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Accounting Journal Entry

FASB Proposes Technical Corrections and Improvements to New Revenue Standard

May 19, 2016 — Yesterday, the FASB issued a proposed ASU[1] that would amend certain aspects of the Board's May 2014 revenue standard, ASU 2014-09.[2] The amendments are being proposed in response to feedback received from several sources, including the TRG[3] for revenue recognition, and would clarify, rather than change, the new revenue standard's core revenue recognition principles.

Comments on the proposal are due by July 2, 2016.

Key Provisions of the Proposed ASU

Key provisions of the proposed amendments are summarized in the table below, which was reproduced from the proposed ASU.

Area for Correction or Improvement	Summary of Proposed Amendments
Issue 1: Preproduction Costs Related to Long-Term Supply Arrangements	
New cost guidance within Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, was issued as part of Update 2014-09. Stakeholders have indicated that it is not clear what contracts are within the scope of the new guidance versus the scope of existing guidance in Subtopic 340-10, Other Assets and Deferred Costs—Overall.	The amendments in this proposed Update would supersede the guidance on preproduction costs related to long-term supply arrangements in Subtopic 340-10. As a consequence, if the costs previously within the scope of Subtopic 340-10 relate to a contract with a customer, an entity would apply the guidance in Subtopic 340-40 upon the adoption of Update 2014-09.
Issue 2: Contract Costs—Impairment Testing	
Subtopic 340-40 includes impairment guidance for costs capitalized in accordance with the recognition provisions of that Subtopic. Stakeholders have raised some questions about the impairment testing of those capitalized costs.	The amendments in this proposed Update would clarify that when performing impairment testing an entity should (a) consider expected contract renewals and extensions and (b) include both the amount of consideration it already has received but has not recognized as revenue and the amount the entity expects to receive in the future.
Issue 3: Contract Costs—Interaction of Impairment Testing with Guidance in Other Topics	
Some stakeholders have raised questions about the interaction of the impairment testing in Subtopic 340-40 with guidance in other Topics.	The amendments in this proposed Update would clarify that impairment testing first should be performed on assets outside the scope of Topic 340 (such as Topic 330, Inventory), then assets within the scope of Topic 340, then asset groups and reporting units within the scope of Topic 360, Property, Plant, and Equipment, and Topic 350, Intangibles—Goodwill and Other.

1 FASB Proposed Accounting Standards Update, *Technical Corrections and Improvements to Update No. 2014-09,* Revenue From Contracts With Customers (Topic 606).

2 FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers (Topic 606).*

3 The transition resource group (TRG) for revenue recognition was established by the FASB and IASB to seek and provide feedback on potential issues related to implementation of the new revenue standard. Early this year, the IASB announced that it completed its decision-making process related to clarifying the new revenue standard and that it no longer plans to schedule TRG meetings for IFRS constituents.

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

When issuing Update 2014-09, the Board decided to exclude specific guidance in Topic 606 for onerous contracts. However, the Board decided to retain the guidance on the provision for loss contracts in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In the consequential amendments of Update 2014-09, the testing level was changed to the performance obligation level (from the segment level). Stakeholders have indicated that this amendment, in some circumstances, may require an entity to perform the loss assessment at a lower level than current practice despite the Board's decision not to change practice in this area.

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

Issue 5: Scope of Topic 606

In Topic 606, a scope exception exists for insurance contracts within the scope of Topic 944, Financial Services—Insurance. The Board's intention was to exclude from Topic 606 all contracts that are within the scope of Topic 944, not only insurance contracts (for example, investment contracts that do not subject an insurance entity to insurance risk).

The amendment in this proposed Update would remove the term *insurance* from the scope exception to clarify that all contracts within the scope of Topic 944 are excluded from the scope of Topic 606.

Issue 6: Disclosure of Remaining Performance Obligations

Topic 606 requires an entity to disclose information about its remaining performance obligations, including the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. Topic 606 also includes practical expedients to that disclosure for contracts with an original duration of one year or less and performance obligations in which revenue is recognized in accordance with paragraph 606-10-55-18. Stakeholders have requested that the Board consider whether specific practical expedients could be added to the guidance for contracts in which an entity does not need to estimate variable consideration in order to recognize revenue.

The amendments in this proposed Update would provide practical expedients to the disclosure requirement for remaining performance obligations for specific situations in which an entity need not estimate variable consideration in order to recognize revenue.

The amendments in this proposed Update also would expand the information disclosed when an entity applies one of the practical expedients.

Issue 7: Contract Modifications Example

Example 7 in Topic 606 illustrates the application of the guidance on contract modifications. Some stakeholders have perceived some minor inconsistencies with the contract modifications guidance in Topic 606.

The amendments in this proposed Update would improve the alignment of Example 7 and the principles in Topic 606.

Issue 8: Fixed-Odds Wagering Contracts in the Casino Industry

Subtopic 924-605, Entertainment—Casinos—Revenue Recognition, currently includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific guidance was superseded by Update 2014-09, along with nearly all existing industry-specific revenue guidance in GAAP. Therefore, some stakeholders have questioned whether fixed-odds wagering contracts are within the scope of Topic 606 or, rather, whether they should be accounted for as derivatives within the scope of Topic 815, Derivatives and Hedging.

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

Issue 9: Cost Capitalization for Advisors to Private and Public Funds

A consequential amendment included in Update 2014-09 relocated cost guidance from Subtopic 946-605, Financial Services—Investment Companies—Revenue Recognition, to Subtopic 946-720, Financial Services—Investment Companies—Other Expenses. This amendment was intended to move the guidance only and was not intended to change practice. However, the consequential amendment that was made in Update 2014-09 could result in inconsistent accounting for offering costs among advisors to public and private funds.

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

Effective Date and Transition Requirements

The effective date and transition requirements under the proposed ASU would be the same as those in the new revenue standard.

Editor's Note: In August 2015, the FASB issued ASU 2015-14,[4] which deferred for one year the effective date of the new revenue standard for public and nonpublic entities reporting under U.S. GAAP. For public business entities, as well as certain nonprofit entities and employee benefit plans, the effective date is annual reporting periods, and interim periods therein, beginning after December 15, 2017. The effective date for all other entities is one year later (i.e., December 15, 2018). Early adoption is permitted only as of annual reporting periods, and interim periods therein, beginning after December 15, 2016.

[4] FASB Accounting Standards Update No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*.