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STAFF PAPER

FASB | IASB Meeting

IASB Ed Session – 23 July 2013
FASB Ed Session – 17 July 2013

Project	**Revenue recognition**		
Paper topic	Constraint – minimums requirements		
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Purpose of this paper

1. This paper considers the application of the constraint, specifically how the requirements to include some (but not all) of the amount of variable consideration in the transaction price should be applied (the “minimums requirements").

Staff recommendation

2. The staff recommend that, if an entity expects that including all of the estimate of the variable consideration in the transaction price would result in a significant revenue reversal, then:

    (a) an entity should include some (but not all) of the estimate of variable consideration in the transaction price if the performance obligation that the consideration relates to is satisfied over time and the entity expects that including some of that variable consideration would not result in a significant revenue reversal; and

    (b) for a performance obligation satisfied at a point in time, the entity would only recognise some (or all) of the consideration as revenue when that consideration is no longer variable (this recommendation is illustrated by the decision tree in Appendix C to this paper).

Structure of the paper

3. This paper is organised as follows:

   (a) Background (paragraphs 4-13)

      (i) Staff implementation of the Boards' previous decisions

      (ii) Determining when the minimum should be zero

      (iii) Feedback on the staff draft

   (b) Options to address the minimums requirements (paragraphs 14-28)

   (c) Appendix A - Staff draft requirements for the constraint

   (d) Appendix B - Examples to illustrate the staff draft requirements

   (e) Appendix C - Decision tree for applying the staff draft constraint requirements

   (f) Appendix D - Minimums requirements based on paragraph 85 of the 2011 ED

Background

Staff implementation of the Boards' previous decisions

4. At the December 2012 Board meeting, the Boards discussed the requirements related to variable consideration and sales-based royalties (Agenda paper 7D/165D). Those discussions focused on paragraph 85 of the 2011 ED, which required that an entity licensing intellectual property to a customer, where the consideration is in the form of a sales-based royalty, should recognise revenue only when the customer's subsequent sales occur.

5. At the December 2012 meeting, the Boards tentatively decided to delete paragraph 85 of the 2011 ED. The Boards tentatively decided that for all performance obligations (including licences of intellectual property where the consideration is a sales-based royalty), an entity should rely on the general principles of the constraint, including the requirement to include a portion (ie a

minimum amount) of the variable consideration in the transaction price if the entity would not expect a significant revenue reversal as a result of including that portion of consideration in the transaction price. However, the Boards also tentatively decided that the minimum amount may, in some cases, be zero.

6. The staff understood from the discussions at the December 2012 meeting that the Boards intended the sale of a license where the consideration is a sales-based royalty to result in a similar outcome to that of applying paragraph 85 of the 2011 ED in most cases. Consequently, the staff considered whether there was a principle underlying the requirement in paragraph 85 of the 2011 ED that could be applied more generally in determining when the minimum amount included in the transaction price should be zero. The following section explains the staff's conclusions related to this question.

Determining when the minimum should be zero

7. The core principle of the revenue standard is to depict the transfer of goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled for transferring those goods or services. However, when the entity fails the constraint (ie the entity is not able to include its estimate of variable consideration in the transaction price), the entity will not recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled for transferring those goods or services. In those cases, the Boards need to decide what the most useful pattern of revenue recognition would be when the related performance obligations are satisfied. In other words, if an entity cannot comply with the core principle, what is the best alternative to provide useful information to users of financial statements?

8. In some cases, recognising a portion of the amount of the variable consideration will provide users with the most useful information (if that portion of variable consideration passes the revenue reversal principle of the constraint); in other cases, recognising no amount of consideration until the uncertainty resolves will provide users with the most useful information on revenue. Consequently, the

staff attempted to identify in which cases recognition of a minimum amount would not provide useful information.

9. The staff draft states that including an estimate of a minimum amount in the transaction price will not provide useful information when the related performance obligation is a performance obligation satisfied at a point in time because:

   (a) *the pattern of revenue recognition would be distorted:* for a performance obligation satisfied at a point in time, any subsequent true up adjustments to that minimum could be viewed as distorting the pattern of performance. Although the entity's performance occurs at a point in time, the subsequent true ups to the minimum would make it appear that the entity is transferring goods or services over time, when in fact there is no further performance. However, when a performance obligation is satisfied over time, the pattern of performance is over time, and therefore including no amount of consideration in the transaction price could similarly be viewed as distorting the pattern of recognition for that performance.

   (b) *subsequent adjustments would have little informational value:* the initial recognition of an estimate of a minimum amount for a performance obligation satisfied over time will generally be affected by the entity's future performance so future adjustments to the transaction price have informational value because they explain whether that performance was beneficial (that is, the minimum amount is increased) or detrimental (that is, the minimum amount is subject to an unexpected reversal). However, when a performance obligation is satisfied at a point in time, subsequent true ups could be viewed as having no correlation to the entity's performance, ie they are just "noise".

10. The staff observe that for a performance obligation satisfied at a point in time, when a portion of the variable consideration is no longer variable, an entity should include that amount in the estimate of the transaction price because recognizing

that amount as revenue would have informational value to users because there is no longer any revenue uncertainty related to that portion of the consideration. For example, if the consideration for a performance obligation satisfied at a point in time is a sales-based royalty and the entity cannot include all the estimate of the variable consideration in the transaction price, the entity would recognise revenue only when the subsequent sales have occurred and it recognises the receivable for its share of those subsequent sales. The staff note that if an entity cannot include the full estimate of the variable consideration in the transaction price at the time that the performance obligation is satisfied, it would not reassess whether it could include all of the variable consideration at a later date. In other words, if an entity does not pass the constraint requirements to include all of the variable consideration for a performance obligation satisfied at a point in time, it would recognise revenue only when some or all of the variable consideration is no longer variable.

11. The outcome of the staff's implementation of the Boards' December 2012 decision is included in Appendix A. The staff have included all of the requirements related to the constraint in Appendix A to enable Board members to see how the requirements interact with each other. However, the requirements specifying when an entity should include a portion of the variable consideration in the transaction price (the "minimums requirements") are represented by paragraph 56.3 in Appendix A.

Feedback received

12. During the drafting process, the staff and Boards have engaged with constituents to continue to seek feedback and discuss tentative decisions. Through these efforts, it has become clear that many respondents find the minimums requirements outlined in Appendix A complex and difficult to understand. Some also questioned whether the requirements accurately reflect the tentative decisions of the Boards from the December 2012 meeting.

13. In response to the concerns raised, the staff decided to bring this issue back to the Boards to allow the Boards to consider this new and additional feedback in

coming to their final decision regarding the minimums requirements. Specifically, the question for the Boards to consider is under what circumstances does recognition of a minimum of zero provide the most useful information?

Options to address the minimums requirements

14. The staff think that there are two options for the Boards to consider in finalising the constraint minimums requirements:

    (a) ***Option 1: Draw a distinction between point in time and over time performance obligations*** – the requirements would remain largely consistent with the wording in Appendix A, subject to possible simplifications and clarifications (discussed in more detail below).

    (b) ***Option 2: 2011 ED approach for royalties on licenses*** – the requirements would align more closely with the 2011 ED, that is, there would be a general requirement for recognition of a minimum if the full amount of the estimate of variable consideration does not pass the constraint, but a specific requirement for some types of royalty-based consideration (see Appendix D for an example of the drafting that might result from this option).

Options considered but rejected

15. The staff also considered, but ultimately rejected, the option of relying only on the principle of including a minimum when the entity expects that the minimum amount would not be subject to a significant revenue reversal. The staff rejected this option because the outcome of applying the general minimums requirements to sales-based royalties was not supported by users (and preparers), most of whom supported the outcome of paragraph 85 from the 2011 ED. This option was also discussed and rejected by the Boards at the December 2012 meeting. The reason why many do not think this option would provide useful information to users is illustrated by the following example:

An entity licenses its intellectual property (IP) for a 10 year period in England. The entity will receive a percentage of the customer's sales as consideration (ie a sales-based royalty). There are no other performance obligations in the contract. The entity concludes that the license represents the transfer of a right which results in a performance obligation satisfied at a point in time.

The entity has experience in licensing the IP in similar countries and markets. The entity estimates the total amount of consideration it expects to be entitled to over the 10 years will be CU500,000. Some of that amount might be subject to significant revenue reversal, however, at the time of satisfying its performance obligation, the entity does not expect the amount of revenue to be less than CU100,000. Consequently, the entity would recognise CU100,000 when it satisfies its performance obligation (ie at the inception of the contract).

At the end of year 1, based on sales to date, the entity revises its estimate of the amount of consideration that will not be subject to revenue reversal to be CU175,000. Consequently, the entity would recognise an additional CU75,000 of revenue at the end of year 1. This process of revising the estimates would continue for the 10 year period and therefore may result in a revenue recognition pattern as follows:

Year 1: CU100,000

Year 2: CU 75,000

Year 3: CU 60,000

Year 4-9: CU265,000

Year 10: NIL (assuming that at the end of Year 9 the entity accurately estimates the total amount of consideration)

The particular point to note is that revenues recognised in Years 2-9 convey no information about the entity's performance and relate entirely to updates in the entity's estimate of the transaction price—essentially, the revenue represents a series of 'true-ups'.

16. A second alternative considered but rejected was whether the principle for recognition of a minimum amount should be that revenue recognition would be constrained to zero whenever the consideration is based on the customer's future actions. Consistent, with the analysis presented to the Boards by the staff in

agenda paper 7D/165D at the December 2012 Board meeting, the staff do not support this option because:

(a) in some cases where the entity can estimate the variable consideration with sufficient confidence, this option would not appropriately depict performance which would be contrary to the core principle, which could be exacerbated if the entity is recognising costs associated with that performance; and

(b) it would increase complexity because it would require the Boards to create an exception for customer rights of return.

Option 1: Draw a distinction between point in time and over time performance obligations

17. This option would require an entity to include some, but not all, of the estimate of the variable consideration (that is, a minimum amount) if an entity expects that including that minimum in the transaction price would not result in a significant revenue reversal and:

(a) The minimum amount is allocated to a performance obligation satisfied over time (in accordance with paragraph 35).

(b) The minimum amount is allocated to a performance obligation satisfied at a point in time (in accordance with paragraph 37) and the uncertainty associated with the consideration is resolved (for example, the entity recognises a receivable for its rights to an amount of consideration or an amount of cash is received from the customer and is nonrefundable). (Refer to Appendix B for two illustrations of the application of this option.)

18. The staff note that the benefits of Option 1 are:

(a) the requirements are based on a principle (as explained in paragraphs 7-10 above);

(b) the assessment that an entity would need to make in determining if a minimum should be included in the transaction price is based on an established decision point in the revenue model, that is between the timing of satisfaction of a performance obligation (at a point in time or over time) which does not require another distinction (ie 'license' of 'intellectual property' with 'royalties') for the purpose of applying the constraint (which would be required by Option 2); and

(c) the outcomes for sales-based royalties will generally be the same as the 2011 ED, which was supported by most preparers and users. However, in cases where the entity determines that it can include *all* of the estimate of variable consideration in the transaction price after considering the requirements of the constraint, all of the revenue will be recognised when the performance occurs if the performance obligation is satisfied at a point in time (which is different to the outcome from applying the 2011 ED and Option 2).

19. Nonetheless, as noted in paragraph 12 above, feedback indicated that the requirements have been viewed as overly complex and that Boards' intentions for the minimums requirements are not clear. The staff think that some thought the drafting was complex because it was the first time the revised drafting was being considered while others thought the drafting was complex because:

(a) they did not agree with or understand the basis for the distinction between performance obligations satisfied over time or at a point in time (explained in paragraphs 7-10 above); and

(b) the requirement in paragraph 56.3 of the staff draft seemed to represent an additional step in applying the constraint, which they think makes the constraint more complex than in the 2011 ED.

20. When developing the requirements, the staff also considered the risk of unintended consequences if the requirements related to minimums draw a distinction between performance obligations satisfied over time versus at a point in time. However, the staff think that the process to date has not identified a fact

pattern that highlights a fundamental flaw in differentiating the minimums requirements based on a performance obligation satisfied over time versus at a point in time.

21. The staff think that to address the concerns about complexity, the staff could clarify the drafting based on the feedback to date. In addition, it may be helpful to illustrate the process that an entity should follow when applying the constraint paragraphs as application guidance, and include some simple examples to demonstrate the application of the requirements (refer to Appendix C and Appendix B respectively).

Option 2: 2011 ED approach for royalties on licenses

22. This option would result in a general requirement for the recognition of a minimum if the full amount of the estimate of variable consideration does not pass the objective of the constraint but some portion of the variable consideration does pass the objective of the constraint. However, when the performance obligation arises from a license and the consideration is a royalty based on the usage of that license, a requirement would be included that specifies that for royalty-based consideration, the minimum is deemed to be zero. In other words, this approach to the minimums requirements is generally consistent with the 2011 ED (see Appendix D for an example of the drafting that might result from this option).

23. As explained in paragraph 7 above, the question for the Boards to consider is when recognition of a minimum amount of zero provides the most useful information. Throughout the project, the feedback has indicated that in most cases, including a portion of the variable consideration is the best alternative to complying with the core principle. However, in the case of a royalty based on the customer's usage of the intellectual property, the staff think that feedback from the majority of users and preparers (specifically in the pharmaceutical, biotechnology and media and entertainment industries) has indicated that not recognising revenue until the uncertainty is resolved provides the most useful information.

24. Consequently, proponents of this option argue that reintroducing the notion from paragraph 85 of the 2011 ED may be a rule, but they argue that in most cases, the entity would not be able to comply with the core principle of recognising the amount that the entity is entitled to in exchange for the transferred goods or services due to the significant measurement uncertainty related to most royalty type arrangements. In other words, proponents of this option argue that the rule is based on the same principle underlying Option 1, ie providing useful information where the core principle of the revenue model cannot be achieved due to measurement uncertainty. Proponents of Option 2 acknowledge that there may be some limited circumstances where the entity would be able to comply with the core principle even though the consideration in a license of intellectual property is royalty-based. However, they think that the benefits of a simple rule outweigh the complexity of requiring entities to consider if they could include all of the estimate of the variable consideration for a royalty-based license arrangement.

25. Further advantages of Option 2 are:

    (a) it may simplify the application of the revenue model to license contracts in which the consideration in the contract varies based on the customer's subsequent sales (ie because, practically, an entity would not need to consider the nature of the promise in the license to determine if it represents access or a right); and

    (b) it eases the practical difficulties for preparers of estimating the total amount of consideration that varies based on the customer's subsequent sales for sales of intellectual property and applying the general constraint paragraphs.

26. However, the staff note that retaining the distinction for the minimums requirements based on only licenses of intellectual property may be seen as arbitrary because there may be other types of performance obligations where the rationale for a minimum of zero also applies. For example, if an entity provides a customer the rights to a mineral deposit for a period of 25 years and the consideration is in the form of a production based royalty, if the entity cannot

include all of its estimate of the variable consideration in the transaction price, why would the recognition of a minimum provide useful information in this case, but not in the case of a sales-based royalty on a license?

27. Additionally, some highlight the possible scoping issues of this requirement which may require entities to define terms such as 'license', 'intellectual property' and 'royalty'.

Staff Recommendation

28. The staff think that there are compelling arguments for both options presented in this paper. However, on balance, the staff would recommend Option 1 for the reasons provided in this paper. In other words, the staff recommend that, if an entity expects that including all of the estimate of the variable consideration in the transaction price would result in a significant revenue reversal, then:

    (a) an entity should include some (but not all) of the estimate of variable consideration in the transaction price if the performance obligation that the consideration relates to is satisfied over time and the entity expects that including some of that variable consideration would not result in a significant revenue reversal; and

    (b) for a performance obligation satisfied at a point in time, the entity would only recognise some (or all) of the consideration as revenue when that consideration is no longer variable (this recommendation is illustrated by the decision tree in Appendix C to this paper).

Question for the Boards
Do the Boards agree with the staff recommendation?

Appendix A: Staff draft requirements for the constraint

Constraining estimates of variable consideration

56.1. **An entity shall include the amount of variable consideration estimated in accordance with paragraph 55 in the transaction price only if the entity expects that, based on the assessment of factors in paragraph 56.2, a subsequent change in the estimate of the amount of variable consideration would not result in a significant revenue reversal. A significant revenue reversal would occur if a subsequent change in the estimate of the variable consideration would result in a significant downward adjustment on the amount of cumulative revenue recognised from that contract with that customer.**

56.2. An entity shall use judgment and consider all facts and circumstances when assessing the risk that a subsequent change in an estimate of variable consideration would result in a significant revenue reversal. This assessment is qualitative and considers both the possibility of a change in the estimate of variable consideration and the magnitude of the possible revenue reversal when the uncertainty related to the variable consideration has been resolved. Factors that indicate that including an estimate of variable consideration in the transaction price could result in a significant revenue reversal include, but are not limited to, the following:

a. The amount of consideration is highly susceptible to factors outside the entity’s influence. Those factors include volatility in a market, the judgment or actions of third parties (for example, the consideration promised by a customer in exchange for a license varies based on the customer’s subsequent sales of a good or service), weather conditions, and a high risk of obsolescence of the promised good or service.

b. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

c. The entity’s experience (or other evidence) with similar types of contracts is limited.

cc. The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

d. The contract has a large number and broad range of possible consideration amounts.

56.3. If an entity expects that including some, but not all, of the estimate of the variable consideration (that is, a minimum amount) in the transaction price would not result in a significant revenue reversal, an entity shall include that amount (and subsequent changes to that amount) in the estimate of the transaction price only if, and to the extent that, the minimum amount would meet one of the following conditions:

a. The minimum amount is allocated to a performance obligation satisfied over time (in accordance with paragraph 35).

b. The minimum amount is allocated to a performance obligation satisfied at a point in time (in accordance with paragraph 37) and the uncertainty associated with the consideration is resolved (for example, the entity recognises a receivable for its rights to an amount of consideration or an amount of cash is received from the customer and is nonrefundable).

56.4. An entity shall update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period, including the entity's assessment of a minimum amount of consideration that may be included in the transaction price (see the preceding paragraph [56.3]). An entity shall account for changes in the transaction price in accordance with paragraphs 77–80.

Appendix B - Examples to illustrate the staff draft requirements

Example 1: Point in time performance obligation

An entity produces pharmaceutical formulas and licenses these formulas out to customers (distributors) who distribute the resulting drugs to retailers. The consideration that the entity is entitled to for licensing out of the formulas is based on the distributors' subsequent sales of the drugs to the retailers (ie the consideration is a sales-based royalty). The entity has determined that the formula is the only performance obligation in the contract and that it is satisfied at a point in time in accordance with the licenses guidance.

Scenario A

At 1/1/20X4, the entity satisfies its performance obligation by transferring the formula to the distributor. The entity estimates the variable consideration in accordance with paragraph 55 and estimates an amount of CU100,000. Because the consideration is variable, the entity considers whether this estimate of consideration should be included in the transaction price. The entity considers paragraph 56.1 and determines that based on the indicators in paragraph 56.2, it expects a subsequent change in its estimate of the variable consideration that would result in a significant revenue reversal.

The entity therefore considers whether it should recognise a portion (or minimum amount) of the estimate of variable consideration in accordance with paragraph 56.3. The entity estimates that if it included only CU12,000 of its estimate of the variable consideration of CU100,000 in the transaction price, it expects that a subsequent change in its estimate of the variable consideration would not result in a significant revenue reversal. However, because this minimum amount is allocated to a performance obligation satisfied at a point in time, the entity is precluded from including this minimum amount in the estimate of the transaction price. Consequently, the entity recognises no revenue at 1/1/20X4.

Scenario B

The facts are the same as in Scenario A. Six months later (at 30/6/20X4) the distributor has made sales of CU75,000 and the entity is entitled to a royalty of CU7,500 as a result of those sales.

Because the entity was not able to include its estimate of the variable consideration in the transaction price when the performance obligation was satisfied, the entity continues to apply paragraph 53(b) throughout the remainder of the contract. Consequently, at 30/6/20X4, the uncertainty associated with the royalty of CU7,500 is resolved because the entity's entitlement to this amount is no longer dependent on the actions of third parties. Consequently, the entity recognises CU7,500 as revenue at 30/6/20X4.

Example 2: Performance obligation satisfied over time

An entity enters into a construction contract with a customer at 1/1/20X4 to build a bridge for the customer. The entity determines that there is a single performance obligation in the contract (to build the bridge), that this performance obligation is satisfied over time, and that there is no significant financing component in the contract.

The payment structure of the contract is as follows:

Fixed consideration - CU50,000

Full performance bonus if contract completed within 12 months - CU10,000

Partial performance bonus if contract completed within 15 months - CU5,000

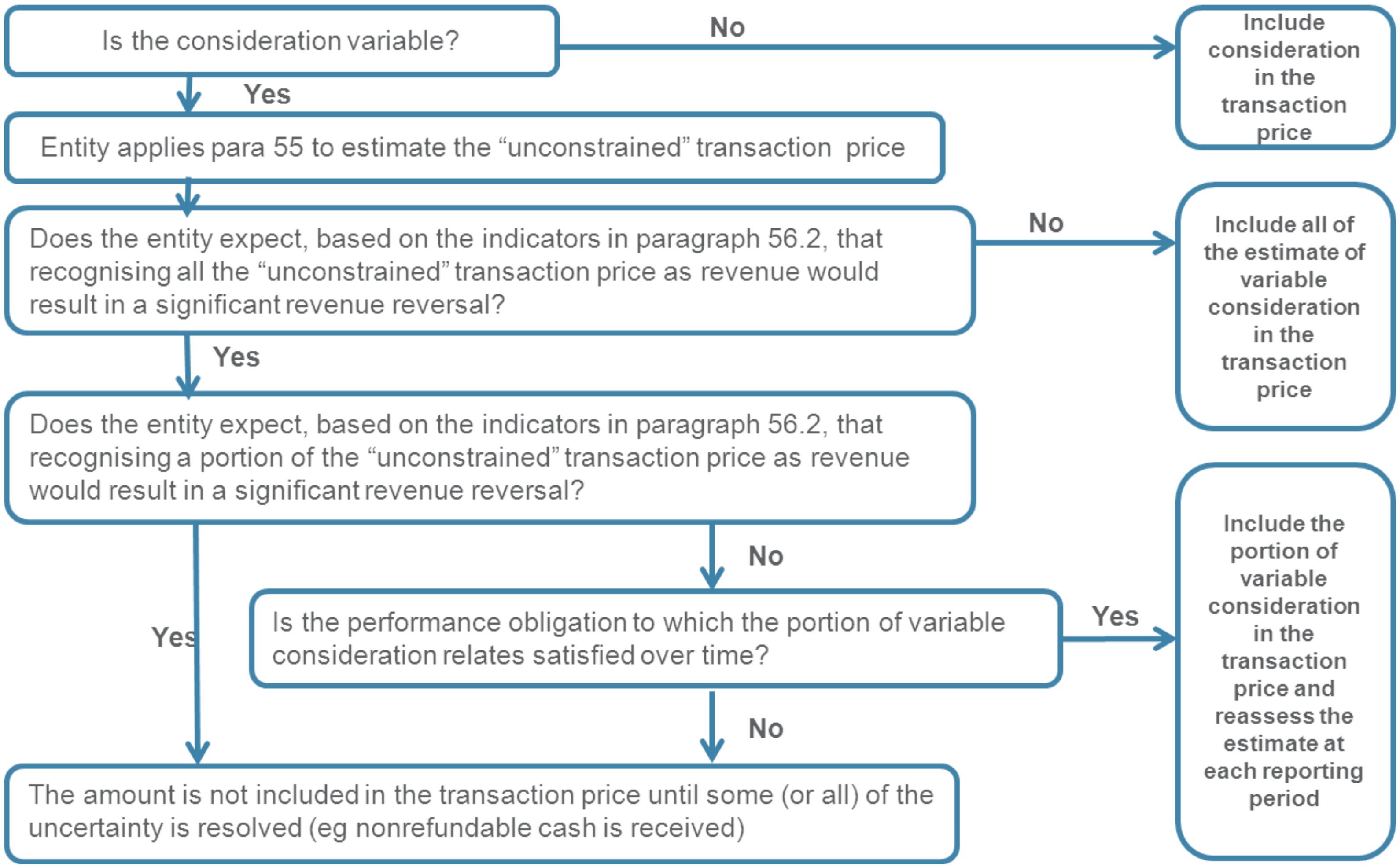
Penalty reduction if contract completed after 24 months - CU 10,000

Scenario A

At 30/06/20X4, the entity estimates that it has completed 50% of the performance obligation. The entity estimates the variable consideration in accordance with paragraph 55 and estimates an amount of CU20,000 of variable consideration (CU60,000 total consideration) (because of the penalty reduction, the consideration is effectively made up of fixed consideration of CU40,000 and variable consideration ranging from CU0 - CU20,000). Because the consideration is variable, the entity considers whether this estimate of consideration should be included in the transaction price. The entity considers paragraph 56.1 and determines that based on the indicators in paragraph 56.2, it expects a subsequent change in its estimate of the variable consideration that would result in a significant revenue reversal.

The entity therefore considers whether it should recognise a portion (or minimum amount) of the estimate of variable consideration in accordance with paragraph 56.3. The entity estimates that if it included only CU5,000 of its estimate of the variable consideration in the transaction price, it expects that a subsequent change in its estimate of the variable consideration would not result in a significant revenue reversal. Because this minimum amount is allocated to a performance obligation satisfied over time, the entity includes this amount in the transaction price, thus the transaction price is estimated as CU55,000 at 30/06/20X4. Consequently, the entity recognises revenue of CU27,500 at 30/06/20X4.

Appendix C - Decision tree for applying the staff draft constraint requirements



Appendix D - Minimums requirements based on paragraph 85 of the 2011 ED

NOTE: Changed are marked from the staff draft (Appendix A) using ~~strikethrough~~ for deletions and underline for additions.

Constraining estimates of variable consideration

56.1. **An entity shall include the amount of variable consideration estimated in accordance with paragraph 55 in the transaction price only if the entity expects that, based on the assessment of factors in paragraph 56.2, a subsequent change in the estimate of the amount of variable consideration would not result in a significant revenue reversal. A significant revenue reversal would occur if a subsequent change in the estimate of the variable consideration would result in a significant downward adjustment on the amount of cumulative revenue recognised from that contract with that customer.**

56.2. An entity shall use judgment and consider all facts and circumstances when assessing the risk that a subsequent change in an estimate of variable consideration would result in a significant revenue reversal. This assessment is qualitative and considers both the possibility of a change in the estimate of variable consideration and the magnitude of the possible revenue reversal when the uncertainty related to the variable consideration has been resolved. Factors that indicate that including an estimate of variable consideration in the transaction price could result in a significant revenue reversal include, but are not limited to, the following:

a. The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include volatility in a market, the judgment or actions of third parties (for example, the consideration promised by a customer in exchange for a license varies based on the customer's subsequent sales of a good or service), weather conditions, and a high risk of obsolescence of the promised good or service.

b. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

c. The entity's experience (or other evidence) with similar types of contracts is limited.

cc. The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

d. The contract has a large number and broad range of possible consideration amounts.

56.3.1 <u>If an entity expects that including some, but not all, of the estimate of the variable consideration (that is, a minimum amount) in the transaction price would not result in a significant revenue reversal, an entity shall include that amount (and subsequent changes to that amount) in the transaction price.</u>

56.4. An entity shall update the estimated transaction price at each reporting date to represent faithfully the circumstances present at the reporting date and the changes in circumstances during the reporting period, including the entity's assessment of a minimum amount of consideration that may be included in the transaction price(see the preceding paragraph [56.3]). An entity shall account for changes in the transaction price in accordance with paragraphs 77–80.

56.5 <u>Notwithstanding the requirements in paragraph 56.1 – 56.4, if an entity licenses intellectual property to a customer and the customer promises to pay an additional amount of variable consideration based on the customer's subsequent usage of the intellectual property (for example, a sales-based royalty), the entity shall not include any estimate of the variable consideration in the transaction price until the uncertainty is resolved (for example, when the customer's subsequent sales occur in a sales-based royalty).</u>