

STAFF PAPER

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Project	FASB/IASB Joint Transition Resource Group for Revenue Recognition		
Paper topic	Identifying Performance Obligations- Research Update		
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Purpose

1. The purpose of this memo is to provide the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) with an update on research and outreach the staff has performed on the guidance in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers*, and IFRS 15 *Revenue from Contracts with Customers* (collectively referred to as the “new revenue standard”) as it relates identifying performance obligations.

Background

2. At the October 31, 2014 TRG meeting, TRG members discussed the guidance related to identifying performance obligations (Step 2 in the new revenue model). The discussion primarily was about the criterion that a good or service that is promised to a customer is distinct if the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the good or service is distinct in the context of the contract) in paragraphs 606-10-25-19 and 25-21 (IFRS 15 paragraphs 27 and 29).
3. The discussion helped to inform the Boards about the challenges that are expected to arise in determining whether a promised good or service is distinct in the context of the contract as well as other challenges with identifying performance

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obligations. Board members instructed the staff to perform additional research and outreach on the topic. The focus of the additional research and outreach is to understand whether there are specific improvements to the new revenue standard or other activities the Boards should consider to address the concerns raised at the TRG meeting.

Outreach

4. The FASB staff held outreach meetings with various stakeholders, including preparers and auditors. The outreach involved stakeholders across a wide spectrum of industries and public and private entities. During the outreach, the staff further clarified the issues related to identifying performance obligations, and the staff has identified two primary issues in this area.
5. The first issue relates to identifying promised goods or services in a contract with a customer. The staff is aware that some stakeholders appear to be questioning whether they should be identifying significantly more promised goods or services under the new revenue standard than deliverables under existing U.S. GAAP or IFRS. This topic will be discussed further at the January 26, 2015 TRG meeting (see agenda ref no. 12).
6. A subset of the first issue is some stakeholders are questioning whether the shipment of goods is a promised service and a separate performance obligation. The TRG has received a submission on this implementation question. The staff is aware of the following stakeholder views:
 - (a) The shipment of goods is one of the underlying tasks that support the transfer of control of the goods to the customer, and is a cost of fulfilling the contract. Shipping is not a separate service promised to the customer. To the extent the vendor must complete shipment of the goods after control has transferred to the customer, the cost of shipping should be accrued.

- (b) If the vendor is responsible for shipping the goods, control generally does not transfer to the customer until the goods are delivered, regardless of shipping terms.
 - (c) If control of the goods transfers prior to shipment and the vendor is responsible for shipping the goods (or arranging for the goods to be shipped), shipping is a separate service promised to the customer. Thus, the vendor must account for this service as a separate performance obligation, if material.
 - (d) The accounting depends on the facts and circumstances of the arrangement. Depending on the materiality of the shipping obligation, the interpretations in paragraphs (a) and (c) might be acceptable.
7. The second issue in identifying performance obligations relates to determining whether goods or services are distinct in the context of the contract. This topic was discussed at the October 31, 2014 TRG meeting (see agenda ref no. 9). The issues include:
- (a) Questions on the principle, including the meaning of *separately identifiable in paragraph 606-10-25-21[IFRS 15 paragraph 29]*
 - (b) Broad interpretation of the third factor for assessing whether a promise to transfer a good or service is separately identifiable. The third factor in paragraph 606-10-25-21(c)[IFRS 15, paragraph 29(c)] is:

The good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract). For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.

Summary

8. The staff expects to bring the issues to a public Board meeting in February 2015 to discuss the feedback from the TRG and from the staff's research and outreach. Any improvements made to the guidance in the new revenue standard would be subject to the Board's due process, including an exposure document for public comment.