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To the Point

FASB — final guidance

FASB issues technical corrections and improvements to the new revenue standard

The amendments do not change any of the principles in the new revenue standard.

What you need to know

- The FASB issued final guidance that allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. It also makes 12 other technical corrections and improvements to the new revenue standard.
- The amendments address questions that stakeholders have raised but don't change any of the principles in the new revenue guidance. No further changes to the new standard are currently expected before the effective date.
- The amendments have the same effective date and transition requirements as the revenue standard.

Overview

The Financial Accounting Standards Board (FASB or Board) issued an Accounting Standards Update (ASU)[1] that allows entities not to make quantitative disclosures about remaining performance obligations in certain cases and requires entities that use any of the new or previously existing optional exemptions to expand their qualitative disclosures. It also makes 12 additional technical corrections and improvements to the new revenue standard.[2]

The FASB is still evaluating the accounting for preproduction costs in long-term supply arrangements, which was originally part of the technical corrections and improvements project on the new revenue standard. The FASB has not said whether further changes to the accounting for preproduction costs are forthcoming.

Building a better working world

Earlier in 2016, the Board amended the new revenue guidance on a number of topics, including licenses of intellectual property, identifying performance obligations and determining whether an entity is a principal or an agent.

Key considerations

Optional exemptions related to disclosures of remaining performance obligations

The ASU provides new optional exemptions related to the requirement for entities to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

Under the new guidance, entities can elect not to disclose variable consideration allocated to performance obligations related to either: (1) sales- or usage-based royalties on licenses of intellectual property or (2) variable consideration 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 when certain criteria are met. This election is intended to eliminate the need for entities to estimate variable consideration solely for disclosure purposes if they do not need to do so to recognize revenue.

The FASB also limited the guidance that allows an entity not to make the disclosure for revenue recognized in accordance with the "right to invoice" practical expedient in Accounting Standards Codification (ASC or Codification) 606-10-55-18 to variable consideration. That is, companies will have to disclose fixed consideration recognized under the right to invoice practical expedient. The Board made this change because the fixed consideration is known and does not require entities to make an estimate only for disclosure purposes.

Disclosure requirement when using optional exemptions

The ASU also added a disclosure requirement for entities that elect to use any of the standard's exemptions allowing them not to disclose the aggregate transaction price allocated to the remaining performance obligations. Entities will have to disclose which optional exemptions they are applying, the nature of the performance obligations and the remaining duration of the contract. They also will have to describe the variable consideration excluded from the quantitative disclosure.

Amendments to ASC 340

The ASU clarifies (1) the amounts to be included in the consideration an entity expects to receive when testing capitalized contract costs for impairment and (2) the interaction of impairment guidance in ASC 340-40[3] with other impairment guidance elsewhere in the Codification.

Due to concerns raised by stakeholders, the FASB didn't move forward with its proposal to supersede the guidance on accounting for preproduction costs in long-term supply arrangements. The Board directed the staff to perform additional research and outreach on that proposal and said it didn't want to delay the other amendments.

Scope clarifications

The ASU deletes the term "insurance" from the scope section in ASC 606 to clarify that all contracts (not just insurance contracts) within the scope of ASC 944[4] are excluded from ASC 606. The scope exception does not apply to contracts of insurance entities that are outside the scope of ASC 944. The ASU also clarifies that contracts entirely in the scope of ASC 944 don't have to be separated into components. Promises in a contract in the scope of ASC 944 that are provided to help fulfill that contract, such as insurance risk mitigation or cost containment activities, are accounted for under ASC 944. This is similar to how insurance entities currently determine whether elements of contracts are within the scope of ASC 944.

The ASU also adds a scope exception to ASC 924-815[5] to clarify that fixed-odds wagering contracts for casino entities are within the scope of ASC 606 and do not need to be accounted for under the derivative guidance.

The ASU also addresses the consequential amendments in ASC 310-10[6] and ASC 942-825[7] to clarify that ASC 606 does not apply to fees for guarantees (other than product or service warranties) that are in the scope of ASC 460. Entities will account for these guarantees in accordance with ASC 460 or ASC 815.[8]

Updates to examples

Eliminate a reference to contract liability

The ASU eliminates the reference to a contract liability in the journal entry in Example 40 in the new standard, which illustrates the recognition of a receivable and a refund liability. The Board stated in the ASU's Background Information and Basis for Conclusions that an entity would determine whether a refund liability should be characterized as a contract liability based on the arrangement's facts and circumstances.

Clarify analysis in contract liability and receivable example

The ASU provides a better link between the analysis in Case B in Example 38 in the new standard and the receivables presentation guidance in ASC 606. The amendments clarify that an entity should recognize a receivable on the balance sheet when it has an unconditional right to consideration. Stakeholders expressed concerns that the example could be interpreted to mean that an entity cannot record a receivable before its due date.

The amendments will affect various industries.

The FASB said in the Basis for Conclusions that this clarification to the example about when to record a receivable generally should not result in a significant change in practice. However, the Board noted that there is currently some diversity in how entities determine when to record a receivable that may not be eliminated by the new guidance in ASC 606.

Amend contract modification example

In response to questions about Example 7 in the standard, the ASU changes the example to better align it with the principles in ASC 606. However, the conclusion in the example remains the same.

Other clarifications

The ASU also (1) amends the onerous contract test in ASC 605-35[9] to clarify that it is performed at the contract level (but an entity could perform it at the performance obligation level as an accounting policy election), (2) aligns the accounting for offering costs by advisers for both public and private funds under ASC 946,[10] (3) reinstates today's advertising cost accrual guidance on when to recognize liabilities for advertising costs and (4) clarifies 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 contract balances.

Effective date and transition

The amendments have the same effective date and transition requirements as the new revenue standard.

Endnotes:

[1] ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*.
[2] ASU 2014-09, *Revenue from Contracts with Customers,* created ASC 606 and ASC 340-40.
[3] ASC 340-40, *Other Assets and Deferred Costs — Contracts with Customers*.
[4] ASC 944, *Financial Services — Insurance*.
[5] ASC 924-815, *Entertainment — Casinos — Derivatives and Hedging*.
[6] ASC 310-10, *Receivables — Overall*.
[7] ASC 942-825, *Financial Services — Depository and Lending — Financial Instruments*.
[8] ASC 815, *Derivatives and Hedging*.
[9] ASC 605-35, *Revenue Recognition — Construction-Type and Production-Type Contracts*.
[10] ASC 946, *Financial Services — Investment Companies*.