Applying IFRS

Transition Resource Group for Revenue Recognition

Items of general agreement

Updated March 2019
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What you need to know

• The TRG has held six joint meetings and two FASB TRG meetings since its inception in 2014, to discuss a number of implementation issues. In January 2016, the IASB said it did not plan to schedule further meetings of the IFRS constituents of the TRG. The November 2016 meeting was the last scheduled FASB TRG meeting.

• During the discussions, TRG members reached general agreement on many topics, which are summarised in this publication.

• Although the views expressed by TRG members are non-authoritative, they represent the latest thinking on each topic; entities should consider these views as they implement the standards.
Overview

This publication summarises the issues on which members of the Transition Resource Group for Revenue Recognition (TRG), created by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), generally agreed at joint meetings in 2014 and 2015 and at meetings of the FASB TRG in 2016. IASB TRG members did not participate in the meetings in 2016. However, certain members of the IASB and its staff observed the meetings. The IASB received oral updates of the April and November 2016 FASB TRG meetings in May and December 2016, respectively. Where possible, this publication indicates whether the IASB or its staff commented on the FASB TRG discussions. Unless otherwise specified, each issue summarises the discussions of the joint TRG.

As a reminder, the IASB and the FASB (collectively, the Boards) created the TRG to help them determine whether more application guidance is needed on their revenue standards and to educate constituents. TRG members include financial statement preparers, auditors and users from a variety of industries and countries.

In January 2016, the IASB said it did not plan to schedule further meetings of the IFRS constituents of the TRG, but said it will monitor any discussions of the FASB TRG. The November 2016 meeting was the last scheduled FASB TRG meeting. However, if the FASB receives enough broadly applicable questions, additional TRG meetings may be scheduled.

TRG members’ views are non-authoritative, but entities should consider them as they implement the standards. In a recent public statement, the European Securities and Markets Authority (ESMA) encouraged issuers to consider the TRG discussions when implementing IFRS 15. In addition, the Chief Accountant of the Securities and Exchange Commission (SEC), has encouraged SEC registrants, including foreign private issuers (that may report under IFRS) to consult with the Office of the Chief Accountant if they are considering applying the standard in a manner that differs from the discussions in which TRG members reached general agreement.

Our summary, which is organised according to the steps in the standards’ five-step model and by TRG discussion topic, is not intended to replace any summaries provided by the TRG or the Boards. For more information about these issues, refer to our publication, Applying IFRS: A closer look at IFRS 15, the revenue recognition standard, which is available on www.ey.com/ifrs.

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1 IFRS 15 Revenue from Contracts with Customers and Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers (created by Accounting Standards Update (ASU) 2014-09). Throughout this publication, when we refer to the IASB’s standard or FASB’s standard, we mean IFRS 15 (including any amendments) or ASC 606 (including any amendments), respectively, unless otherwise noted.


1. Step 1: Identify the contract(s) with a customer

1.1 Collectability

Under the standards, collectability refers to the customer’s ability and intent to pay the amount of consideration to which the entity will be entitled in exchange for the goods and services that will be transferred to the customer. The Boards concluded that assessing a customer’s credit risk is an important part of determining whether a contract, as defined by the standards, exists. If an arrangement does not meet the collectability criterion (or any of the other criteria) to be considered a contract under the standards, an entity can only recognise non-refundable consideration received as revenue when one of two events has occurred: (1) the entity has completed performance and received substantially all consideration; or (2) the contract has been terminated.

How would an entity assess collectability for a portfolio of contracts? [TRG meeting 26 January 2015 – Agenda paper no. 13]

TRG members generally agreed that, if an entity has determined it is probable that a specific customer will pay amounts owed under a contract, but the entity has historical experience that it will not collect consideration from some customers within a portfolio of contracts, it would be appropriate for the entity to record revenue for the specific contract in full and separately evaluate the corresponding contract asset or receivable for impairment.

Some TRG members cautioned that the analysis to determine whether to recognise a bad debt expense for a contract in the same period in which revenue is recognised (instead of reducing revenue for an anticipated price concession) requires judgement.

When would an entity reassess collectability? [TRG meeting 26 January 2015 – Agenda paper no. 13]

The standards require an entity to evaluate, at contract inception (and when significant facts and circumstances change), whether it is probable that it will collect the consideration to which it will be entitled in exchange for the goods and services that will be transferred to the customer (i.e., the transaction price, not the stated contract price for those goods or services). TRG members generally agreed that entities need to exercise judgement to determine whether changes in the facts and circumstances require a reassessment of collectability. Judgement would also be needed to determine whether such changes are significant enough to indicate that a contract no longer exists under the standards.

How would an entity assess whether a contract includes a price concession? [TRG meeting 26 January 2015 – Agenda paper no. 13]

The Boards indicated that an entity’s belief that it will receive partial payment for performance may be sufficient evidence that an arrangement meets the definition of a contract (and that the expected shortfall of consideration is more akin to a price concession).
TRG members generally agreed that entities need to exercise judgement. They also acknowledged that it may be difficult in some cases to distinguish between price concessions, impairment and a lack of sufficient commercial substance to be considered a contract under the standards.

While this topic was not on the TRG agenda, TRG members questioned whether the Boards intended to delay recognition of non-refundable cash consideration received in a number of situations indefinitely (e.g., a month-to-month service arrangement when the entity continues to perform). [TRG meeting 26 January 2015]

TRG members raised this issue in their discussion and generally agreed that the Boards’ intent was not clear.

In May 2016, the FASB amended its standard to add a third event that triggers recognition of non-refundable consideration received as revenue when collectability is not probable (and, therefore, the arrangement cannot be accounted for as a contract under the standards). Under this amendment, an entity recognises non-refundable consideration received as revenue if it has transferred control of the goods or services and has stopped transferring (and has no obligation to transfer) additional goods or services. This assessment requires judgement about the specific facts and circumstances (e.g., an entity’s right to stop transferring goods or services may vary by arrangement or jurisdiction).4

The IASB did not to make a similar change to IFRS 15. However, the IASB states in the Basis for Conclusions on IFRS 15 that contracts often specify that an entity has a right to terminate the contract in the event of non-payment. Furthermore, such clauses would not generally affect the entity’s legal rights to recover any amounts due. Therefore, the IASB confirmed that the requirements in IFRS 15 would allow an entity to conclude that a contract is terminated when it stops providing goods or services to the customer.5

1.2 Contract enforceability and termination clauses

Under the standards, termination clauses are an important consideration when determining whether both parties are committed to perform under a contract and, consequently, whether a contract, as defined by the standards, exists.

How do termination clauses and termination payments affect the duration of a contract (i.e., the contractual period)? [TRG meeting 31 October 2014 – Agenda paper no. 10]

TRG members generally agreed with the conclusions reached in the examples included in the agenda paper on this question.

TRG members generally agreed that enforceable rights and obligations exist throughout the term in which each party has the unilateral enforceable right to terminate the contract by compensating the other party.

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4 FASB ASU 2016-12, Revenue from Contracts with Customer (Topic 606): Narrow-Scope Improvements and Practical Expedients (May 2016).
5 IFRS 15, BC46H.
However, TRG members observed that the determination of whether a termination penalty is substantive, and what constitutes enforceable rights and obligations under a contract, requires judgement and consideration of the facts and circumstances. The TRG agenda paper also states that if an entity concludes that the duration of the contract is less than the stated term because of a termination clause, any termination penalty should be included in the transaction price.

Conversely, TRG members also agreed that if a contract with a stated contractual term can be terminated by either party at any time, for no consideration, the contract duration ends when control of the goods or services already provided transfers to the customer (e.g., a month-to-month service contract), regardless of the contract’s stated contractual term.

**How should an entity evaluate the contract term when only the customer has the right to cancel the contract without cause and how do termination penalties affect this analysis? [TRG meeting 9 November 2015 - Agenda paper no. 48]**

TRG members generally agreed that a substantive termination penalty payable by a customer to the entity is evidence of enforceable rights and obligations of both parties throughout the period covered by the termination penalty. This is consistent with the general agreement the TRG reached in October 2014 that, when each party has the unilateral enforceable right to terminate the contract (at any time during a specified period) by compensating the other party, enforceable rights and obligations exist throughout the stated contractual term of the contract (or to the date when a termination payment would not be due). That is, members of the TRG do not view a customer-only right to terminate as sufficient to warrant a different conclusion.

For example, consider a four-year service contract in which the customer has the right to cancel without cause at the end of each year, but for which the customer would incur a termination penalty that decreases each year and is determined to be substantive. TRG members generally agreed that such an arrangement would be treated as a four-year contract.

TRG members also generally agreed with the conclusion in the agenda paper, that customer cancellation rights would be treated as a customer option when there are no (or non-substantive) contractual penalties that compensate the other party upon cancellation and when the customer has the unilateral right to terminate the contract for reasons other than cause or contingent events outside the customer’s control. The Boards noted, in the Basis for Conclusions on their respective standards, that a cancellation option or termination right is akin to a renewal option. That is, such a contract provision could be a performance obligation in the contract if it provides the customer with a material right.6

However, TRG members observed that the determination of whether a termination penalty is substantive, and what constitutes enforceable rights and obligations under a contract, requires judgement and consideration of the facts and circumstances.

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6 IFRS 15.BC391.
2. Step 2: Identify the performance obligations in the contract

2.1 Identification of performance obligations

To apply the requirements, an entity must identify the promised goods and services within the contract and determine which of those goods and services are distinct (i.e., performance obligations).

Do the standards require the identification of promised goods or services that were not identified as deliverables under legacy revenue requirements? [TRG meeting 26 January 2015 – Agenda paper no. 12]

TRG members generally agreed that the standards are not intended to require the identification of promised goods or services that are not accounted for as separate deliverables today. At the same time, entities may not disregard items that they deem to be perfunctory or inconsequential and need to consider ‘free’ goods and services. For example, telecommunications entities may have to allocate consideration to the ‘free’ handsets that they provide. Likewise, automobile manufacturers may have to allocate consideration to ‘free’ maintenance that may be considered a marketing incentive under legacy IFRS. However, entities would consider materiality in determining whether items are promised goods or services.

In April 2016, the FASB amended its revenue standard to allow entities to disregard promises that are deemed to be immaterial in the context of the contract. The FASB’s intention is to allow entities to disregard immaterial items at the contract level and not to require that they be aggregated and assessed for materiality at the entity level.

IFRS 15 does not include explicit language to indicate an entity may disregard promised goods or services that are immaterial in the context of the contract. However, in the Basis for Conclusions, the IASB noted that it did not intend for entities to identify every possible promised good or services in a contract and that entities should consider materiality and the overall objective of IFRS 15 when assessing promised goods or services and identifying performance obligations.

The IASB also noted that revenue standards under legacy IFRS did not contain similar language to the guidance that was issued by the staff of the US SEC on inconsequential or perfunctory performance obligations under legacy US GAAP. The TRG’s discussion highlighted that the concerns raised about identifying performance obligations that are not identified as deliverables under legacy requirements primarily relate to potential changes in practice under US GAAP when comparing the legacy US SEC guidance to ASC 606.

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7 FASB ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (April 2016).
8 IFRS 15.BC116E.
9 IFRS 15.BC116C.
2.2 Stand-ready obligations

The standards state that a contract may include “a service of standing ready to provide goods or services (e.g., unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides.”

What is the nature of the promise in a ‘typical’ stand-ready obligation? [TRG meeting 26 January 2015 – Agenda paper no. 16]

TRG members generally agreed that the nature of the promise in a stand-ready obligation is the promise that the customer will have access to a good or service, not the delivery of the underlying good or service.

Stakeholders raised this question in the context of several types of arrangements, including transactions for software or technology that provide a customer with a right to future upgrades. A FASB staff member indicated that the staff does not believe that the FASB intended to change practice from legacy US GAAP for determining when software or technology transactions include specified upgrade rights (i.e., a separate performance obligation) or unspecified upgrade rights (i.e., a stand-ready obligation).

How would an entity measure progress towards satisfaction of a stand-ready obligation that is satisfied over time? [TRG meeting 26 January 2015 – Agenda paper no. 16]

TRG members generally agreed that an entity should not default to a straight-line revenue attribution model. However, they also generally agreed that if an entity expects the customer to receive and consume the benefits of its promise throughout the contract period, a time-based measure of progress (e.g., straight-line) would be appropriate. The agenda paper noted that this is generally the case for unspecified upgrade rights, help desk support contracts and cable or satellite television contracts. TRG members generally agreed that rateable recognition may not be appropriate if the benefits are not spread evenly over the contract period (e.g., an annual snow removal contract that provides more benefit in winter).

Do all contracts with a stand-ready element include a single performance obligation that is satisfied over time? [TRG meeting 9 November 2015 – Agenda paper no. 48]

TRG members generally agreed that not all contracts with a stand-ready element necessarily include a single performance obligation satisfied over time. As an example, an entity may be required to stand ready to produce a part for a customer under a master supply arrangement (MSA). If the nature of the promise is a service of standing ready, the contract would be accounted for as a single performance obligation satisfied over time. In that situation, the entity may be required to estimate the number of purchases to be made throughout the contract term and continually update the transaction price and its allocation among the transferred goods and services. However, TRG members generally agreed that the nature of the promise in this example is the delivery of the parts, rather than a service of standing ready. When the customer submits a purchase order under the MSA, it is contracting for a specific number of distinct goods and creates new performance obligations for the entity.

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10 IFRS 15.26(e).
2.3 Series of distinct goods and services

The standards require that a series of distinct goods or services be accounted for as a single performance obligation if they are substantially the same, have the same pattern of transfer and both of the following criteria are met: (1) each distinct good or service in the series represents a performance obligation that would be satisfied over time; and (2) the entity would measure its progress towards satisfaction of the performance obligation using the same measure of progress for each distinct good or service in the series (the series requirement). Entities need to determine whether a single performance obligation is created as a result of applying the series requirement in order to allocate variable consideration appropriately and apply the requirements for contract modification and changes in the transaction price.

In order to apply the series requirement, must the goods or services be consecutively transferred? [TRG meeting 30 March 2015 - Agenda paper no. 27]

TRG members generally agreed that a series of distinct goods or services need not be consecutively transferred. That is, the series requirement must also be applied when there is a gap or an overlap in an entity’s transfer of goods or services, provided that the other criteria are met. IASB TRG members also noted that entities may need to consider carefully whether the series requirement applies, depending on the length of the gap between an entity’s transfer of goods or services.

In order to apply the series requirement, does the accounting result need to be the same as if the underlying distinct goods and services were accounted for as separate performance obligations? [TRG meeting 30 March 2015 - Agenda paper no. 27]

TRG members generally agreed that the accounting result does not need to be the same and that an entity is not required to prove that the result would be the same as if the goods and services were accounted for as separate performance obligations.

In order to apply the series requirement, how should an entity consider whether a performance obligation consists of distinct goods or services that are ‘substantially the same’? [TRG meeting 13 July 2015 - Agenda paper no. 39]

TRG members generally agreed that their agenda paper on this question, which primarily focused on the application of the series requirement to service contracts, helps entities understand the revenue standards’ requirement to determine whether a performance obligation consists of distinct goods or services that are ‘substantially the same’.

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11 Due to technological difficulties during the 30 March 2015 TRG meeting, IASB TRG members attending the meeting at the IASB’s office in London held a separate discussion from FASB TRG members attending the meeting at the FASB’s office in Norwalk, Connecticut.
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The agenda paper noted that, when making the evaluation of whether goods or services are distinct and substantially the same, an entity first needs to determine the nature of its promise in providing services to the customer. That is, if the nature of the promise is to deliver a specified quantity of service (e.g., monthly payroll services over a defined contract period), the evaluation would consider whether each service is distinct and substantially the same. In contrast, if the nature of the entity’s promise is to stand-ready or provide a single service for a period of time (i.e., because there is an unspecified quantity to be delivered), the evaluation would consider whether each time increment (e.g., hour or day), rather than the underlying activities, is distinct and substantially the same.

The evaluation in the agenda paper is consistent with the examples in the revenue standards on monthly payroll processing and hotel management services, respectively. In the monthly payroll processing example, the nature of the promise is to deliver 12 distinct instances of the service that are substantially the same over the course of one year. In the hotel management example, the nature of the promise is to provide a daily management service. The underlying activities could vary within a day and from day to day (e.g., employee management, training or accounting services), but that would not prevent an entity from concluding that the daily management service is distinct and substantially the same.

2.4 Gross versus net revenue – amounts billed to customers

Under the standards, an entity is required to determine whether the nature of its promise is to provide the specified goods or services itself (i.e., the entity is a principal) or to arrange for another party to provide those goods or services (i.e., the entity is an agent). Furthermore, the standards require that any “amounts collected on behalf of third parties (for example, some sales taxes)” be excluded from the transaction price.\(^\text{12}\)

How would entities determine the presentation of amounts billed to customers (e.g., shipping and handling, expenses or cost reimbursements and taxes) under the standards (i.e., as revenue or as a reduction of costs)? [TRG meeting 18 July 2014 – Agenda paper no. 2]

TRG members generally agreed that the standards are clear that any amounts collected on behalf of third parties would not be included in the transaction price (i.e., revenue). That is, if the amounts were incurred by the entity in fulfilling its performance obligations, the amounts are included in the transaction price and recorded as revenue.

Several TRG members noted that this would require entities to evaluate taxes collected in all jurisdictions in which they operate to determine whether a tax is levied on the entity or the customer. TRG members generally agreed that an entity would apply the principal versus agent application guidance when it is not clear whether the amounts are collected on behalf of third parties. This could result in amounts billed to a customer being recorded as an offset to costs incurred (i.e., on a net basis), even when the amounts are not collected on behalf of third parties.

\(^{12}\) IFRS 15.47.
In May 2016, the FASB amended its revenue standard to allow an entity to make an accounting policy choice to exclude from the transaction price (i.e., present revenue net of) certain types of taxes collected from a customer, including sales, use, value-added and some excise taxes, if it discloses its policy. The FASB’s decision was to address a concern expressed by stakeholders in the US as to the operability of the requirements under US GAAP. IFRS 15 does not provide a similar accounting policy choice for the following reasons: it would reduce comparability; the requirements in IFRS 15 are consistent with those in current IFRS; and it would create an exception to the five-step model.

2.5 Customer options for additional goods and services

The standards specify that, when an entity grants a customer the option to acquire additional goods or services (e.g., future sales incentives, loyalty programmes or renewal options), that option is a separate performance obligation if it provides a material right to the customer that the customer would not receive without entering into the contract (e.g., a discount that exceeds the range of discounts typically given for those goods or services to that class of customer in that geographical area or market).

Would entities consider only the current transaction or would they consider past and future transactions with the same customer when determining whether an option for additional goods and services provides the customer with a material right? [TRG meeting 31 October 2014 - Agenda paper no. 6]

TRG members generally agreed that entities should consider all relevant transactions with a customer (i.e., current, past and future transactions), including those that provide accumulating incentives, such as loyalty programmes, when determining whether an option represents a material right. That is, the evaluation is not solely performed in relation to the current transaction.

Is the material right evaluation solely a quantitative evaluation or should the evaluation also consider qualitative factors? [TRG meeting 31 October 2014 - Agenda paper no. 6]

TRG members generally agreed that the evaluation should consider both quantitative and qualitative factors (e.g., what a new customer would pay for the same service, the availability and pricing of competitors’ service alternatives, or whether the average customer life indicates that the fee provides an incentive for customers to remain beyond the stated contract term, whether the right accumulates).

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13 FASB ASU 2016-12, Revenue from Contracts with Customer (Topic 606): Narrow-Scope Improvements and Practical Expedients (May 2016).
14 IAS 18.8.
15 IFRS 15.BC188D.
16 IFRS 15.B40.
How would an entity account for the exercise of a material right? That is, would an entity account for it as: a contract modification, a continuation of the existing contract or variable consideration? [TRG meeting 30 March 2015 - Agenda paper no. 32]

TRG members generally agreed that it is reasonable for an entity to account for the exercise of a material right as either a contract modification or a continuation of the existing contract (i.e., a ‘change in the transaction price). TRG members also generally agreed it is not appropriate to account for the exercise of a material right as variable consideration.

Although TRG members generally agreed that the standard could be interpreted to allow either approach, many TRG members favoured treating the exercise of a material right as a continuation of the existing contract because the customer decided to purchase additional goods or services that are contemplated in the original contract (and not as part of a separate, subsequent negotiation).

Since more than one approach would be acceptable, TRG members generally agreed that an entity needs to consider which approach is most appropriate, depending on the facts and circumstances and consistently apply that approach to similar contracts.

Is an entity required to evaluate whether a customer option that provides a material right includes a significant financing component? If so, how would entities perform this evaluation? [TRG meeting 30 March 2015 - Agenda paper no. 32]

TRG members generally agreed that an entity has to evaluate whether a material right includes a significant financing component, in the same way it that it evaluates any other performance obligation. This evaluation requires judgement and consideration of the facts and circumstances.

On this question, the agenda paper discussed a factor often present in customer options that may be determinative in this evaluation. The standards indicate that if a customer provides an advance payment for a good or service, but the customer can choose when the good or service will be transferred, no significant financing component exists. As a result, if the customer can choose when to exercise the option, it is unlikely that there will be a significant financing component.

Over what period should an entity recognise a non-refundable upfront fee (e.g., fees paid for membership to a club, activation fees for phone, cable or internet services) that does not relate to the transfer of a good or service? [TRG meeting 30 March 2015 - Agenda paper no. 32]

TRG members generally agreed that the period over which a non-refundable upfront fee is recognised depends on whether the fee provides the customer with a material right with respect to future contract renewals. For example, assume that an entity charges a one-time activation fee of CUSO to provide CU100 of services to a customer on a month-to-month basis. If the entity concludes that the activation fee provides a material right, the fee would be recognised over the service period during which the customer is expected to benefit from not having to pay an activation fee upon renewal of the service. That period may be the estimated customer life in some situations. If the entity concludes that the activation fee does not provide a material right, the fee would be recognised over the contract term (i.e., one month).

17 IFRS 15.62(a).
How would an entity distinguish between a contract that contains an option to purchase additional goods or services and a contract that includes variable consideration based on a variable quantity (e.g., a usage-based fee)? [TRG meeting 9 November 2015 – Agenda paper no. 48]

TRG members generally agreed that this determination requires judgement and consideration of the facts and circumstances. They also generally agreed that the agenda paper on this question provides a framework that helps entities to make this determination.

The agenda paper explained that the first step (in determining whether a contract involving variable quantities of goods or services should be accounted for as a contract containing optional purchases or variable consideration) is for the entity to determine the nature of its promise in providing goods or services to the customer and the rights and obligations of each party. With a customer option, the vendor is not obligated to provide additional goods or services until the customer exercises the option. In contrast, in a contract that includes variable consideration (rather than a customer option), the vendor is presently obligated to transfer all goods and services requested by the customer.

The agenda paper contained the following example of a contract that includes a customer option (rather than variable consideration): Entity B enters into a contract to provide 100 widgets to Customer Y in return for consideration of CU10 per widget. Each widget is a distinct good transferred at a point in time. The contract also gives Customer Y the right to purchase additional widgets at the stand-alone selling price of CU10 per widget. Therefore, the quantity that may be purchased by Customer Y is variable.

The conclusion in the agenda paper was that, while the quantity of widgets that may be purchased is variable, the transaction price for the existing contract is fixed at CU1,000 (100 widgets x CU10/widget). That is, the transaction price only includes the consideration for the 100 widgets specified in the contract and the customer’s decision to purchase additional widgets is an option. While Entity B may be required to deliver additional widgets in the future, Entity B is not legally obligated to provide the additional widgets until Customer Y exercises the option.

Examples described in the TRG agenda paper of contracts that may include variable consideration (rather than a customer option) included certain information technology outsourcing and transaction processing contracts. Under these types of contracts, the vendor provides continuous delivery of a service over the contract term.

How should an entity account for a customer’s option to purchase or use additional copies of software? [TRG meeting 9 November 2015 – Agenda paper no. 45]

TRG members considered examples of vendors that enter into multi-year software arrangements with customers for a fixed fee of CU300,000 for up to 500 users. The customers pay CU400 for each additional user. In some fact patterns, the customers may be able to replicate the software without the assistance of the vendor. In other fact patterns, the customers must request additional access codes from the vendor.

TRG members generally agreed that the entity would have to determine whether the contract is for a single licence or for multiple licences and that this determination requires judgement and consideration of the facts and circumstances.
TRG members also generally agreed that an entity would have to perform a similar analysis to that discussed in agenda paper no. 48 above, in order to determine whether the additional software usage represents an option to purchase additional goods and services or variable consideration based on a variable quantity (e.g., a usage-based fee). In addition, they generally agreed that the accounting should not depend on whether the customer needs the vendor’s assistance to receive the additional software licences.

If the customer’s ability to add users is treated as a customer option, the vendor would have to determine at contract inception whether the option represents a material right. If it is a material right, the vendor would allocate a portion of the transaction price to it. If the option is not a material right, the vendor would not account for the additional purchases until they occur. If the customer’s ability to add users is considered variable consideration (because it represents additional usage of the software that the customer already controls and, therefore, additional consideration), revenue would be recognised when (or as) the additional purchases occur.

When, if ever, would an entity consider the goods or services underlying a customer option as a separate performance obligation when there are no contractual penalties (e.g., termination fees, monetary penalties for not meeting contractual minimums)? [TRG meeting 9 November 2015 – Agenda paper no. 48]

TRG members generally agreed that, even if an entity believes that it is virtually certain (e.g., the customer is economically compelled) that a customer will exercise its option for additional goods or services, it would not identify the additional goods or services underlying the option as promised goods or services (or performance obligations) if there are no contractual penalties. Only the option would be assessed to determine whether it represents a material right to be accounted for as a performance obligation. As a result, consideration that would be received in return for optional goods or services is not included in the transaction price at contract inception.

The agenda paper contained an example of a contract in which an entity sells equipment and consumables and both are determined to be distinct goods that are recognised at a point in time. The stand-alone selling price of the equipment and each consumable is CU10,000 and CU100, respectively. The equipment costs CU8,000 and each consumable costs CU60. The entity sells the equipment for CU6,000 (i.e., at a 40% discount on its stand-alone selling price) with a customer option to purchase each consumable for CU100 (i.e., equal to its stand-alone selling price). There are no contractual minimums, but the entity estimates the customer will purchase 200 parts over the next two years. This is an exclusive contract in which the customer cannot purchase the consumables from any other vendors during the contract term.

TRG members generally agreed that the consumables underlying each option would not be considered a part of the contract. Furthermore, the option does not represent a material right because it is priced at the stand-alone selling price for the consumable. Accordingly, the transaction price is CU6,000 and it is entirely attributable to the equipment. This would result in a loss for the entity of CU2,000 when it transfers control of the equipment to the customer.
3. Step 3: Determine the transaction price

3.1 Variable consideration

Under the standards, if the consideration promised in a contract includes a variable amount, an entity is required to estimate the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer. Variability can result from discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. Entities may be required to constrain the amount of variable consideration included in the estimated transaction price. That is, they have to conclude that it is highly probable (probable)\(^{18}\) that a significant revenue reversal will not occur in future periods before including any such amounts in the transaction price.

If a contract includes an undefined quantity of outputs, but the contractual rate per unit is fixed, is the consideration variable? [TRG meeting 13 July 2015 - Agenda paper no. 39]

Yes. TRG members generally agreed that if a contract includes an unknown quantity of tasks, throughout the contract period, for which the entity has enforceable rights and obligations and the consideration received is contingent upon the quantity completed, the total transaction price would be variable. This is because the contract has a range of possible transaction prices and the ultimate consideration will depend on the occurrence or non-occurrence of a future event (e.g., customer usage), even though the rate per unit is fixed.

The agenda paper noted that an entity would need to consider contractual minimums (or other clauses) that would make some or all of the consideration fixed.

Would the constraint on variable consideration be applied at the contract or performance obligation level? [TRG meeting 26 January 2015 - Agenda paper no. 14]

TRG members generally agreed that the constraint would be applied at the contract level and not at the performance obligation level. That is, the significance assessment of the potential revenue reversal would consider the total transaction price of the contract (and not the portion of transaction price allocated to a performance obligation).

3.2 Portfolio practical expedient to estimate variable consideration

The revenue standards state that an entity can account for a portfolio of similar contracts collectively if it expects that the result will not be materially different from the result of applying the requirements to the individual contracts.

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\(^{18}\) The FASB’s standard uses the term ‘probable’, which is intended to have the same meaning as ‘highly probable’ under IFRS.
In addition, an entity must determine whether to use an ‘expected value’ or a ‘most likely amount’ method to estimate the amount of variable consideration to include in the transaction price, based on the method that better predicts the amount of consideration to which it will be entitled.

Is an entity applying the portfolio practical expedient when it considers evidence from other similar contracts to develop an estimate of variable consideration using an expected value method? [TRG meeting 13 July 2015 - Agenda paper no. 38]

TRG members generally agreed that an entity is not applying the portfolio practical expedient when considering evidence from other similar contracts to develop an estimate of variable consideration using an expected value method. An entity could choose to apply the portfolio practical expedient, but it is not required to do so.

3.3 Accounting for restocking fees and related costs

Entities sometimes charge customers a ‘restocking fee’ when a product is returned. This fee may be levied by entities to compensate them for the costs of repackaging, shipping and/or reselling the item at a lower price to another customer. Stakeholders raised questions about how to account for restocking fees and related costs. Under the revenue standards, rights of return create variability in the transaction price. An entity is required to estimate the amount of expected returns at contract inception, exclude this amount from its transaction price and establish a corresponding refund liability. An entity also recognises a return asset (and adjust cost of sales) for the right to recover the goods returned by the customer.

How should an entity account for restocking fees for goods that are expected to be returned? [TRG meeting 13 July 2015 - Agenda paper no. 35]

TRG members generally agreed that restocking fees for goods that are expected to be returned would be included in the estimate of the transaction price at contract inception and recorded as revenue when (or as) control of the good transfers.

For example, assume that an entity enters into a contract with a customer to sell 10 widgets for CU100 each. The customer has the right to return the widgets, but if it does so, it will be charged a 10% restocking fee (or CU10 per returned widget). The entity estimates that 10% of all widgets that are sold will be returned. Upon transfer of control of the 10 widgets, the entity will recognise revenue of CU910 [(9 widgets not expected to be returned x CU100 selling price) + (1 widget expected to be returned x CU10 restocking fee)]. A refund liability of CU90 will also be recorded [1 widget expected to be returned x (CU100 selling price – CU10 restocking fee)].
How should an entity account for restocking costs related to expected returns (e.g., shipping or repackaging costs)? [TRG meeting 13 July 2015 – Agenda paper no. 35]

TRG members generally agreed that restocking costs would be recorded as a reduction of the amount of the return asset when (or as) control of the good transfers. This accounting treatment is consistent with the revenue standards’ requirement that the return asset be initially measured at the former carrying amount of the inventory, less any expected costs to recover the goods (e.g., restocking costs).

3.4 Significant financing components

Under the standards, an entity is required to assess whether a contract contains a significant financing component if it receives consideration more than one year before or after it transfers goods or services to the customer (e.g., the consideration is prepaid or is paid after the goods or services are provided).

The standards state that a significant financing component does not exist if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance. How broadly would this factor be applied? [TRG meeting 30 March 2015 – Agenda paper no. 30]

TRG members generally agreed that there is likely significant judgement involved in determining whether a significant financing component exists or whether the payment terms are for another reason. TRG members also generally agreed that the Boards did not seem to intend to create a presumption that a significant financing component exists if the cash selling price differs from the promised consideration or, conversely, that a significant financing component does not exist simply because an advance payment is received from the customer. TRG members generally agreed that, while there may be valid non-financing reasons for advance payments, the standards do not exclude advance payments from the requirements on significant financing components. As a result, it is important that entities analyse all of the facts and circumstances in a contract.

The standards state that an entity must consider the difference, if any, between the amount of promised consideration and the cash selling price of a promised good or service when determining whether a significant financing component exists in a contract. If the promised consideration is equal to the cash selling price, does a financing component exist? [TRG meeting 30 March 2015 – Agenda paper no. 30]

TRG members generally agreed that, even if the list price, cash selling price and promised consideration of a good or service are all equal, an entity should not automatically assume that there is no significant financing component. This would be a factor to consider, but would not be determinative.

Do the standards preclude accounting for financing components that are not significant? [TRG meeting 30 March 2015 – Agenda paper no. 30]

TRG members generally agreed that the standards do not preclude an entity from deciding to account for a financing component that is not significant. In addition, an entity electing to apply the requirements for significant financing components to an insignificant financing component needs to be consistent in its application to all similar contracts with similar circumstances.
The standards include a practical expedient that allows an entity not to assess a contract for a significant financing component if the period between the customer’s payment and the entity’s transfer of the goods or services is one year or less. How should entities consider whether the practical expedient applies to contracts with a single payment stream for multiple performance obligations? [TRG meeting 30 March 2015 – Agenda paper no. 30]

TRG members generally agreed that entities either apply an approach of allocating any consideration received: (1) to the earliest good or service delivered; or (2) proportionately between the goods or services depending on the facts and circumstances.

The agenda paper on this question provided an example of a telecommunications entity that enters into a two-year contract to provide a device at contract inception and related data services over 24 months in exchange for 24 equal monthly instalments. Under approach (1) above, an entity would be allowed to apply the practical expedient because the period between transfer of the good or service and customer payment would be less than one year for both the device and the related services. This is because, in the example provided, the device would be ‘paid off’ after five months. Under approach (2) above, an entity would not be allowed to apply the practical expedient because the device would be deemed to be paid off over the full 24 months (i.e., greater than one year).

TRG members generally agreed that approach (2) above may be appropriate in circumstances similar to the example in the agenda paper, when the cash payment is not directly tied to the earliest good or service delivered in a contract. Approach (1) above may be appropriate when the cash payment is directly tied to the earliest good or service delivered. However, TRG members noted it may be difficult to tie a cash payment directly to a good or service because cash is fungible. Accordingly, judgement is required based on the facts and circumstances.

If a significant financing component exists in a contract, how should an entity calculate the adjustment to revenue? [TRG meeting 30 March 2015 – Agenda paper no. 30]

TRG members generally agreed that the standards do not contain requirements on how to calculate the adjustment to the transaction price due to a significant financing component. A financing component is recognised as interest expense (when the customer pays in advance) or interest income (when the customer pays in arrears). Entities need to consider requirements outside the revenue standards to determine the appropriate accounting treatment (i.e., IFRS 9 Financial Instruments or Accounting Standards Codification (ASC) 835-30, Interest — Imputation of Interest).

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19 IFRS 9 became effective for annual periods beginning on or after 1 January 2018, superseding IAS 39 Financial Instruments: Recognition and Measurement. However, entities that are applying IFRS 4 Insurance Contracts, have an optional temporary exemption that permits an insurance company whose activities are predominantly connected with insurance to defer the adoption of IFRS 9. If an entity uses this optional exemption, it continues to apply IAS 39 until the entity’s first accounting period beginning on or after 1 January 2021, which is the effective date of IFRS 17 Insurance Contracts. References to IFRS 9 in this publication are generally also relevant for IAS 39.
**How should an entity allocate a significant financing component when there are multiple performance obligations in a contract?** [TRG meeting 30 March 2015 - Agenda paper no. 30]

TRG members generally agreed that it may be reasonable for an entity to attribute a significant financing component to one or more, but not all, of the performance obligations in the contract. In doing so, the entity may analogise to the exceptions for allocating variable consideration and/or discounts to one or more (but not all) performance obligations, if specified criteria are met. However, attribution of a financing component to one (or some) of the performance obligations requires the use of judgement, especially because cash is fungible.

**3.5 Consideration payable to a customer**

The revenue standards require that an entity account for consideration payable to a customer (e.g., cash, credit or other items, such as coupons or vouchers, that can be applied against amounts owed to the entity) as a reduction of revenue, unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity.

*Which payments to a customer are in the scope of the requirements for consideration payable to a customer?* [TRG meetings 30 March 2015 - Agenda paper no. 28; and 13 July 2015 - Agenda paper no. 37]

TRG members generally agreed that an entity may not need to analyse each payment to a customer separately if it is apparent that the payment is for a distinct good or service acquired in the normal course of business at market prices. However, if the business purpose of a payment to a customer is unclear, or the goods or services are acquired in a manner that is inconsistent with market terms that other entities would receive when purchasing the customer’s goods or services, the payment needs to be evaluated under these requirements.

*Who is considered to be an entity’s customer when applying the requirements for consideration payable to a customer?* [TRG meetings 30 March 2015 - Agenda paper no. 28; and 13 July 2015 - Agenda paper no. 37]

TRG members generally agreed that the requirements for consideration payable to a customer would be applied to all payments made to entities/customers in the distribution chain of a contract. However, they agreed there could also be situations in which the requirements would apply to payments made to any customer of an entity’s customer outside the distribution chain if both parties are considered the entity’s customers. For example, in an arrangement with a principal, an agent and an end-customer, an agent may conclude its only customer is the principal or it may conclude that it has two customers – the principal and the end-customer. TRG members generally agreed that agents need to evaluate their facts and circumstances to determine whether payments made to an end-customer would be considered a reduction of revenue or a marketing expense.
How do the requirements on the timing of recognition of consideration payable to a customer reconcile with the variable consideration requirements? [TRG meetings 30 March 2015 - Agenda paper no. 28; and 13 July 2015 - Agenda paper no. 37]

TRG members generally agreed that the standards contain potentially conflicting requirements on when to recognise consideration payable to a customer that involves variable payments (e.g., price concessions). Under the requirements for when to recognise consideration payable to a customer, any reduction of the transaction price (and, therefore, of revenue) is recognised at the later of when the entity transfers the promised goods or services to the customer or the entity promises to pay the consideration. However, if an entity has a history of providing this type of consideration to its customers, the requirements for estimating variable consideration require the entity to consider such amounts at the contract’s inception when the transaction price is estimated, even if the entity has not yet provided or promised to provide this consideration to the customer. Some TRG members also noted that this conflict may not arise frequently.

How should an entity account for upfront payments to a customer? [FASB TRG meeting 7 November 2016 - Agenda paper no. 59]

While the requirements for consideration payable to a customer clearly apply to payments to customers under current contracts, stakeholders raised questions about how to account for upfront payments to potential customers and payments that relate to both current and anticipated contracts.

FASB TRG members discussed two views. Under View A, an entity would recognise an asset for the upfront payment and reduce revenue as the related goods or services (or as the expected related goods or services) are transferred to the customer. As a result, the payment may be recognised in profit or loss over a period that is longer than the contract term. Entities would determine the amortisation period based on facts and circumstances and would assess the asset for recoverability using the principles in asset impairment models in other standards. Under View B, entities would reduce revenue in the current contract by the amount of the payment. If there is no current contract, entities would immediately recognise the payment in profit or loss.

FASB TRG members generally agreed that an entity needs to use the view that best reflects the substance and economics of the payment to the customer; it would not be an accounting policy choice. Entities would evaluate the nature of the payment, the rights and obligations under the contract and whether the payment meets the definition of an asset. Some FASB TRG members noted that this evaluation was consistent with legacy US GAAP requirements for payments to customers and, therefore, similar conclusions may be reached under the new revenue standard. FASB TRG members also noted that an entity’s decision on which view is appropriate may be a significant judgement in the determination of the transaction price that would require disclosure under the revenue standard.
4. Step 4: Allocate the transaction price to the performance obligations identified in the contract

4.1 Exceptions to the relative stand-alone selling price method

Under the standards' relative stand-alone selling price method, a contract's transaction price is allocated proportionately to all performance obligations identified in a contract, with two exceptions. One exception requires variable consideration to be allocated entirely to a specific part of a contract, such as one or more (but not all) performance obligations in the contract, or one or more (but not all) distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation. Two criteria must be met to apply this exception. Firstly, the terms of the variable payment must relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service. Secondly, allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service must be consistent with the revenue standards' allocation objective.

Since some discounts will also meet the definition of variable consideration (i.e., a discount that is variable in amount and/or contingent on future events), which exception would an entity apply? [TRG meeting 30 March 2015 – Agenda paper no. 31]

TRG members generally agreed that, under the standards, an entity first needs to determine whether a variable discount meets the variable consideration exception. If it does not, the entity then considers whether it meets the discount exception. However, if the discount is not variable consideration (i.e., the amount of the discount is fixed and not contingent on future events), it would only be evaluated under the discount exception.

In order to meet the criteria to allocate variable consideration entirely to a specific part of a contract, must the allocation be made on a relative stand-alone selling price basis? [TRG meeting 13 July 2015 – Agenda paper no. 39]

No. TRG members generally agreed that a relative stand-alone selling price allocation is not required to meet the allocation objective when it relates to the allocation of variable consideration to a specific part of a contract (e.g., a distinct good or service in a series). The Basis for Conclusions on the revenue standards notes that stand-alone selling price is the default method for meeting the allocation objective, but other methods could be used in certain instances (e.g., in allocating variable consideration).20

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20 IFRS 15.BC279-BC280.
5. Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

5.1 Performance obligations satisfied over time

Under the revenue standards, an entity must determine at contract inception whether it satisfies a performance obligation (and, therefore, recognises revenue) over time or at a point in time. An entity must determine whether a performance obligation meets one of three criteria to be recognised over time. If an entity is unable to demonstrate that control transfers over time, the presumption is that control transfers at a point in time.

Can an entity that recognised revenue at a point in time under legacy standards be required to recognise revenue over time under IFRS 15? [FASB TRG meeting 7 November 2016 – Agenda paper no. 56]

FASB TRG members generally agreed that an entity that recognised revenue at a point in time under legacy revenue standards needs to analyse each of its contracts to determine whether it is required to recognise revenue over time under the standard. An example of a transaction in which an entity might have a change in recognition timing is a contract manufacturer that produces goods designed to a customer’s unique specifications and concludes that the goods do not have an alternative use. If the manufacturer also has an enforceable right to payment for performance completed to date, it would meet the standard’s third criterion to recognise revenue over time, even though it might have recognised revenue at a point in time under legacy IFRS (e.g., based on the number of units produced or units delivered).

Should an entity consider the completed asset or the work in progress when assessing whether its performance creates an asset with no alternative use under IFRS 15.35(c)? [FASB TRG meeting 7 November 2016 – Agenda paper no. 56]

FASB TRG members generally agreed that when an entity evaluates whether its performance creates an asset with no alternative use, it should consider the completed asset that will be transferred to the customer (i.e., whether it could sell the raw materials or work in process to another customer is not relevant).

How should an entity determine whether it has an enforceable right to payment under IFRS 15.35(c)? [FASB TRG meeting 7 November 2016 – Agenda paper no. 56]

FASB TRG members generally agreed that entities need to evaluate the contractual provisions to determine whether the right to payment compensates the entity for performance completed to date. For example, the FASB TRG noted an entity may not always have an enforceable right to payment at contract inception, such as when an entity is producing standard goods (i.e., inventory) that may be customised for a customer towards the end of the production process. FASB TRG members generally agreed that an entity would need to consider whether it has an enforceable right to payment related to its performance completed to date. If the entity's performance obligation is to customise its standard goods for a customer, FASB TRG members generally agreed that an entity would evaluate whether it has an enforceable right to payment starting at the point that the entity begins to satisfy the performance obligation to customise the goods for the customer.
5.2 Evaluating how control transfers for performance obligations satisfied over time

Under the revenue standards, when an entity determines that a performance obligation is satisfied over time, the standards require the entity to select a single measure of progress (using either an input or output method) that depicts its performance in transferring the good or service in order to recognise revenue as it performs.

Can control of a good or service underlying a performance obligation satisfied over time be transferred at discrete points in time? [FASB TRG meeting 18 April 2016 – Agenda paper no. 53]

FASB TRG members generally agreed that, if a performance obligation meets the criteria for revenue to be recognised over time (rather than at a point in time), control of the underlying good or service is not transferred at discrete points in time. Because control transfers as an entity performs, an entity’s performance (as reflected using an appropriate measure of progress) should not result in the creation of a material asset on the entity’s accounts (e.g., work in progress).

Stakeholders queried whether control of a good or service underlying a performance obligation that is satisfied over time can be transferred at discrete points in time because the new revenue standards highlight several output methods, including ‘milestones reached’, as potentially acceptable methods for measuring progress toward satisfaction of an over-time performance obligation. FASB TRG members generally agreed that an entity could use an output method only if that measure of progress correlates to the entity’s performance to date.

At the May 2016 IASB meeting, IASB staff indicated support for the conclusions reached in the FASB staff paper on this issue, noting that it provides some clarity about when to use milestones reached as a measure of progress. Furthermore, the members of the IASB who observed the FASB TRG meeting indicated that the FASB TRG discussion on the topic was helpful.

5.3 Determining when control of a commodity transfers

As stated above, under the revenue standards, an entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of three criteria is met. The first criterion to determine whether control of a good or service transfers over time is that the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs. For a commodity, this evaluation is important in determining whether the sale of a commodity meets the criteria to be treated as a series of distinct goods or services (and, therefore, as a single performance obligation). This, in turn, affects how an entity allocates variable consideration and applies the requirements for contract modifications and changes in the transaction price.
What factors should an entity consider when evaluating whether a customer simultaneously receives and consumes the benefits of a commodity (e.g., electricity, natural gas or heating oil) as the entity performs? [TRG meeting 13 July 2015 – Agenda paper no. 43]

TRG members generally agreed that an entity would consider all known facts and circumstances when evaluating whether a customer simultaneously receives and consumes the benefits of a commodity. These may include the inherent characteristics of the commodity (e.g., whether the commodity can be stored), contract terms (e.g., a continuous supply contract to meet immediate demands) and information about infrastructure or other delivery mechanisms.

As such, revenue related to the sale of a commodity may or may not be recognised over time, depending on whether the facts and circumstances of the contract indicate that the customer will simultaneously receive and consume the benefits. This evaluation may require the use of significant judgement.

5.4 Measuring progress when multiple goods or services are combined in a single performance obligation

As stated in section 5.1 above, when an entity has determined that a performance obligation is satisfied over time, the standards require the entity to select a single measure of progress that best depicts the entity’s performance in transferring the goods or services in order to recognise revenue as the entity performs. The standards provide two methods for measuring progress: (1) an input method (e.g., resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used); and (2) an output method (e.g., surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed, units produced or units delivered).

Can multiple measures of progress be used to depict an entity’s performance in transferring a performance obligation comprised of two or more goods and/or services that is satisfied over time? Under Step 2 of the five-step model, a single performance obligation may contain multiple non-distinct goods or services and/or distinct goods or services that were required to be combined with non-distinct goods or services in order to identify a distinct bundle. This bundled performance obligation is referred to as a ‘combined performance obligation’ for the purpose of this discussion. [TRG meeting 13 July 2015 – Agenda paper no. 41]

TRG members generally agreed that, when an entity has determined that a combined performance obligation is satisfied over time, the entity has to select a single measure of progress that faithfully depicts the entity’s performance in transferring the goods or services. The agenda paper noted that a single method of measuring progress should not be broadly interpreted to mean an entity may apply multiple measures of progress as long as all measures used are either output or input measures. TRG members also acknowledged that previously there was diversity in practice and selecting a single measure of progress may represent a change for entities that used a multiple attribution model in the past when deliverables could not be separated into different units of account.
How would an entity determine the appropriate single measure of progress for a combined performance obligation that is satisfied over time? [TRG meeting 13 July 2015 – Agenda paper no. 41]

TRG members acknowledged that it may be difficult to appropriately determine a single measure of progress when the entity transfers goods or services that make up a combined performance obligation over different points of time, and/or the entity would otherwise use a different measure of progress (e.g., a time-based method versus a labour-based input method), if each promise is a separate performance obligation.

Such a determination requires significant judgement, but TRG members generally agreed that the measure of progress selected is not meant to be a ‘free choice’. Entities need to consider the nature of the overall promise for the combined performance obligation in determining the measure of progress to use. For example, entities should not default to a ‘final deliverable’ methodology, such that all revenue would be recognised over the performance period of the last promised good or service. Rather, an entity is required to select the single measure of progress that most faithfully depicts the entity’s performance in satisfying its combined performance obligation.

Some TRG members observed that an entity would need to consider the reasons why goods or services were bundled into a combined performance obligation in order to determine the appropriate pattern of revenue recognition. For example, if a good or service was combined with other goods or services because it was not capable of being distinct, that may indicate that it does not provide value or use to the customer on its own. As such, the entity would not contemplate the transfer of that good or service when determining the pattern of revenue recognition for the combined performance obligation.

TRG members also generally agreed that, if an appropriately selected single measure of progress does not faithfully depict the economics of the arrangement, the entity should challenge whether the performance obligation was correctly combined (i.e., there may be more than one performance obligation).

5.5 Practical expedient for measuring progress toward satisfaction of a performance obligation

The revenue standards include a practical expedient that allows an entity to recognise revenue in the amount for which it has the right to invoice (i.e., the ‘right to invoice’ practical expedient), if the entity has a right to payment from a customer in an amount that corresponds directly with the value of the entity’s performance completed to date (e.g., a service contract in which an entity bills a fixed amount for each hour of service provided). In addition, the Boards provided a practical expedient under which an entity can choose not to disclose certain information. For contracts for which revenue is recognised in accordance with the ‘right to invoice’ practical expedient or contracts that have an expected duration of less than one year, an entity can choose not to disclose the amount of transaction price allocated to remaining performance obligations.
Can an entity use the ‘right to invoice’ practical expedient for a contract that includes rates that change over the contractual term? [TRG meeting 13 July 2015 – Agenda paper no. 40]

TRG members generally agreed that determining whether an entity can apply the ‘right to invoice’ practical expedient requires judgement. They also generally agreed that it is possible for entities to meet the requirements for the practical expedient in contracts with changing rates, provided that the changes correspond directly to changes in value to the customer. That is, a contract does not need to have a fixed price per unit for the duration of the contract in order to qualify for the practical expedient. Examples of contracts that might qualify include an IT outsourcing arrangement with rates that decrease over the contract term as the level of effort to the customer decreases, or a multi-year electricity contract that contemplates the forward market price of electricity. However, the SEC Staff Observer noted that entities need to have strong evidence that variable prices reflect the value to the customer in order to recognise variable amounts of revenue for similar goods or services.

TRG members also discussed that an entity would have to evaluate all significant upfront payments or retrospective adjustments (e.g., accumulating rebates) in order to determine whether the amount the entity has a right to invoice for each good or service corresponds directly to the value to the customer of the entity’s performance completed to date. That is, if an upfront payment or retrospective adjustment significantly shifts payment to the front or back-end of a contract, it may be difficult for an entity to conclude that the amount invoiced corresponds directly with the value provided to the customer for goods or services.

The agenda paper also stated that the presence of an agreed customer payment schedule does not mean that the amount an entity has the right to invoice corresponds directly with the value to the customer of the entity’s performance completed to date. In addition, the agenda paper stated that the existence of specified contract minimums (or volume discounts) would not always preclude the application of the practical expedient, provided that these clauses are deemed non-substantive (e.g., the entity expects to receive amounts in excess of the specified minimums).

If an entity determines that it has not met the criteria to use the ‘right to invoice’ practical expedient (e.g., because there is a substantive contractual minimum payment or a volume discount), can the entity still use the disclosure practical expedient related to the amount of transaction price allocated to the remaining performance obligations? [TRG meeting 13 July 2015 – Agenda paper no. 40]

TRG members generally agreed that the standards are clear that an entity can only use the practical expedient to avoid disclosing the amount of the transaction price allocated to remaining performance obligations for contracts: (1) with an original expected duration of less than one year; or (2) that qualify for the ‘right to invoice’ practical expedient. If a contract does not meet either of these criteria, an entity is required to disclose the amount of transaction price allocated to the remaining performance obligations. However, under these requirements, an entity is able to qualitatively describe any consideration that is not included in the transaction price (e.g., any estimated amount of variable consideration that is constrained).
5.6 Partial satisfaction of performance obligations prior to identifying the contract

An entity cannot begin to recognise revenue on an arrangement until it meets all five criteria to be considered a contract under the standards, regardless of whether it has received any consideration or has begun performing under the terms of the arrangement (unless one of the events in IFRS 15.15 has occurred). Entities sometimes commence certain activities, such as administrative tasks or set-up activities, in anticipation of entering into a contract. Under the standards, an entity can capitalise certain fulfilment costs on specifically identified anticipated contracts, if specified criteria are met.

Entities sometimes begin activities on a specifically anticipated contract either: (1) before agreeing to the contract with the customer; or (2) before the contract satisfies the criteria to be accounted for under the standards (referred to in the agenda paper as the ‘contract establishment date’ or CED).

If these activities will result in the transfer of a good or service to the customer at the CED, how should revenue for those activities be recognised at the CED? [TRG meeting 30 March 2015 – Agenda paper no. 33]

TRG members generally agreed that if the goods or services that ultimately will be transferred meet the criteria to be recognised over time, revenue would be recognised on a cumulative catch-up basis at the CED, reflecting the performance obligation(s) that are partially or fully satisfied at that time. The agenda paper noted that the cumulative catch-up method is considered to be consistent with the overall principle of the standards that revenue is recognised when (or as) an entity transfers control of goods or services to a customer.

How should an entity account for fulfilment costs incurred prior to the CED that are outside the scope of another standard (e.g., IAS 2 Inventories/ASC 330, Inventory)? [TRG meeting 30 March 2015 – Agenda paper no. 33]

TRG members generally agreed that costs in respect of pre-CED activities that relate to a good or service that transfers to the customer at, or after, the CED may be capitalised as costs to fulfil a specifically anticipated contract. However, TRG members noted that such costs would still need to meet the other criteria in the standards to be capitalised (e.g., they are expected to be recovered under the anticipated contract).

Subsequent to capitalisation, costs that relate to goods or services that are transferred to the customer at the CED would be expensed immediately. Any remaining capitalised contract costs would be amortised over the period that the related goods or services are transferred to the customer.
6. Other measurement and recognition topics

6.1 Licences of intellectual property

The standards provide application guidance on the recognition of revenue for licences of intellectual property that differs from the recognition model for other promised goods and services. Among other things, this application guidance requires entities to recognise revenue for sales-based or usage-based royalties on licences of intellectual property at the later of when: (1) the subsequent sale or usage occurs; or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part) (i.e., the royalty recognition constraint).

How does a minimum guarantee affect the recognition of sales-based or usage-based royalties promised in exchange for a licence of intellectual property that is satisfied at a point in time? [FASB TRG meeting 7 November 2016 - Agenda paper no. 58]

FASB TRG members generally agreed that a minimum guaranteed amount of sales-based or usage-based royalties promised in exchange for a licence of intellectual property that is satisfied at a point in time (IFRS: right-to-use licence; US GAAP: licence of functional intellectual property) would need to be recognised as revenue at the point in time that the entity transfers control of the licence to the customer. Any royalties above the fixed minimum would be recognised in accordance with the royalty recognition constraint (i.e., at the later of when the sale or usage occurs or when the entity satisfies the performance obligation to which some or all of the royalty has been allocated).

How does a minimum guarantee affect the recognition of sales-based or usage-based royalties promised in exchange for a licence of intellectual property that is satisfied over time? [FASB TRG meeting 7 November 2016 - Agenda paper no. 58]

FASB TRG members generally agreed that various recognition approaches could be acceptable for minimum guarantees promised in exchange for licences of intellectual property that are satisfied over time (IFRS: right-to-access licences; US GAAP: licences of symbolic intellectual property), which require revenue to be recognised over time. The TRG agenda paper describes two approaches. Under one approach, an entity would estimate the total consideration (i.e., the fixed minimum and the variable consideration from future royalties) and apply an appropriate measure of progress to recognise revenue as the entity satisfies the performance obligation, subject to the royalty recognition constraint. Alternatively, under the other approach, an entity could apply a measure of progress to the fixed consideration and begin recognising the variable component after exceeding the fixed amount on a cumulative basis. An entity would need to disclose the accounting policy it selects because this would likely affect the amount and timing of revenue recognised.
6.2 Warranties
The standards identify two types of warranties – service-type warranties and assurance-type warranties. A service-type warranty is where the customer has the option to purchase it separately or if it provides a service to the customer beyond fixing defects that existed at the time of sale; it is accounted for as a performance obligation. An assurance-type warranty does not provide an additional good or service, but, instead, provides a promise to the customer that the delivered product is as specified in the contract; it is accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets/ASC 460, Guarantees.

How does an entity evaluate whether a product warranty is a service-type warranty (i.e., a performance obligation) when it is not separately priced? [TRG meeting 30 March 2015 – Agenda paper no. 29]
TRG members generally agreed that the evaluation of whether a warranty provides a service (in addition to the assurance that the product complies with agreed specifications) requires judgement and depends on the facts and circumstances. There is no bright line in the standards on what constitutes a service-type warranty, beyond it being separately priced.

However, the standards do include three factors that would need to be considered in each evaluation (i.e., whether the warranty is required by law, the length of the warranty coverage and the nature of the tasks that the entity promises to perform). Entities need to evaluate each type of warranty offered to determine the appropriate accounting treatment.

6.3 Pre-production activities
Some stakeholders raised questions about how to account for pre-production activities. For example, some long-term supply arrangements require an entity to perform upfront engineering and design services to create new, or adapt existing, technology to the needs of a customer. The pre-production activity is often a pre-requisite to delivering any units under a production contract.

In Step 2 of the five-step model, an entity must identify the promised goods or services within a customer contract and determine which of those goods or services are performance obligations. However, the standards specify that performance obligations do not include activities that an entity must undertake to fulfil a contract unless those activities transfer a good or service to the customer. In addition, IFRS 15 and ASC 340-40, Other Assets and Deferred Costs – Contracts with Customers, contain requirements on the accounting treatment for costs an entity incurs to obtain and fulfil a contract.

How should an entity assess whether pre-production activities are a promised good or service? [TRG meeting 9 November 2015 – Agenda paper no. 46]
TRG members generally agreed that the determination of whether pre-production activities are a promised good or service or fulfilment activities requires judgement and consideration of the facts and circumstances.

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21 IFRS 15.25.
TRG members generally agreed that if an entity is having difficulty determining whether a pre-production activity is a promised good or service in a contract, the entity should consider whether control of that good or service ever transfers to the customer. For example, if an entity is performing engineering and development services as part of developing a new product for a customer and the customer will own the resulting intellectual property (e.g., patents), it is likely that the entity would conclude that it is transferring control of the intellectual property and that the engineering and development activities are a promised good or service in the contract.

TRG members noted that assessing whether control transfers in such arrangements may be challenging. In some arrangements, legal title of the good or service created from the pre-production activity is transferred to the customer. However, TRG members generally agreed that an entity has to consider all indicators of control transfer under the standards and that the transfer of legal title is not a presumptive indicator.

If a pre-production activity is determined to be a promised good or service, the entity allocates a portion of the transaction price to that good or service (as a single performance obligation or as part of a combined performance obligation that includes the pre-production activities along with other goods and services). If the pre-production activities are included in a performance obligation satisfied over time, they are considered when measuring progress toward satisfaction of that performance obligation.

**How should an entity account for pre-production costs that were accounted under ASC 340-10, Other Assets and Deferred Costs, before the adoption of the FASB's revenue standard?** [TRG meeting 9 November 2015 – Agenda paper no. 46] (This topic was raised only in a US GAAP context)

The FASB’s revenue standard did not amend the requirements in ASC 340-10 in respect of pre-production costs related to long-term supply arrangements. FASB TRG members generally agreed that an entity reporting under US GAAP whose costs were in the scope of ASC 340-10 and was appropriately following the requirements in ASC 340-10 before the adoption of FASB’s revenue standard would continue to do so after implementation of the FASB’s revenue standard. IASB TRG members did not discuss this issue because the question was only raised in relation to existing US GAAP.

**6.4 Incremental costs to obtain a contract**

Under IFRS 15/ASC 340-40, the incremental cost of obtaining a contract (e.g., sales commissions) is recognised as an asset if the entity expects to recover it. Any capitalised incremental costs must be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.
The following questions were discussed at the 26 January 2015 TRG meeting - Agenda paper no. 23:

When, and for how much, would an entity capitalise commissions that are paid on renewal contracts? How would an entity amortise such an asset and evaluate whether the renewals are commensurate with the initial commissions paid?

Should commissions earned on contract modifications that are not treated as separate contracts be capitalised?

If commissions are contingent on future events, can they be considered incremental?

Can commissions that are subject to clawbacks and/or achieving cumulative thresholds be capitalised?

Should fringe benefits on commission payments be included in the capitalised amounts?

What is the pattern of amortisation for a contract cost asset that relates to multiple performance obligations that are satisfied over disparate periods of time?

Instead of focusing on the detailed questions in the TRG agenda paper, TRG members discussed the underlying principle for capitalising costs under the standards. TRG members generally agreed that IFRS 15/ASC 340-40 and ASC 606 did not amend the current IFRS/US GAAP liabilities standards. Therefore, entities would first refer to the applicable liabilities standards to determine when they are required to accrue for certain costs. Entities would then use the requirements in IFRS 15/ASC 340-40 to determine whether the related costs need to be capitalised.

TRG members generally agreed that certain aspects of the recognition of costs require entities to apply significant judgement in analysing the facts and circumstances and determining the appropriate accounting treatment. For example, judgement is needed to assess items such as the amortisation pattern for a contract cost asset that relates to multiple performance obligations that are satisfied over different periods of time.

Which costs to obtain a contract are incremental? [FASB TRG meeting 7 November 2016 - Agenda paper no. 57]

FASB TRG members generally agreed that commissions paid to all employees, regardless of how directly involved they were in obtaining a contract, are considered incremental costs if they would not have been incurred if the contract had not been obtained. This includes commissions based on achieving a certain threshold of new contracts. However, if obtaining the contract was one of several factors used to determine a discretionary bonus payment to an employee, the bonus would not be considered an incremental cost of obtaining a contract.
How should an entity determine the amortisation period of an asset recognised for the incremental costs of obtaining a contract with a customer? [FASB TRG meeting 7 November 2016 - Agenda paper no. 57]

FASB TRG members generally agreed that when an entity determines an amortisation period that is consistent with the transfer to the customer of the goods or services to which the asset relates, it must determine whether the capitalised contract costs relate only to goods or services that will be transferred under the initial contract, or whether the costs also relate to goods or services that will be transferred under a specifically anticipated contract. For example, if an entity only pays a commission based on the initial contract and does not expect the customer to renew the contract (e.g., based on its past experience or other relevant information), amortising the asset over the initial term would be appropriate.

However, if the entity’s past experience indicates that the customer is likely to renew the contract, the amortisation period would be longer than the initial term if the renewal commission is not ‘commensurate’ with the initial commission. FASB TRG members generally agreed that the commissions would have to be reasonably proportional to the contract values (e.g., 5% of both the initial and renewal contract values) to be considered commensurate. FASB TRG members also generally agreed that it would not be reasonable for an entity to conclude, for example, that a 6% commission on an initial contract and a 2% commission on a renewal were commensurate, based on an analysis of the level of effort required to obtain the contracts.

FASB TRG members generally agreed that an entity needs to evaluate its facts and circumstances and apply judgement to determine an appropriate amortisation period if it determines that the period should extend beyond the initial contract term, because the commission on the renewal contract is not commensurate with the commission on the initial contract. An entity might reasonably conclude that its average customer life is the best estimate of the amortisation period that is consistent with the transfer of the goods or services to which the asset relates (e.g., if the good or service does not change over time, such as a health club membership). However, FASB TRG members generally agreed that this approach is not required and that entities should not use this as a default. FASB TRG members noted that entities would use judgement that is similar to judgement used historically when estimating the amortisation period for intangible assets (e.g., a customer relationship intangible acquired in a business combination) and could consider factors such as customer loyalty and how quickly their products and services change.

6.5 Impairment testing of capitalised contract costs

Any costs capitalised under IFRS 15/ASC 340-40 (i.e., costs incurred in fulfilling a contract and incremental costs of obtaining a contract) are subject to an impairment assessment at the end of each reporting period. An impairment exists if the carrying amount of any asset(s) exceeds the amount of consideration the entity expects to receive in exchange for providing the related promised goods and services, less the remaining costs that directly relate to providing those goods and services.
Should entities include contract renewals or extensions when determining the remaining amount of consideration they expect to receive in order to perform an impairment test on capitalised contract costs? [TRG meeting 18 July 2014 - Agenda paper no. 4]

TRG members generally agreed that an impairment test of capitalised contract costs should include future cash flows associated with contract renewal or extension periods if the period of benefit of the costs under assessment is expected to extend beyond the present contract. The question was raised because of an inconsistency within IFRS 15 and between ASC 340-40 and ASC 606. IFRS 15/ASC 340-40 indicates that costs capitalised under the standards could relate to goods or services to be transferred under ‘a specific anticipated contract’ (e.g., goods or services to be provided under contract renewals and/or extensions). The requirements further indicate that an impairment loss would be recognised when the carrying amount of the asset exceeds the remaining amount of consideration expected to be received in exchange for the goods or services to which the asset relates and that an entity would use the principles of IFRS 15/ASC 606 when determining the remaining transaction price. However, IFRS 15.49/ASC 606-10-32-4 indicates that an entity should not anticipate that the contract will be “cancelled, renewed or modified” when determining the transaction price.

In some instances, excluding renewals or extensions would trigger an immediate impairment of a contract asset because the consideration an entity expects to receive would not include anticipated cash flows from contract extensions or renewal periods, but the entity would have capitalised contract costs on the basis that they would be recovered over the contract extension or renewal periods.

In December 2016, the FASB amended ASC 340-40 to clarify that, when performing impairment testing, an entity should consider expected contract renewals and extensions and include both the amount of consideration it already has received, but has not recognised as revenue and the amount the entity expects to receive in the future. The IASB did not make a similar change to IFRS 15.

6.6 Contract assets and liabilities

The standards are based on the notion that a contract asset or contract liability is generated when either party to a contract performs. The standards require that an entity present these contract assets or contract liabilities in the statement of financial position. When an entity satisfies a performance obligation by delivering the promised good or service, it has earned a right to consideration from the customer and, therefore, has a contract asset. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract liability.
How would an entity determine the presentation of contract assets and liabilities for contracts that contain multiple performance obligations? [TRG meeting 31 October 2014 – Agenda paper no. 7]

TRG members generally agreed that contract assets and liabilities would be determined at the contract level and not at the performance obligation level. That is, an entity does not separately recognise an asset or liability for each performance obligation within a contract, but aggregates them into a single contract asset or liability.

How would an entity determine the presentation of two or more contracts that are required to be combined under the standards? [TRG meeting 31 October 2014 – Agenda paper no. 7]

TRG members generally agreed that the contract asset or liability would be combined (i.e., presented net) for different contracts with the same customer (or a related party of the customer) if an entity is otherwise required to combine those contracts under the standards. However, TRG members acknowledged that this analysis may be operationally difficult for some entities because their systems may capture data at the performance obligation level in order to comply with the recognition and measurement requirements of the standards.

When would an entity offset contract assets and liabilities against other balance sheet items (e.g., accounts receivable)? [TRG meeting 31 October 2014 – Agenda paper no. 7]

TRG members generally agreed that, because the standards do not provide requirements for offsetting, entities need to apply the requirements of other standards (e.g., IAS 1 Presentation of Financial Statements and IAS 32 Financial Instruments: Presentation/ASC 210-20, Balance Sheet – offsetting) to determine whether offsetting is appropriate.

How would an entity account for a contract asset that exists when a contract is modified if the modification is treated as the termination of an existing contract and the creation of a new contract? [FASB TRG meeting 18 April 2016 – Agenda paper no. 51]

FASB TRG members generally agreed that a contract asset that exists when a contract is modified should be carried forward into the new contract if the modification is treated as the termination of an existing contract and the creation of a new contract.

Some stakeholders questioned the appropriate accounting treatment for contract assets when this type of modification occurs because the termination of the old contract could indicate that any remaining balances associated with the old contract should be written off.

FASB TRG members generally agreed that it is appropriate to carry forward the related contract asset in such modifications because the asset relates to a right to consideration for goods and services that have already been transferred and are distinct from those to be transferred in the future. As such, the revenue recognised to date would not be reversed and the contract asset would continue to be realised as amounts become due from the customer and are presented as a receivable.
7. Scope of the standards

7.1 Islamic financing transactions (this topic was raised in an IFRS context)

Islamic financial institutions (IFIs) enter into Sharia-compliant instruments and transactions that do not result in IFIs earning interest on loans. Instead, these transactions involve purchases and sales of real assets (e.g., vehicles) on which IFIs can earn a premium to compensate them for deferred payment terms. Typically, an IFI makes a cash purchase of the underlying asset, takes legal possession, even if only for a short time, and immediately sells it on deferred payment terms. The financial instruments created by these transactions are within the scope of the financial instruments standards.\(^{22}\)

*Before applying the financial instruments standards, are deferred-payment transactions that are part of Sharia-compliant instruments and transactions within the scope of the revenue standards? [TRG meeting 26 January 2015 - Agenda paper no. 17]*

IASB TRG members generally agreed that Sharia-compliant instruments and transactions may be outside the scope of the revenue standards. However, the analysis would depend on the specific facts and circumstances. This may require significant judgement as contracts often differ within and between jurisdictions. FASB TRG members did not discuss this issue.

7.2 Determining the scope for certain credit card arrangements

A bank that issues credit cards can have various income streams (e.g., annual fees) from a cardholder under various credit card arrangements. Some of these fees may entitle cardholders to ancillary services (e.g., concierge services or airport lounge access). The card issuer also may provide rewards to cardholders based on their purchases. US GAAP stakeholders questioned whether such fees and programmes are within the scope of ASC 606, particularly when a good or service is provided to a cardholder.

*Are credit card fees in the scope of the FASB’s new revenue standard? [TRG meeting 13 July 2015 - Agenda paper no. 36]*

While this question was raised by US GAAP stakeholders, IASB TRG members generally agreed that an IFRS preparer first needs to determine whether the credit card fees are within the scope of IFRS 9. IFRS 9 requires that any fees that are an integral part of the effective interest rate for a financial instrument be treated as an adjustment to the effective interest rate. Conversely, any fees that are not an integral part of the effective interest rate of the financial instrument will generally be accounted for under IFRS 15.

\(^{22}\) IFRS 9 and IAS 32.
FASB TRG members generally agreed that credit card fees that are accounted for under ASC 310, Receivables, are not in the scope of ASC 606. This includes annual fees that may entitle cardholders to ancillary services. FASB TRG members noted that this conclusion is consistent with legacy US GAAP requirements for credit card fees. However, the observer from the US SEC noted, and FASB TRG members generally agreed, that the nature of the arrangement must be truly that of a credit card lending arrangement in order to be in the scope of ASC 310. As such, entities will need to continue to evaluate their arrangements as new programmes develop. Credit card fees could, therefore, be treated differently under IFRS and US GAAP.

**Are credit cardholder rewards programmes in the scope of the FASB’s new revenue standard? [TRG meeting 13 July 2015 – Agenda paper no. 36] (This topic was only raised in a US GAAP context)**

FASB TRG members generally agreed if all consideration (i.e., credit card fees) related to the rewards programme is determined to be within the scope of ASC 310, the rewards programme would not be in the scope of ASC 606. However, this determination has to be made based on facts and circumstances, due to the wide variety of credit card reward programmes offered. IASB TRG members did not discuss this issue because the question was only raised in relation to legacy US GAAP.

**7.3 Financial institutions (this topic was raised in a US GAAP context)**

US GAAP stakeholders raised questions about whether certain fee-generating activities of financial institutions are within the scope of the FASB’s revenue standard.

**Is servicing and sub-servicing income in the scope of the FASB’s new revenue standard? [FASB TRG meeting 18 April 2016 – Agenda paper no. 52]**

FASB TRG members generally agreed that income from servicing financial assets (e.g., loans) is not within the scope of ASC 606.

An asset servicer performs various services, such as communication with the borrower and payment collection, in exchange for a fee. FASB TRG members generally agreed that an entity should look to ASC 860, *Transfers and Servicing*, to determine the appropriate accounting for these fees. This is because ASC 606 contains a scope exception for contracts that fall under ASC 860, which provides guidance on the recognition of the fees (despite not providing explicit guidance on revenue accounting).

**Are fees from financial guarantees in the scope of the FASB’s new revenue standard? [FASB TRG meeting 18 April 2016 – Agenda paper no. 52]**

FASB TRG members generally agreed that fees from providing financial guarantees are not within the scope of ASC 606.

A financial institution may receive a fee for providing a guarantee of a loan. These types of financial guarantees are generally within the scope of ASC 460 or ASC 815, *Derivatives and Hedging*. FASB TRG members generally agreed that an entity should look to ASC 460 or ASC 815 to determine the appropriate accounting for these fees. This is because ASC 606 contains a scope exception for contracts that fall within those topics, which provide principles an entity can follow to determine the appropriate accounting to reflect the financial guarantor’s release from risk (and credit to earnings).
Are deposit-related fees in the scope of the FASB’s new revenue standard?  
[FASB TRG meeting 18 April 2016 – Agenda paper no. 52]

FASB TRG members generally agreed that fees from deposit-related services are within the scope of ASC 606.

In contrast to the decisions for servicing income and financial guarantees, the guidance in ASC 405, Liabilities, that financial institutions apply to determine the appropriate liability accounting for customer deposits, does not provide a model for recognising fees related to customer deposits (e.g., ATM fees, account maintenance or dormancy fees). Accordingly, FASB TRG members generally agreed that deposit fees and charges are within the scope of ASC 606, even though ASC 405 is listed as a scope exception in ASC 606, because of the lack of guidance on the accounting for these fees in ASC 405.

7.4 Contributions (this topic was raised in a US GAAP context)

Under legacy US GAAP, not-for-profit entities followed ASC 958-605, Not-for-Profit Entities – Revenue Recognition, to account for contributions (i.e., unconditional promises of cash or other assets in voluntary non-reciprocal transfers). Contributions are not explicitly excluded from the scope of ASC 606. However, ASC 958-605 is not wholly superseded by ASC 606.

Are contributions in the scope of the FASB’s new revenue standard?  
[TRG meeting 30 March 2015 – Agenda paper no. 26]

FASB TRG members generally agreed that contributions are not within the scope of ASC 606 because they are non-reciprocal transfers. That is, contributions are generally not given in exchange for goods or services that are an output of the entity’s ordinary activities. IASB TRG members did not discuss this issue because the question was only raised in the context of US GAAP.

In June 2018, the FASB amended ASC 606 to clarify that an entity should consider the guidance in ASC 958-605 when determining whether a transaction is a contribution within the scope of that guidance or a transaction within the scope of ASC 606. The requirements for contributions received in ASC 958-605 generally apply to all entities that receive contributions (i.e., not just not-for-profit entities), unless otherwise indicated.

7.5 Gambling entities – fixed-odds wagering contracts (this topic was raised in a US GAAP context)

Under IFRS, consistent with a July 2007 IFRS Interpretations Committee agenda decision, wagers that meet the definition of a derivative are within the scope of IFRS 9 or IAS 39. Those that do not meet the definition of a derivative would be within the scope of IFRS 15.

Under legacy US GAAP, gambling entities accounted for earnings from fixed-odds wagering contracts as gambling revenue under ASC 924-605, Entertainment – Casinos – Revenue Recognition. These industry-specific requirements were superseded by ASC 606. In fixed-odds wagering contracts, the pay-out for wagers placed on gambling activities (e.g., table games, slot machines, sports betting) is known at the time when the wager is placed. US GAAP stakeholders questioned whether these contracts were within the
scope of ASC 606 or whether they could meet the definition of a derivative and be in the scope of ASC 815.

Are fixed-odds wagering contracts within the scope of the FASB’s new revenue standard? [TRG meeting 9 November 2015 – Agenda paper no. 47]

FASB TRG members generally agreed that it was not clear whether fixed-odds wagering contracts were in the scope of ASC 606 or ASC 815. ASC 606 scopes in all contracts with customers unless the contracts are within the scope of other requirements, such as ASC 815. TRG members agreed that it was possible that fixed-odds wagering contracts would meet the definition of a derivative under ASC 815 and, therefore, be scoped out of ASC 606 and recommended that a clarification be codified within US GAAP. IASB TRG members did not discuss this issue because the question was only raised in relation to existing US GAAP.

In December 2016, the FASB amended ASC 815 and ASC 924 to add scope exceptions that clarified that these arrangements are within the scope of ASC 606. The IASB did not make a similar change.
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