfied at a point in time if the gas is transferred into a storage facility. This is important because distinct goods or services that are substantially the same and that transfer over time are a series. This may allow companies to recognize the amounts billed as revenue. Distinct goods or services that transfer at a point in time are not eligible for the series guidance. These contracts require the entity to estimate the prices and quantities when determining the transaction price and to allocate the transaction price to the performance obligations perhaps based on the projected quantities to be delivered.

TRG members generally agreed with the staff that the entity should consider all relevant facts and circumstances when evaluating whether the promise to deliver a commodity is transferred over time or at a point in time. They emphasized that evaluating the overall nature of the promise will assist the entity in assessing whether the performance obligation is satisfied over time or at a point in time. The staff agreed to include in the minutes of the meeting examples to illustrate the different outcomes. It is possible that this issue may be reconsidered after additional examples are developed and significant differences in accounting outcomes are identified.

## Accounting for Restocking Fees and Related Costs

An entity sometimes charges a customer a restocking fee when a product is returned. The restocking fee is intended to compensate the entity for costs associated with a product return or the reduced selling price an entity may charge when re-selling the product to another customer. TRG members agreed that restocking fees for products expected to be returned should be included as part of the estimated transaction price when control transfers. They said a returned product subject to a restocking fee is similar to a partial return right (i.e., the customer receives a partial refund).

TRG members agreed that the costs related to restocking should be reflected when control of the product transfers as a reduction in the carrying amount of the asset expected to be recovered. This is consistent with the guidance that specifies that any expected costs to recover returned products should be included by reducing the carrying amount of the asset recorded for the right to recover those products.<sup>17</sup>

## Practical Expedient for Portfolio of Contracts

The revenue standard includes a practical expedient that allows an entity to account for a portfolio of contracts with similar characteristics as a single unit if the entity reasonably expects that the financial reporting impact would not be materially different from applying the standard to each individual contract. The standard also requires an entity to estimate variable consideration using either the expected value method or the most likely amount when determining the transaction price. The entity's estimate of variable consideration is further constrained to the extent that it is probable (highly probable under IFRS) that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved.

Stakeholders have questioned whether an entity is using the portfolio method when it considers evidence from similar contracts to develop an estimate using the expected value method. TRG members generally agreed that estimates using the expected value method are made at the contract level, not at the portfolio level. These estimates generally are developed using a portfolio of data when the entity has a sufficiently large number of similar transactions or other history, and that doing so is not using the portfolio practical expedient.

Because of this confusion, some stakeholders have also questioned whether the estimated transaction price under the expected value method can be an amount that is not a possible outcome of an individual contract. For example, an entity enters into contracts with similar terms with a large number of customers. The terms of the contract include a performance bonus related to the timing of completing the contract. Based on historical experience, the bonus amounts and the probabilities of achieving the bonus follow.

Bonus Amount	Probability of Occurrence
\$0	15%
\$50	40%
\$100	45%

<sup>17</sup> FASB ASC paragraph 606-10-55-27, available at [www.fasb.org](http://www.fasb.org), and IFRS 15.B25.

The estimated transaction price using an expected value method is \$65 ( $[\$0 \times 15\%] + [\$50 \times 40\%] + [\$100 \times 45\%]$ ). The entity further concludes that the constraint does not apply because the entity is sufficiently confident in its estimate. Some believe that the transaction price is \$65 because that is the estimate using the expected value method. The contract includes three possible outcomes of which \$50 is the probable amount that can be achieved when viewed at a contract level (85 percent likely to achieve at least \$50). Therefore, some believe the transaction price is \$50 because the outcome could not be \$65.

The TRG members generally agreed that when an entity has a sufficient population of similar transactions and uses this data to estimate the transaction price using the expected value method, the transaction price may be an amount that is not a possible outcome for an individual contract. TRG members emphasized that an entity would need to have a sufficiently large number of similar transactions to conclude that the expected value method is the best estimate of the transaction price.

An entity may need to use judgment to determine whether:

- Its contracts with customers are sufficiently similar;
- Contracts from customers in which the expected value is derived are expected to remain consistent with subsequent contracts; and
- The volume of similar contracts is sufficient to develop an expected value.

## Completed Contracts at Transition

An entity that applies the modified retrospective approach when adopting the standard will apply it to contracts that are not completed as of the initial application date.

The transition guidance states that a contract is considered completed if the entity has transferred all of the goods and services identified under current U.S. GAAP/IFRS. The concept of transferring control of all goods and services is a new concept in the standard that differs from recognition concepts and rules embedded in legacy U.S. GAAP. This difference in underlying principles may create transition difficulties.

The TRG discussed whether an entity should define a completed contract as a contract in which the goods and services have been delivered, or a contract in which all revenue has been recognized under legacy U.S. GAAP. For contracts considered completed at the initial date of adoption, TRG members discussed whether it is permissible for an entity to recognize revenue based on legacy U.S. GAAP after the effective date of the revenue standard because doing so would result in mixed-GAAP. U.S. TRG members generally agreed that a mixed-GAAP approach would not be in accordance with the standard, but that following this approach could make some revenue disappear because the subsequent settlement or collections would not be reflected as revenue under either legacy U.S. GAAP or the revenue standard.

### Example 3: Completed Contracts at Transition

A publicly traded, calendar year-end company sells its products to a distributor on December 15, 2017. The company's accounting policy is to recognize revenue subsequent to the delivery of the related goods when the amounts are due and payable from the distributor. These amounts are not considered fixed or determinable at the time the goods are delivered to the distributor so the entity is on a sell-through basis for revenue recognition under current U.S. GAAP.

The company adopts the revenue standard on January 1, 2018, using the cumulative-effect method of transition. The amounts for the sale of the products are not yet due and payable to the company. The company could conclude that its contract is completed at the date of adoption because it has transferred the goods prior to adoption, even though it has not yet recognized all the revenue from that transaction. Thus, the contract would be outside the scope of the revenue standard.

It is unclear whether subsequent cash collections would be recognized as revenue under legacy U.S. GAAP, or if the cash collections would be recognized as additions to beginning retained earnings.

Some FASB members noted that further consideration of the treatment of completed contracts at transition was warranted, and they requested the FASB staff to prepare further analyses and examples.

## Next Steps

The FASB and IASB are working on potential changes to their standards.

- **Effective Date.** At its meeting on July 9, 2015, the FASB agreed to defer the effective date of its standard for one year.<sup>18</sup> The IASB is expected to consider the effective date of its standard at its July 22, 2015, meeting.
- **Principal versus Agent Guidance.** At their joint June meeting, the FASB and IASB agreed to propose amendments to their respective standards to clarify how the principal versus agent guidance should be applied for determining whether revenue should be presented gross (as a principal) or net (as an agent).<sup>19</sup> Before issuing its exposure draft, the FASB will discuss how to estimate gross revenue when the principal does not have visibility into the selling price to the end customer at a future Board meeting.

<sup>18</sup> See Defining Issues No. 15-30, FASB Finalizes One-Year Deferral of the Revenue Standard, available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com).

<sup>19</sup> See Defining Issues No. 15-27, FASB and IASB to Propose Amendments to Principal-Agent Guidance in Revenue Standard, available at [www.kpmg-institutes.com](http://www.kpmg-institutes.com).

- ***Licenses of Intellectual Property and Identifying Performance Obligations.*** The comment letter period related to the FASB's exposure draft for identifying performance obligations and licensing of intellectual property ended on June 30, 2015. The FASB is in the process of evaluating comment letters and is expected to begin redeliberations soon.
- ***Transition Practical Expedients, Sales Tax Presentation, Measurement of Noncash Consideration, and Collectibility.*** The FASB expects to issue its exposure draft with a 45-day comment period by August 2015.
- ***IASB Plans.*** The IASB plans to issue a single exposure draft. The IASB exposure draft will propose less extensive changes to the standard than those addressed or to be addressed in the FASB exposure drafts. The IASB expects to issue its exposure draft in July 2015.
- ***Next TRG Meeting.*** The TRG's next meeting is scheduled for November 9, 2015.

**Contact us:** This is a publication of KPMG's Department of Professional Practice 212-909-5600

**Contributing authors:** Brian K. Allen, Prabhakar Kalavacherla, Paul H. Munter, Brian O'Donovan, Brian J. Schilb, Shoshana H. Feldman, Jonathan M. Hunt, and Jennifer Yruma

**Earlier editions are available at:** <http://www.kpmg-institutes.com>

Legal—The descriptive and summary statements in this newsletter are not intended to be a substitute for the potential requirements of the standard or any other potential or applicable requirements of the accounting literature or SEC regulations. Companies applying U.S. GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors. Defining Issues® is a registered trademark of KPMG LLP.