

*Proposed Accounting Standards Update*

Issued: May 18, 2016  
Comments Due: July 2, 2016

Technical Corrections and Improvements to  
Update No. 2014-09, *Revenue from Contracts  
with Customers (Topic 606)*

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 606 of the *FASB Accounting Standards Codification*<sup>®</sup>. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2016-240, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

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

The Board invites comments on all matters in this Exposure Draft until July 2, 2016. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2016-240
- Sending a letter to “Technical Director, File Reference No. 2016-240, FASB, and 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at [www.fasb.org](http://www.fasb.org).

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

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## Proposed Accounting Standards Update

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2014-09, *Revenue from Contracts with Customers (Topic  
606)*

May 18, 2016

Comment Deadline: July 2, 2016

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# Summary and Questions for Respondents

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

On May 28, 2014, the FASB and the International Accounting Standards Board (IASB) issued a converged standard on recognition of revenue from contracts with customers. 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 Accounting Standards Codification.

The Board has an ongoing project on its agenda about Technical Corrections and Improvements to clarify the *FASB Accounting Standards Codification*<sup>®</sup> 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 proposed 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 proposed 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 proposed 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 FASB-IASB Transition Resource Group for Revenue Recognition (TRG)
3. Stakeholders' technical inquiries.

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

<b>Area for Correction or Improvement</b>	<b>Summary of Proposed Amendments</b>
<p><b><i>Issue 1: Preproduction Costs Related to Long-Term Supply Arrangements</i></b></p> <p>New cost guidance within Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, was issued as part of Update 2014-09. Stakeholders have indicated that it is not clear what contracts are within the scope of the new guidance versus the scope of existing guidance in Subtopic 340-10, Other Assets and Deferred Costs—Overall.</p>	<p>The amendments in this proposed Update would supersede the guidance on preproduction costs related to long-term supply arrangements in Subtopic 340-10. As a consequence, if the costs previously within the scope of Subtopic 340-10 relate to a contract with a customer, an entity would apply the guidance in Subtopic 340-40 upon the adoption of Update 2014-09.</p>
<p><b><i>Issue 2: Contract Costs—Impairment Testing</i></b></p> <p>Subtopic 340-40 includes impairment guidance for costs capitalized in accordance with the recognition provisions of that Subtopic. Stakeholders have raised some questions about the impairment testing of those capitalized costs.</p>	<p>The amendments in this proposed Update would 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.</p>
<p><b><i>Issue 3: Contract Costs—Interaction of Impairment Testing with Guidance in Other Topics</i></b></p> <p>Some stakeholders have raised questions about the interaction of the impairment testing in Subtopic 340-40 with guidance in other Topics.</p>	<p>The amendments in this proposed Update would clarify that impairment testing first should be performed on assets outside the scope of Topic 340 (such as Topic 330, Inventory), then assets within the scope of Topic 340, then asset</p>

Area for Correction or Improvement	Summary of Proposed Amendments
	groups and reporting units within the scope of Topic 360, Property, Plant, and Equipment, and Topic 350, Intangibles—Goodwill and Other.
<p><b><i>Issue 4: Provisions for Losses on Construction-Type and Production-Type Contracts</i></b></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 have indicated that this amendment, in some circumstances, may require an entity to perform the loss assessment at a lower level than current practice despite the Board’s decision not to change practice in this area.</p>	<p>The amendments in this proposed Update would require that the provision for losses be determined at least at the contract level. However, the proposed amendments would allow an entity to determine the provision for losses at the performance obligation level as an accounting policy election.</p>
<p><b><i>Issue 5: Scope of Topic 606</i></b></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 amendment in this proposed Update would 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>

Area for Correction or Improvement	Summary of Proposed Amendments
<p><b><i>Issue 6: Disclosure of Remaining Performance Obligations</i></b></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 obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. Topic 606 also includes practical expedients to 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 have requested that the Board consider whether specific practical expedients could be added to the guidance for contracts in which an entity does not need to estimate variable consideration in order to recognize revenue.</p>	<p>The amendments in this proposed Update would provide practical expedients to the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration in order to recognize revenue.</p> <p>The amendments in this proposed Update also would expand the information disclosed when an entity applies one of the practical expedients.</p>
<p><b><i>Issue 7: Contract Modifications Example</i></b></p> <p>Example 7 in Topic 606 illustrates the application of the guidance on contract modifications. Some stakeholders have perceived some minor inconsistencies with the contract modifications guidance in Topic 606.</p>	<p>The amendments in this proposed Update would improve the alignment of Example 7 and the principles in Topic 606.</p>
<p><b><i>Issue 8: Fixed-Odds Wagering Contracts in the Casino Industry</i></b></p> <p>Subtopic 924-605, Entertainment—Casinos—Revenue Recognition, currently includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific</p>	<p>The amendments in this proposed Update would (a) create a new Subtopic 924-815, Entertainment—Casinos—Derivatives and Hedging, which</p>



<b>Area for Correction or Improvement</b>	<b>Summary of Proposed Amendments</b>
<p>guidance was superseded by Update 2014-09, along with nearly all existing industry-specific revenue guidance in GAAP. Therefore, some stakeholders have 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, Derivatives and Hedging.</p>	<p>would include a scope exception from derivatives guidance for fixed-odds wagering contracts and (b) include a scope exception within Topic 815, Derivatives and Hedging, for fixed odds wagering contracts issued by casino entities.</p>
<p><b><i>Issue 9: Cost Capitalization for Advisors to Private and Public Funds</i></b></p> <p>A consequential amendment included in Update 2014-09 relocated 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 that was made in Update 2014-09 could result in inconsistent accounting for offering costs among advisors to public and private funds.</p>	<p>The amendments in this proposed Update would align the cost-capitalization guidance for advisors to both public funds and private funds in Topic 946.</p>

## When Would the Amendments Be Effective?

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

## Questions for Respondents

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

**Question 1:** The proposed amendments to Subtopic 340-10, Other Assets and Deferred Costs—Overall, would supersede the guidance on accounting for pre-production costs related to long-term supply arrangements. Consequently, an entity would apply the guidance in Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, if the costs relate to a contract with a customer. Do the proposed amendments resolve the scope issue? If not, please explain why and suggest alternatives. (Issue 1)

**Question 2:** The proposed amendments are intended to improve the clarity of the impairment testing requirements in Subtopic 340-40. Would the proposed amendments improve the clarity of these requirements? If not, please explain why and suggest alternatives. (Issue 2 and Issue 3)

**Question 3:** The proposed amendments would provide an accounting policy election about the level at which the provision for loss contracts is determined. Would the proposed amendments improve the operability of applying the guidance on the provision for loss contracts in Topic 605, Revenue Recognition? If not, please explain why and suggest alternatives. (Issue 4)

**Question 4:** The proposed amendments are intended to improve the clarity of the scope of Topic 606 for contracts within the scope of Topic 944, Financial Services—Insurance, and fixed-odds wagering contracts for an entity within the scope of Topic 924, Entertainment—Casinos. Would the proposed amendments improve the clarity of the scope guidance? If not, please explain why and suggest alternatives. (Issue 5 and Issue 8)

**Question 5:** The proposed amendments would provide an additional practical expedient to the disclosure of remaining performance obligations in specific situations in which an entity need not estimate variable consideration to recognize revenue. Would the addition of this practical expedient diminish the usefulness of the disclosure information? If yes, please explain why. Would the proposed amendments reduce the cost and complexity of applying Topic 606? If not, why? Are there other situations in which an entity would be required to estimate variable consideration for disclosure but not for purposes of recognizing revenue? (Issue 6)

**Question 6:** The proposed amendments to the disclosure requirement in paragraph 606-10-50-15 are intended to expand the information disclosed when

an entity applies one or more of the practical expedients in paragraphs 606-10-50-14 through 50-14A. Do you agree with the proposed amendments? If not, what information should an entity be required to disclose about its remaining performance obligations when one or more of the practical expedients are applied? (Issue 6)

**Question 7:** While not proposed in this Exposure Draft, should an entity that applies one or more of the practical expedients to the disclosure of remaining performance obligations be required to disclose the amounts of variable and fixed consideration recognized in current-period revenue for contracts to which the entity applies one or more of the practical expedients? What would be the costs associated with including that disclosure? Would that disclosure provide useful information? Also, should an entity that applies one or more of the practical expedients be required to disclose information (for example, remaining contract duration) about each major customer as that term is used in Topic 280, Segment Reporting (that is, customers with revenue equal to or greater than 10 percent of total revenue)? (Issue 6)

**Question 8:** The proposed amendments to Example 7 in Topic 606 are intended to improve the alignment of the analysis in the example and the guidance in paragraph 606-10-25-12. Do the proposed amendments align the example with the guidance in paragraph 606-10-25-12? If not, please explain why and suggest alternatives. (Issue 7)

**Question 9:** The proposed amendments are intended to align the cost capitalization guidance for the capitalization of direct incremental costs for investment companies within the scope of Topic 946, Financial Services—Investment Companies, for advisors to public and private funds. Do the proposed amendments align the accounting for advisors to both public funds and private funds? If not, please explain why and suggest alternatives. (Issue 9)



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

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## Summary of Proposed Amendments to the Accounting Standards Codification

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

<b>Areas for Improvement</b>	<b>Related Paragraphs</b>
Issue 1: Preproduction costs related to long-term supply arrangements	3–8
Issue 2: Contract costs—impairment testing	9 and 10
Issue 3: Contract costs—interaction of impairment testing with guidance in other Topics	11 and 12
Issue 4: Provisions for losses on construction-type and production-type contracts	13 and 14
Issue 5: Scope of Topic 606	15 and 16
Issue 6: Disclosure of remaining performance obligations	17 and 18
Issue 7: Contract modifications example	19 and 20
Issue 8: Fixed-odds wagering in the casino industry	21–24
Issue 9: Cost capitalization for private and public funds	25–26

## Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–27. 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: Preproduction Costs Related to Long-Term Supply Arrangements

3. The following amendments would supersede the guidance on preproduction costs on long-term supply arrangements in Subtopic 340-10. As a consequence, if the costs previously within the scope of Subtopic 340-10 relate to a contract with a customer, an entity would apply the guidance in Subtopic 340-40 upon the adoption of Update 2014-09.

### Amendments to Subtopic 340-10

4. Amend paragraph 340-10-05-2 and supersede paragraph 340-10-05-6 and its related heading, with a link to transition paragraph 606-10-65-1, as follows:

#### **Other Assets and Deferred Costs—Overall**

##### **Overview and Background**

**340-10-05-2** The Overall Subtopic addresses the accounting and reporting for certain deferred costs and prepaid expenses. The guidance in this Subtopic is limited to a discussion of the nature of prepaid expenses ~~and preproduction costs related to long-term supply arrangements~~. The specific guidance for many other costs that have been deferred is included in various other financial, broad, and industry Topics. References to certain, but not all, of the guidance in other Topics are included in this Subtopic.

##### **>> ~~Preproduction Costs Related to Long-Term Supply Arrangements~~**

**340-10-05-6** Paragraph superseded by Accounting Standards Update No. 2016-XX. ~~Manufacturers often incur preproduction costs related to products they will supply to their customers under long-term supply arrangements. For example, the manufacturer may incur costs to perform certain services related to the design and development of the products it will sell under long-term supply arrangements and may incur costs to design and develop molds, dies, and other tools that will be used in producing those products. While practice varies from industry to industry, the supplier may be contractually guaranteed reimbursement of design and development costs, implicitly guaranteed reimbursement of design and development costs through the pricing of the product or other means, or not~~

guaranteed reimbursement of the design and development costs incurred under the long-term supply arrangement.

5. Supersede paragraphs 340-10-25-1 through 25-4 and their related heading and 340-10-55-2 through 55-5 and their related headings, with a link to transition paragraph 606-10-65-1, as follows:

## Recognition

### **> ~~Preproduction Costs Related to Long-Term Supply Arrangements~~**

~~**340-10-25-1** Paragraph superseded by Accounting Standards Update No. 2016-XX. Design and development costs for products to be sold under long-term supply arrangements shall be expensed as incurred. Design and development costs for molds, dies, and other tools that a supplier will own and that will be used in producing the products under a long-term supply arrangement shall be capitalized as part of the molds, dies, and other tools (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10) unless the design and development is for molds, dies, and other tools involving new technology, in which case, the costs shall be expensed as incurred in accordance with Subtopic 730-10.~~

~~**340-10-25-2** Paragraph superseded by Accounting Standards Update No. 2016-XX. Design and development costs for molds, dies, and other tools that a supplier will not own and that will be used in producing the products under the long-term supply arrangement shall be capitalized (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10) if the supply arrangement provides the supplier the noncancelable right (as long as the supplier is performing under the terms of the supply arrangement) to use the molds, dies, and other tools during the supply arrangement. Otherwise, those design and development costs shall be expensed as incurred, including costs incurred prior to the supplier's receiving the noncancelable right to use the molds, dies, and other tools during the supply arrangement.~~

~~**340-10-25-3** Paragraph superseded by Accounting Standards Update No. 2016-XX. If a contractual guarantee for reimbursement exists for design and development costs that otherwise would be expensed based on the guidance in this Section, those costs shall be recognized as an asset as incurred. For purposes of this Subtopic, contractual guarantee means a legally enforceable agreement in which the amount of reimbursement can be objectively measured and verified.~~

~~**340-10-25-4** Paragraph superseded by Accounting Standards Update No. 2016-XX. See Examples 1 through 4 (paragraphs 340-10-55-2 through 55-5) for preproduction costs related to long-term supply arrangements.~~

## Implementation Guidance and Illustrations

### > Illustrations

#### >> ~~Example 1: Entity Agrees to Reimburse Supplier up to a Maximum Amount~~

~~340-10-55-2 Paragraph superseded by Accounting Standards Update No. 2016-XX. This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to reimburse the supplier for preproduction design and development costs incurred under the arrangement, up to a maximum reimbursement of \$1,000,000. Under this arrangement, the amount of reimbursement for design and development costs can be objectively measured and verified. The supplier shall recognize the design and development costs as an asset as costs are incurred, up to a maximum of \$1,000,000.~~

#### >> ~~Example 2: Entity Agrees to Pay Supplier Specified Amount per Part~~

~~340-10-55-3 Paragraph superseded by Accounting Standards Update No. 2016-XX. This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the supplier \$55 per part for the first 200,000 parts produced and \$50 for every part thereafter. No agreement exists concerning reimbursement of the supplier's design and development costs if fewer than 200,000 parts are produced under the arrangement. Under this arrangement, the amount of reimbursement for design and development costs cannot be objectively measured and verified. The supplier shall expense the preproduction design and development costs as incurred.~~

#### >> ~~Example 3: Entity Agrees to Pay Supplier Specified Amount per Part Plus Reimbursement if Minimum Amount Not Produced~~

~~340-10-55-4 Paragraph superseded by Accounting Standards Update No. 2016-XX. This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the~~



supplier \$55 per part for the first 200,000 parts produced and \$50 for every part thereafter. The arrangement provides that if fewer than 200,000 parts are produced, the supplier will be reimbursed for design and development costs incurred under the arrangement, up to a maximum reimbursement of \$1,000,000 reduced by \$5 per part for each part produced under the supply arrangement. For example, if 190,000 parts are produced under the supply arrangement, in addition to the \$55 per part received for the parts produced, the supplier would be reimbursed for design and development costs incurred under the arrangement, up to a maximum of \$50,000 [ $\$1,000,000 - (\$5 \times 190,000)$ ]. Under this agreement, the amount of reimbursement for design and development costs can be objectively measured and verified. The supplier shall recognize the design and development costs as an asset as costs are incurred, up to a maximum of \$1,000,000.

**>> Example 4: Entity Agrees to Pay Supplier Specified Amount per Part Plus Specified Amount per Part Not Produced if Minimum Not Produced**

340-10-55-5 Paragraph superseded by Accounting Standards Update No. 2016-XX. This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the supplier \$52.50 per part. The arrangement requires that a minimum of 400,000 parts be produced. If fewer than 400,000 parts are produced under the arrangement, the supplier will receive a payment of \$52.50 per part not produced under the arrangement, up to a maximum of 400,000 parts. Under this arrangement, the amount of reimbursement for design and development costs cannot be objectively measured and verified. The supplier shall expense the design and development costs as incurred.

## Amendments to Subtopic 340-40

6. Amend paragraphs 340-40-15-3 and its related heading and 340-40-25-6, with a link to transition paragraph 606-10-65-1, as follows:

### **Other Assets and Deferred Costs—Contracts with Customers**

#### **Scope and Scope Exceptions**

##### **> Transactions**

##### **>> Costs to Fulfill Incurred in Fulfilling a Contract with a Customer**

**340-40-15-3** The guidance in this Subtopic applies to the costs incurred in fulfilling a **contract** with a **customer** within the scope of Topic 606 on **revenue** from contracts with customers, unless the costs are within the scope of another Topic or Subtopic, including, but not limited to, any of the following:

- a. Topic 330 on inventory
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2016-XX, Paragraphs 340-10-25-1 through 25-4 on preproduction costs related to long-term supply arrangements~~
- c. Subtopic 350-40 on internal-use software
- d. Topic 360 on property, plant, and equipment
- e. Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed.

## Recognition

### > > Costs to Fulfill a Contract

**340-40-25-6** For costs incurred in fulfilling a contract with a **customer** that are within the scope of another Topic (for example, Topic 330 on inventory; ~~paragraphs 340-10-25-1 through 25-4 on preproduction costs related to long-term supply arrangements~~; Subtopic 350-40 on internal-use software; Topic 360 on property, plant, and equipment; or Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed), an entity shall account for those costs in accordance with those other Topics or Subtopics.

## Amendments to Subtopic 460-10

7. Supersede paragraph 460-10-60-2 and its related heading, with a link to transition paragraph 606-10-65-1, as follows:

### Guarantees—Overall

### Relationships

#### ~~> Other Assets and Deferred Costs~~

~~**460-10-60-2** Paragraph superseded by Accounting Standards Update No. 2016-XX. For contractual guarantees for reimbursement of design and development costs related to long-term supply arrangements, see paragraph 340-10-25-3.~~

## Amendments to Subtopic 730-10

8. Supersede paragraph 730-10-60-1 and its related heading, with a link to transition paragraph 606-10-65-1, as follows:

## **Research and Development—Overall**

### **Relationships**

#### **~~> Other Assets and Deferred Costs~~**

~~730-10-60-1 Paragraph superseded by Accounting Standards Update No. 2016-XX. For guidance regarding design and development costs for products to be sold under long-term supply arrangements, see Subtopic 340-40.~~

### **Issue 2: Contract Costs—Impairment Testing**

9. The proposed amendments would 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**

10. 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**

**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 from the contract with the customer 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 (together “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 amount of 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

11. The following amendments would clarify that impairment testing first should be performed on assets outside the scope of Topic 340 (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, Property, Plant, and Equipment, and Topic 350, Intangibles—Goodwill and Other.

#### Amendments to Subtopic 340-40

12. 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

**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 (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~~ Topic 360 on property, plant, and equipment and Topic 350 on goodwill and other intangibles ~~to that asset group or reporting unit.~~

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

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

### Amendments to Subtopic 605-35

14. 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 at 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

15. The following amendments would remove the term *insurance* from the scope exception to clarify that all contracts within the scope of Topic 944 are excluded from the scope of Topic 606.

## Amendments to Subtopic 606-10

16. 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, with no additional link to a transition paragraph, as follows:**

**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

17. The following amendments would provide practical expedients to the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration in order to recognize revenue. The following amendments also would expand the information disclosed when an entity applies one of the practical expedients.

### Amendments to Subtopic 606-10

18. Add paragraphs 606-10-50-14A through 50-14B and amend paragraph 606-10-50-15, 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 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** As a practical expedient, an entity need not disclose the information in paragraph 606-10-50-13 for variable consideration in 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 practical expedients in paragraphs 606-10-50-14(b) and 606-10-50-14A shall not be applied to fixed consideration or variable consideration that does not meet one of the conditions in paragraph 606-10-50-14A.

**606-10-50-15** An entity shall disclose which explain qualitatively whether it is applying the practical expedient expedients in paragraph paragraphs 606-10-50-14 through 50-14A it is applying. In addition, an entity applying the practical expedients 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).

## Issue 7: Contract Modifications Example

19. The following amendments would improve the alignment of Example 7 and 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

#### > > > 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 8: Fixed-Odds Wagering in the Casino Industry

21. The following amendments would (a) create a new Subtopic 924-815, Entertainment—Casinos—Derivatives and Hedging, which would include a scope exception from derivatives guidance for fixed-odds wagering contracts, and (b) include a scope exception within Topic 815, Derivatives and Hedging, for fixed odds wagering contracts issued by casino entities.

### Amendments to Subtopic 815-10

22. 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 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 are within the scope of Topic 606 on revenue from contracts with customers. See paragraph 924-815-15-1.

### Amendments to Subtopic 924-10

23. 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

24. Add Subtopic 924-815, Entertainment—Casinos—Derivatives and Hedging, 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 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 that know the odds of winning at the time the bets are placed with a casino (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 9: Cost Capitalization for Advisors to Private and Public Funds

25. The following amendments would align the cost-capitalization guidance for advisors to both public funds and private funds in Topic 946.

### Amendments to Subtopic 946-720

26. Amend paragraph 946-720-25-3, with a link to transition paragraph 606-10-65-1, as follows:

## **Financial Services—Investment Companies—Other Expenses**

### **Recognition**

#### **> Investment Adviser's Offering Costs When Both 12b-1 Fees and Contingent-Deferred Sales Fees Are Not Received**

**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

27. 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-XX, *Technical Corrections and Improvements to Update No. 2014-09, Revenue from Contracts with Customers (Topic 606)*:**

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

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

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

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

# Background Information, Basis for Conclusions, and Alternative Views

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## Introduction

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

## Background Information

BC2. On May 28, 2014, the FASB 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 Accounting Standards 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 proposed 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 proposed 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 Update 2014-09.

BC4. The amendments in this proposed Update include items raised to the Board through a variety of sources, including:

- a. The Codification's online feedback mechanism
- b. Submissions to the TRG
- c. Stakeholders' technical inquiries.

The amendments in this proposed 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.



## Topic 340, Other Assets and Deferred Costs (Issues 1 through 3)

BC5. After the issuance of Update 2014-09, stakeholders raised questions about the scope of the guidance on accounting for preproduction costs related to long-term supply arrangements in Subtopic 340-10. This issue was discussed at the TRG's November 2015 meeting. TRG members generally agreed that it is unclear to stakeholders what contracts are within the scope of the guidance in Subtopic 340-10 and what contracts are within the scope of the new cost guidance for contracts with customers in Subtopic 340-40. For example, some entities currently applying guidance in Subtopic 605-35 are uncertain about what guidance to apply when the guidance in that Subtopic is superseded. To address the implementation question, TRG members generally agreed that the Board should supersede Subtopic 340-10. The amendments in this proposed Update would supersede the guidance on preproduction costs related to long-term supply arrangements within Subtopic 340-10. As a consequence, an entity would apply the guidance in Subtopic 340-40. If an entity previously capitalized costs in accordance with the guidance in Subtopic 340-10 and those costs cannot be capitalized in accordance with the guidance in Subtopic 340-40 (that is, because the costs do not meet the scope requirements to be accounted for in Subtopic 340-40 or do not meet the criteria for capitalization in Subtopic 340-40), the entity would expense those costs (for example, research and development costs that are within the scope of Topic 730, Research and Development).

BC6. 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 proposed amendments would clarify how an entity would measure the remaining amount of consideration that the entity 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. In addition, the proposed amendments would 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)

BC7. Update 2014-09 superseded most of the guidance in Section 605-35-25. 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.

BC8. Current guidance in Section 605-35-25 requires that the onerous contract test be performed at the total contract level unless the contract is segmented or combined. Update 2014-09 included 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. However, the Board did not intend to change current practice in this area.

BC9. Topic 606 excludes 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 proposed amendment would require that the lowest level required for determining loss provisions would be the contract level. However, the Board chose 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.

## Topic 606, Revenue from Contracts with Customers (Issues 5 through 7)

### Scope for Insurance Contracts (Issue 5)

BC10. The proposed amendment to paragraph 606-10-15-2(b) would clarify that all contracts (that is, not only insurance contracts) within the scope of Topic 944 are excluded from the scope of Topic 606. This exclusion applies to contracts in 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 these contracts. However, 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) also 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 and related fees. 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.

BC11. 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 would be accounted for under Topic 606 in the future.

BC12. The Board has received questions about the interaction of the guidance in paragraph 606-10-15-2 with the guidance in paragraph 606-10-15-4. Some stakeholders have 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 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 but, 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 a contract is within the scope of Topic 944 or Topic 605 today.

## Disclosure of Remaining Performance Obligations (Issue 6)

BC13. Topic 606 includes a comprehensive set of disclosure requirements that represent a significant improvement from previous revenue disclosure guidance. 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 relatively small subset of potential future revenue, and the information appeared to be forward-looking in nature. The Board decided 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 practical expedients (in paragraph 606-10-50-14) to address preparers' concerns about the costs of preparation.

BC14. 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 proposed 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 have 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.

BC15. 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 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. As a result of this educational process, some stakeholders have 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.

BC16. 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 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 decided that as part of this proposed Update the practical expedient for 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.

BC17. 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).

BC18. 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 period of time. For those same reasons, the Board decided to propose in the amendments in this proposed Update that future sales-based and usage-based royalties on licenses of intellectual property should not be required in the disclosure of remaining performance obligations.

BC19. The amendments in this proposed Update provide an additional practical expedient to the disclosure of remaining performance obligations for the two situations described above in which an entity does not need to estimate the transaction price for the purpose of recognizing revenue. The additional practical expedient in this proposed Update would 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.

BC20. The Board decided to link the additional practical expedient to existing guidance in Topic 606 to ensure that it is clear which transactions qualify for the practical expedient. The Board also decided that the additional practical expedient only applies 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 practical expedient cannot be applied to fixed consideration or to variable consideration that does not meet one of the conditions in the additional practical expedient. For example, if an arrangement includes both fixed consideration and variable consideration and the variable consideration meets one of the conditions to apply the practical expedient in paragraph 606-10-50-14A, an entity still would be required to disclose the 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. 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. Furthermore, the Board concluded that the variable consideration that has been estimated for revenue recognition should be included in the disclosure of remaining performance obligations.

BC21. The Board considered and rejected an alternative approach that would have articulated the additional practical expedient in this proposed 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 proposed Update address all circumstances identified to date by stakeholders for which an entity might need to estimate the transaction price for disclosure purposes only.

BC22. Paragraph 606-10-50-15 includes a disclosure requirement that is applicable when an entity is applying one of the practical expedients to the disclosure of remaining performance obligations. When deciding to provide an additional practical expedient in this proposed 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 additional practical

expedient. Therefore, the Board decided to specify that an entity applying one or more of the practical expedients 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. The objective of this disclosure 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 practical expedient 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). This information would provide a user of the financial statements with some context about the remaining performance obligations that have not been disclosed without requiring an entity to estimate future variable consideration. If this disclosure is combined with disclosure of the remaining duration of the corresponding contracts, a user would have information about the amount and timing of remaining performance obligations that meet one or more of the practical expedients, but an entity would not need to estimate future revenue solely to comply with the disclosure requirement.

BC23. The Board considered and rejected an amendment that would have required an entity that applies one or more of the practical expedients to disclose quantitative information about the amounts of variable and fixed consideration in current-period revenue for contracts to which the entity applies one or more of the practical expedients. The proposed amendments do not necessarily require an entity to disclose quantitative information in 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 performance obligations and variable consideration that have not been disclosed because an entity applied one or more of the practical expedients. Although the Board rejected that amendment, the Board has included a question on this topic to solicit feedback on whether the Board should reconsider requiring entities that apply one or more of the practical expedients to disclose the amounts of variable and fixed consideration in current-period revenue.

### Contract Modifications Example (Issue 7)

BC24. 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. Example 7 includes methodology and calculations that do not fully align with the modifications guidance. Although the proposed amendment does not affect the conclusion in that example, Board decided to amend the example so that the reasoning for the conclusion is more aligned with the guidance it is intended to illustrate.

## Topic 924, Entertainment—Casinos (Issue 8)

BC25. Current GAAP includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific guidance was superseded by Update 2014-09.

BC26. The amendment in this proposed Update would clarify that fixed-odds wagering contracts for casino entities are not within the scope of the derivatives guidance in Topic 815, Derivatives and Hedging. 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 9)

BC27. Consequential amendments to paragraphs 946-720-25-3 through 25-4 in Update 2014-09, would result in incomparable accounting for offering costs incurred among advisors to private and public funds. The purpose of those consequential amendments was to relocate 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 proposed Update would make clear 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 would be capitalized and amortized.

## Alternative Views

BC28. Messrs. Linsmeier, Schroeder, and Siegel disagree with the issuance of the guidance in this proposed Update because it layers on additional disclosure-related practical expedients for entities in Issue 6, while failing to adequately consider the informational needs of users. The practical outcome of the proposed Update is that users are left with relatively inconsequential disclosures, about a shrinking subset of remaining performance obligations that will yield minimal decision-useful information. Messrs. Linsmeier, Schroeder, and Siegel disagree only with Issue 6 of the proposed Update: Disclosure of Remaining Performance Obligations.

BC29. Messrs. Linsmeier, Schroeder, and Siegel highlight that users advocated for a complete, cohesive, and quantitative disclosure of all remaining performance obligations during the development of Update 2014-09. Since its



issuance, users have opposed continuing preparer efforts to change the disclosure requirements in Update 2014-09. Such strong, consistent user opposition—both pre- and post-issuance of Update 2014-09—is based on their view that the current practical expedients already limit the usefulness of the disclosure information, resulting in confusing and potentially misleading information. Users commented that any additional practical expedients—as contemplated in this proposed Update—would further contribute to an incomplete picture of remaining performance obligations.

BC30. As originally issued, Update 2014-09 already exempts entities from providing otherwise required disclosures for contracts with an original expected duration of one year or less and 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). These two existing practical expedients can encompass large portions of revenue, thereby diminishing the decision usefulness of the required remaining performance obligation disclosure. Specifically, applying these practical expedients negates the requirement of paragraph 606-10-50-13 to disclose “the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied)” at each reporting period.

BC31. This proposed Update would provide additional disclosure practical expedients for contracts containing sales- and usage-based royalties, as well as variable consideration allocated to wholly unsatisfied performance obligations. Combining these with the existing practical expedients will restrict paragraph 606-10-50-13 disclosures to an even smaller fraction of revenue, further diminishing its decision usefulness.

BC32. For entities applying any of the existing or proposed practical expedients, there is a proposed requirement to disclose the nature of the remaining performance obligations, as well as the remaining duration 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. Linsmeier, Schroeder, and Siegel’s objection hinges on a requirement 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 gives entities free-rein to satisfy the added disclosure requirement with a qualitative discussion.

BC33. Users already have a general understanding of an entity’s remaining performance obligations, often based on an entity’s non-GAAP disclosures about “backlog.” For some industries, backlog is a key performance indicator, voluntarily disclosed, and typically presented outside the financial statements. Because there is not a common definition, backlog may not be comparable

across entities. Disclosure of remaining performance obligations differs from backlog in that backlog might include, among other differences, anticipated contracts, wholly unperformed contracts, renewal options, and estimates of variable consideration that are constrained.

BC34. While there is not a uniform definition of backlog, it provides a needed, more comprehensive quantitative measure that has proven decision useful. Therefore, Messrs. Linsmeier, Schroeder, and Siegel believe that the practical result of this aspect of the proposed Update will be a more limited, largely qualitative discussion that users will not consider decision useful.

BC35. To avoid diluting the usefulness of the remaining performance obligations disclosure required by Update 2014-09, Messrs. Linsmeier and Siegel first would prefer that this proposed Update not include Issue 6. However, Mr. Schroeder believes the usefulness of the currently required disclosure is so minimal that enhanced disclosures should be required by this proposed Update. Therefore, given that the majority of the Board was in favor of the proposed Update, they alternatively would desire to require additional information when an entity applies the practical expedient to mitigate the diminished usefulness of the remaining performance obligations disclosure.

BC36. While the Board did agree to add a requirement to disclose the “remaining duration,” there is no quantitative context by which to assess duration. To avoid requiring any forward-looking estimates of variable consideration, Messrs. Linsmeier, Schroeder, and Siegel believe that entities using the various disclosure-related practical expedients should be required to disclose either the portion of current-period reported revenues covered by the various practical expedients or a breakout of the current-period reported revenues for contracts subject to the practical expedients based on the portion that was fixed and the portion that was variable. The variable revenue portions would then be linked to the remaining duration disclosures included in this proposed Update.

## Amendments to the XBRL Taxonomy

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