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CERTIFIED PUBLIC ACCOUNTANTS

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO **FLASH** REPORT
FASB

SUBJECT

FASB ISSUES TECHNICAL CORRECTIONS AND IMPROVEMENTS TO NEW REVENUE STANDARD

SUMMARY

The FASB recently issued ASU 2016-20[1] amending the new revenue recognition standard that it issued jointly with the IASB in 2014. The amendments do not change the core principles of the standard, but clarify certain narrow aspects of the standard including its scope, contract cost accounting, disclosures, illustrative examples, and other matters. The ASU becomes effective concurrently with ASU 2014-09[2] and is available here.

DETAILS

Background

In May 2014, the FASB issued ASU 2014-09 establishing a comprehensive revenue recognition standard for virtually all industries, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. In May 2016, the FASB issued an exposure draft entitled "Technical Corrections and Improvements to Update 2014-09" which included nine proposed narrow amendments resulting from implementation issues discussed by the FASB Transition Resource Group, as well as technical inquiries and routine Codification feedback. In September 2016, the FASB issued a second exposure draft which included four additional proposed narrow amendments. The amendments in ASU 2016-20 finalize all of the changes proposed in both exposure drafts with the exception of proposed changes to the guidance on accounting for pre-production costs related to

[1] Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers
[2] Revenue from Contracts with Customers (Topic 606) is substantially converged with IFRS 15, the IASB's companion standard.

CONTACT:

ADAM BROWN
National Director of Accounting
(214) 665-0673
abrown@bdo.com

ANGELA NEWELL
National Assurance Partner
(214) 689-5669
ajnewell@bdo.com

KEN GEE
National Assurance Partner
(415) 490-3230
kgee@bdo.com

JENNIFER KIMMEL
National Assurance Sr. Manager
(617) 239-7019
jkimmel@bdo.com

Contact
Lumsden McCormick

Michael Grimaldi
716-856-3300

long-term supply arrangements, which the Board decided not to amend based on feedback from constituents. Based on comments from FASB staff and Board members, no additional changes to the new revenue standard are expected.

Main Provisions

The amendments in ASU 2016-20 clarify the following items:

Topic within ASC 606	Description
Loan guarantee fees	Topic 606 contains a scope exception for guarantees (other than product or service warranties) within the scope of Topic 460.[3] Stakeholders indicated that consequential amendments related to the standard are inconsistent on whether fees from financial guarantees are within its scope. The ASU clarifies that guarantee fees within the scope of Topic 460 (other than product or service warranties) are not within the scope of Topic 606. Entities should apply Topic 815[4] to guarantees accounted for as derivatives.
Contract costs – impairment testing	Subtopic 340-40[5] includes impairment guidance for certain capitalized costs. The ASU clarifies that when performing impairment tests of these costs 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 it expects to receive in the future.
Contract costs – interaction of impairment testing with guidance in other topics	Stakeholders questioned how the impairment testing in Subtopic 340-40 interacts with guidance in other Topics. The ASU clarifies that impairment testing should be performed in the following order: 1. Assets not within the scope of Topic 340, Topic 350,[6] or Topic 360[7] (e.g., inventory subject to Topic 330[8]); 2. Assets within the scope of Topic 340; 3. Asset groups and reporting units within the scope of Topic 360 and Topic 350.
Provisions for losses on construction-type and production-type contracts	The new revenue standard retains existing guidance on the provision for loss contracts in Subtopic 605-35,[9] but changed the assessment from the "segment" level in prior guidance to the "performance obligation" level under Topic 606. Stakeholders indicated that this change, in some circumstances, may require an entity to perform the loss assessment at a lower level than current practice. The ASU requires that the provision for losses be determined at least at the contract level, but also allows an accounting policy election to determine the provision for losses at the performance obligation level.
Scope of Topic 606	Topic 606 contains a scope exception for insurance contracts within the scope of Topic 944.[10] The Board's intention was to exclude from Topic 606 all contracts that are within the scope of Topic 944, not only insurance contracts (e.g., investment contracts that do not subject an insurance entity to insurance risk). The ASU removes 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.

[3] Guarantees
[4] Derivatives and Hedging
[5] Other Assets and Deferred Costs—Contracts with Customers
[6] Intangibles—Goodwill and Other
[7] Property, Plant, and Equipment
[8] Inventory
[9] Revenue Recognition—Construction-Type and Production-Type Contracts
[10] Financial Services—Insurance

Topic within ASC 606	Description
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 certain optional exemptions from that disclosure requirement. The ASU provides additional optional exemptions for variable consideration when the variable consideration is either a sales-based or usage-based royalty promised in exchange for a license of intellectual property or is allocated entirely to a wholly unsatisfied performance obligation or a distinct unsatisfied portion of a series accounted for as a single performance obligation. However, the ASU expands the information to be disclosed when an entity applies one of the optional exemptions.
Disclosure of prior-period performance obligations	Topic 606 requires an entity to disclose revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods. Stakeholders indicated that the placement of the disclosure in the Codification results in confusion about whether this disclosure applies only to performance obligations with corresponding contract balances or to all performance obligations. The amendments in this ASU clarify that the disclosure of revenue recognized from performance obligations satisfied (or partially satisfied) in previous periods applies to all performance obligations and is not limited to performance obligations with corresponding contract balances.
Contract modifications example	The amendments in this ASU better align Example 7 with the principles in Topic 606 regarding contract modifications.
Contract asset versus receivable	Example 38, Case B in Topic 606 illustrates the application of the presentation guidance on contract assets and receivables. Some stakeholders expressed concern that the example indicates that an entity cannot record a receivable before its due date. The amendments in this ASU provide a better link between the analysis in Example 38, Case B and the receivables presentation guidance in Topic 606.
Refund liability	Example 40 in Topic 606 illustrates the recognition of a receivable and a refund liability. Some stakeholders expressed concern that the example indicates that a refund liability should be characterized as a contract liability. The ASU removes the reference to the term *contract liability* from the journal entry in Example 40.
Advertising costs	Guidance on when to recognize a liability for certain advertising costs had been included within Subtopic 340-20 and was inadvertently superseded by Topic 606. The amendments in this ASU reinstate the guidance on the accrual of advertising costs and also move it to Topic 720.[11]
Fixed-odds wagering contracts in the casino industry	Subtopic 924-605[12] currently includes explicit guidance that identifies fixed-odds wagering as gaming revenue. That industry-specific guidance was superseded by Topic 606. Therefore, some stakeholders questioned whether fixed-odds wagering contracts are within the scope of Topic 606 or whether they should be accounted for as derivatives within the scope of Topic 815. The ASU clarifies that fixed-odds wagering contracts issued by casino entities are exempt from derivative accounting and are within the scope of Topic 606.

[11] Other Expenses

[12] Entertainment—Casinos—Revenue Recognition

Topic within ASC 606	Description
Cost capitalization for advisors to private funds and public funds	The new revenue standard moved cost guidance from Subtopic 946-605[13] to Subtopic 946-720.[14] This amendment was intended to move the guidance only and was not intended to change practice. However, it could have resulted in inconsistent accounting for offering costs among advisors to public funds and private funds. The ASU aligns the cost-capitalization guidance for advisors to both public funds and private funds in Topic 946.

EFFECTIVE DATE AND TRANSITION

The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements of Topic 606, specifically:

Public business entities will adopt the standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year.[15]

All other entities will adopt the standard for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted as of either:

- An annual reporting period beginning after December 15, 2016, including interim periods within that year, or
- An annual reporting period beginning after December 15, 2016 and interim periods within annual reporting periods beginning one year after the annual period in which an entity first applies the new standard.

[13] Financial Services—Investment Companies—Revenue Recognition

[14] Financial Services—Investment Companies—Other Expenses

[15] A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the SEC have the same effective date as public business entities.