STAFF PAPER

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Project	FASB-IASB Joint Transition Resource Group for Revenue Recognition		
Paper topic	Practical Expedient for Measuring Progress toward Complete Satisfaction of a Performance Obligation		
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Purpose

1. Some stakeholders informed the staff that there are questions about 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"), about the practical expedient for measuring progress toward complete satisfaction of a performance obligation and the related practical expedient for disclosure requirements of remaining performance obligations. The implementation questions specifically relate to the following topics:
   (a) Application of the practical expedient in paragraph 606-10-55-18 [B16][1] for measuring progress
   (b) Application of the practical expedient in paragraph 606-10-50-14 [121] to disclose information about remaining performance obligations.

[1] IFRS 15 references are included in "[XX]" throughout this paper.

Background

2. Step 5 of the model in the new revenue standard requires an entity to recognize revenue when (or as) the entity satisfies a performance obligation, which may be at a point in time or over time. Under the new revenue standard, an entity may measure its progress towards complete satisfaction of a performance obligation that is satisfied over time using either an input or an output method.

3. Input methods recognize revenue on the basis of an entity's inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation (which is an indirect measurement). Examples of input methods include resources consumed, labor hours expended, or costs incurred.

4. Output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Examples include methods such as surveys of performance, appraisals of results achieved, milestones reached, time elapsed, and units produced or delivered.

5. As a practical expedient, paragraph 606-10-55-18 [B16] specifies that another appropriate output method is to recognize revenue in the amount to which an entity has a right to invoice. Use of that practical expedient is appropriate in scenarios in which an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance to date. For example, an entity may choose to use the practical expedient for a service contract in which the entity bills a fixed amount for each hour of service provided.

6. When considering how to apply that practical expedient, some stakeholders have questioned how to evaluate whether an entity's right to consideration from a customer corresponds *directly with the value to the customer*. Those questions have arisen from fact patterns in which an entity may bill different prices for each unit transferred to the customer.

7. Additionally, the new revenue standard requires an entity[2] to disclose specified information about its remaining performance obligations. That information includes the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied and a quantitative or qualitative explanation of when the entity expects to recognize that amount disclosed. However, as a practical expedient, an entity is not required to disclose the information above if the performance obligation is part of a contract that is one year or less or the entity meets the practical expedient for the output method of measuring progress as described in paragraph 606-10-55-18 [B16].

8. Some stakeholders have questioned whether the disclosure practical expedient could apply in scenarios in which a contract includes a contractual minimum or a volume discount. Those stakeholders noted that those contract terms are common practice in a number of industries.

Accounting Guidance

9. The relevant accounting guidance has been included in Appendix A and Appendix B of this paper.

Implementation Issues

10. This section of the paper discusses issues that have been brought to the staff's attention regarding:
    (a) Application of the practical expedient for measuring progress toward complete satisfaction of a performance obligation
    (b) Application of the practical expedient to exempt disclosure of certain information about remaining performance obligations.

[2] Under Topic 606, this disclosure is only required for a public business entity, 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, or an employee benefit plan that files or furnishes financial statements with or to the SEC. Other entities applying Topic 606 may elect to apply this disclosure. IFRS 15 requires the disclosure for all entities.

Question 1 - In order to apply the practical expedient for measuring progress toward complete satisfaction of a performance obligation, may the practical expedient be applied to contracts with rates that change during the contract term?

11. Some stakeholders have questioned whether the practical expedient for measuring progress toward complete satisfaction of a performance obligation based on amounts to which the entity has a right to invoice may be applied to contracts with rates that change during the contract term or situations in which there are multiple rates for multiple goods or services. Examples of contracts in which the rates may change include:

    (a) Contracts in the power and utilities industry, as the rates per unit in certain contracts change and the rates are priced by reference to one or more market indicators, which might include the observable forward commodity price curve.

    (b) Contracts in the information technology (IT) services industry, as the rates per unit in certain contracts change. Outsourcing arrangements are generally large scale, multi-year contracts in which the entity agrees to provide delivery of services for an unknown quantity of units. In an IT outsourcing arrangement, rates might decrease over the term of the contract because, for example, the level of effort to provide the services to the customer declines. Those contracts might include a price benchmarking clause whereby the customer engages a third-party benchmarking firm to compare contract pricing to current market rates. The contracts might have specific procedures (at certain points over the contract term) whereby the contract price is adjusted to a market rate.

12. Some stakeholders think that the practical expedient for measuring progress toward complete satisfaction of a performance obligation may be applied to the types of contracts listed above because they think the amounts billed correspond directly to the value to the customer. Consider the following more detailed examples:

Example A: Power Seller and Power Buyer execute a contract for the purchase and sale of electricity over a 6 year term. Power Buyer is obligated to purchase 10 megawatts (MW) of electricity per hour for each hour during the contract term (87,600 MWh per annual period) at prices that contemplate the forward market price of electricity at contract inception. The contract prices are as follows:

• Years 1-2: $50/MWh

• Years 3-4: $55/MWh

• Years 5-6: $60/MWh

The transaction price, which represents the amount of consideration to which Power Seller expects to be entitled in exchange for transferring electricity to Power Buyer, is $28,908,000 (annual contract prices per MWh multiplied by annual contract quantities). Power Seller concludes that the promise to sell electricity represents one performance obligation that will be satisfied over time.

Example B: IT Seller and IT Buyer execute a 10 year IT Outsourcing arrangement in which IT Seller provides continuous delivery of outsourced activities over the contract term. For example, the vendor will provide server capacity, manage the customer's software portfolio and run an IT help desk. The total monthly invoice is calculated based on different units consumed for the respective activities. For example, the billings might be based on millions of instructions per second of computing power (MIPs), number of software applications used, or number of employees supported, and the price per unit differs for each type of activity.

IT Seller concludes that each of the activities described will be satisfied over time. Although each activity has a contractual minimum, the IT Buyer is expected to exceed that minimum. Therefore, the IT Buyer pays the IT Seller the relevant price per unit.

The agreed upon pricing at the onset of the contract is considered to reflect market pricing. The pricing decreases to reflect the associated costs decreasing over the term of the contract as the level of effort to complete the tasks decreases. Initially, the tasks are performed by more expensive personnel for activities that require more effort. Later in the contract, the level of effort for the activities decreases, and the tasks are performed by less expensive personnel. The contract includes a price benchmarking clause whereby the IT Buyer engages a third-party benchmarking firm to compare the contract pricing to current market rates at certain points in the contract term. There is an automatic prospective price adjustment if the benchmark is significantly below IT Seller's price.

13. Paragraph 606-10-55-18 [B16] explains that an entity may apply the practical expedient in the following circumstances:

> If an entity has a ***right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided***), the entity may recognize revenue in the amount to which the entity has a right to invoice. **[*Emphasis added.*]**

14. Contract A in Example 42 of the new revenue standard illustrates a situation in which the practical expedient applies to a two-year cleaning services arrangement in which services are typically performed at least once per month. For services provided, the customer pays an hourly rate of $25. Paragraph 606-10-55-300 [IE214] in the example notes that "because the entity bills a fixed amount for each hour of service provided, the ***entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date*** in accordance with paragraph 606-10-55-18 [B16]."

15. Paragraph BC167 of the new revenue standard states:

> The Boards also decided that, in some circumstances, as a practical expedient, another appropriate output method is to recognize revenue at the amount of consideration to which an entity has a right to invoice. This method is appropriate if the ***amount of consideration that the entity has a right to invoice corresponds directly with the value to the customer of each incremental good or service that the entity transfers to the customer (that is, the entity's performance completed to date)***. This may occur, ***for example, in a services contract in which an entity invoices a fixed amount for each hour of service provided***. [***Emphasis added.***]

16. Some stakeholders, as well as the staff, think Example A in this paper is a scenario that would qualify for the practical expedient because the amount that will be billed to Power Buyer by Power Seller corresponds directly with the value to the Power Buyer of Power Seller's performance completed to date in accordance with paragraph 606-10-55-18 [B16]. The amount that will be billed is based on both (a) the units of

power transferred to the customer and (b) a rate per unit of power that is priced by reference to one or more market indicators (for example, the observable forward commodity price curve). While the rate per unit of power is not the same for the duration of the contract, the rates per unit reflect the value to the customer because the rates are based on one or more market indicators. When applying paragraph 606-10-55-18 [B16], some stakeholders and the staff think that a fixed price is not always required for the duration of the contract. However, a price increase or decrease must be based on the value of those later units to the customer. Determining whether the price change is consistent with the value to the customer often will require the use of judgment.

17. Additionally, these stakeholders and the staff think that for purposes of applying the practical expedient, the market prices or standalone selling prices might reflect value to the customer but are not *required* to be assessed to demonstrate that the amount invoiced reflects value to the customer. Rather, the phrase value to the customer is intended to indicate that judgment is required to assess whether the practical expedient can be applied. Market or standalone selling prices, or another means could be used to demonstrate that the amount invoiced to the customer corresponds directly to the value to the customer for the entity's performance to date.

18. Some stakeholders and the staff also think that Example B in this paper is a scenario that would qualify for the practical expedient because the amount billed to IT Buyer by IT Seller corresponds directly with the value to the IT Buyer of IT Seller's performance to date in accordance with paragraph 606-10-55-18 [B16]. The fixed minimum amount is not substantive (that is, the entity expects to exceed the minimum amounts, in part, on the basis of historical experience), and the amount billed to IT Buyer reflects the rates and amounts (price and quantities) for the activities provided. Similar to Example A, although the rates change for the respective activities over the duration of the arrangement, the rates reflect the value to the customer, which is corroborated through: (1) the benchmarking (market) adjustment and (2) declining costs (and level of effort) of providing the tasks that correspond with the declining pricing of the activities. Additionally, even though there are multiple activities in Example B, the conditions to apply the practical expedient in paragraph 606-10-55-18 [B16] are met because the amounts invoiced to IT Buyer correspond with the value

to the IT Buyer of each incremental activity that the IT Seller provides to the IT Buyer (that is, the IT Seller's performance completed to date).

19. The staff think that determining whether an entity can apply the practical expedient will require the use of judgement. It is important to note that the mere fact that an entity and its customer agree upon an invoice/payment schedule does not automatically mean the amount an entity has the right to invoice at a given point corresponds directly with the value to the customer for the goods or services provided to date. For example, the customer might request lower payments earlier in the duration of the contract and higher payments later in the duration to increase its operating cash flow in the short term. As another example, the entity might request a significant payment early in the duration of the contract to reduce credit risk or to have the customer demonstrate that it is committed to a long-term service arrangement.

Misinterpretation of Paragraph BC163 to Paragraph 606-10-55-18 [B16]

20. Paragraph BC163 of the new revenue standard states:

> Output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date (for example, surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed, and units delivered or units produced). ***When applying an output method, value to the customer refers to an objective measure of the entity's performance in the contract. However, value to the customer is not intended to be assessed by reference to the market prices or standalone selling prices of the individual goods or services promised in the contract, nor is it intended to refer to the value that the customer perceives to be embodied in the goods or services.*** **[*Emphasis added.*]**

21. The staff has become aware that some stakeholders think the description of the phrase *value to the customer* in paragraph BC163 should be applied to the same phrase in paragraphs 606-10-55-17 [B15] and 606-10-55-18 [B16]. However, the staff think that the language in paragraph BC163 was not intended to be applied to paragraph 606-10-55-18 [B16] and that the phrase *value to the customer* is used in two different contexts. Paragraph 606-10-55-17 [B15] (and the related discussion in paragraph

BC163) is in the context of measuring progress toward satisfaction of the performance obligation with a focus on the proportion of outputs delivered relative to total outputs in the performance obligation, not measurement and allocation of the transaction price and recognition.

22. Put another way, the discussion in paragraph BC163 (and paragraph 606-10-55-17 [B15]) is about progress toward satisfying the performance obligation and, thus, has to do with how much or what proportion of the goods or services (*quantities*) have been delivered (but not the *price*). For example, for purposes of paragraph 606-10-55-17 [B15], an entity might consider the units produced to date (10) divided by the total expected units produced (100) to measure progress (10%).

23. In contrast, paragraph 606-10-55-18 [B16] is about recognizing revenue on the basis of invoicing as it corresponds to the value transferred to the customer. This includes determining the revenue to be recognized, which involves multiplying the price assigned to the goods or services delivered by the measure of progress (that is, the quantities or units transferred). The intent of the practical expedient in paragraph 606-10-55-18 [B16] is that it is an expedient to Steps 3, 4 and 5 in the new revenue standard. This is corroborated by the existence of the related practical expedient for disclosure of remaining performance obligations included in paragraph 606-10-50-14 [121], which provides relief from estimating the aggregate transaction price for remaining performance obligations.

Other Stakeholder Views about the Examples in This Paper

24. Other stakeholders think that Example A in this paper does not qualify for the practical expedient. They note that Power Seller does not have a right to *the same amount* for each MW per hour of electricity because the price changes over the duration of the contract. They argue that Example A in this paper is not consistent with Contract A in Example 42 in the new revenue standard because the pricing in Example A varies. Those stakeholders also think that Example B in this paper does not qualify for the practical expedient because IT Seller does not have a right to *the same amount* for each of the activities. Additionally, they think that the fixed minimum amounts for each type of service automatically preclude IT Seller from applying the practical expedient because the minimum is not a price associated with

quantity, and it is not consideration due from IT Buyer in an amount that corresponds directly with the value to IT Buyer of IT Seller's performance completed to date, regardless of whether the IT Seller considers the minimum amounts to be substantive (that is, the entity expects to exceed the minimum amounts).

25. In addition to the reasons cited above, other stakeholders do not think the practical expedient could be applied in Examples A or B due to the language in paragraph BC163 related to value to the customer. Those stakeholders do not think that the value to the customer notion in paragraph 606-10-55-18 [B16] can be demonstrated on the basis of the language in paragraph BC163 for Examples A and B. However, as previously mentioned above, the staff do not think that the language in paragraph BC163 should be used to analyze paragraph 606-10-55-18 [B16].

26. For the examples provided above, the most significant differences between the views of (1) the staff (and some stakeholders) and (2) other stakeholders are:

    (a) The staff think that in order to apply the practical expedient in paragraph 606-10-55-18 [B16], the price does not have to be the same for the duration of the contract because the value to the customer might be reflected in a contract with prices that change.

    (b) The staff think that in order to apply the practical expedient in paragraph 606-10-55-18 [B16], there might be multiple goods or services (or multiple activities within a single performance obligation that trigger the right to invoice the customer) that could qualify for the practical expedient because the amount invoiced to the customer corresponds to the value to the customer for the entity's performance completed to date for the goods or services transferred. This notion is illustrated through Example B in this paper.

    (c) The staff think that the existence of a contractually specified minimum amount of consideration (or volume discounts) would not always preclude the application of the practical expedient in paragraph 606-10-55-18 [B16]. If contractually specified minimum amounts of consideration are not substantive (that is, the entity expects to exceed the minimum amounts of consideration) and the customer pays the entity for a price per quantity, rather than the contractually specified minimum amount of consideration, then the staff thinks the amount billed to the customer may correspond directly with the value received by the customer. Additionally, while not included in the examples above, if a contract includes a volume discount that is not substantive, then the value to the customer could directly correspond to the amount billed.

(d) The staff think that paragraph BC163 does not relate to paragraph 606-10-55-18 [B16]. Paragraph BC163 clarifies how to measure progress (for example, quantities) in the context of paragraph 606-10-55-17 [B15], while paragraph 606-10-55-18 [B16] relates to measurement and allocation of transaction price for purposes of recognizing revenue (for example, revenue equals quantities times price). This practical expedient is an expedient for Steps 3, 4 and 5 of the new revenue standard. Embedded in that expedient is an evaluation of the amount invoiced to the customer corresponding to the value to the customer for the entity's performance completed to date for the goods or services transferred, which might contemplate market or standalone selling prices for goods or services transferred.

27. In conclusion, the staff expects that some contracts with customers that do not have a fixed price per unit for the duration of the contract will qualify for the practical expedient. However, judgment will be required to assess whether the entity's right to consideration from a customer corresponds directly to the value to the customer for performance completed to date. This assessment may include, but is not required to include, an assessment of market or standalone selling price.

Question 2: How should entities assess whether the disclosure practical expedient in paragraph 606-10-50-14 [121] may be applied in scenarios in which the practical expedient for measuring progress toward complete satisfaction of a performance obligation is not met?

28. Paragraph 606-10-50-13 [120] of the new revenue standard requires[3] an entity to disclose specified information about its remaining performance obligations. Those disclosure requirements include the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied as of the end of the reporting period and a qualitative or quantitative explanation of when the entity expects to recognize that amount as revenue.

29. However, an entity is permitted to use the following practical expedient related to the disclosure of an entity's remaining performance obligations:

> 606-10-50-14 [121] As a practical expedient, an entity need not disclose the information in paragraph 606-10-50-13 [120] for a performance obligation ***if either of the following conditions is met***:
>
> a. The performance obligation is part of a contract that has an original expected duration of one year or less.
>
> b. The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph 606-10-55-18 [B16]. ***[Emphasis added.]***

30. As discussed in Question 1 of this memo, paragraph 606-10-55-18 [B16] provides a practical expedient for measuring progress toward complete satisfaction of a performance obligation using an output method.

31. The staff received implementation questions about whether the practical expedient for disclosure in paragraph 606-10-50-14 [121] may be applied in scenarios in which there is a contractual minimum payment or a volume discount for multi-year contracts, such as contracts in the wireless or data processing industries. In some

[3] Under Topic 606, this disclosure is only required for a public business entity, 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, or an employee benefit plan that files or furnishes financial statements with or to the SEC. Other entities following Topic 606 may elect to apply this disclosure. IFRS 15 requires the disclosure for all entities.

respects, the staff thinks the question is about whether the recognition practical expedient can be applied in those circumstances.

32. The guidance in paragraph 606-10-50-14 [121] is clear regarding the circumstances in which an entity may apply the practical expedient for disclosure, although as described in Question 1, judgement will be needed to determine whether an entity can apply the related recognition practical expedient in paragraph 606-10-55-18 [B16].

33. One scenario in which the practical expedient may be applied is when the contract has an original expected duration of one year or less. The second scenario in which the practical expedient may be applied is when is the entity applies the recognition practical expedient in paragraph 606-10-55-18 [B16] (that is, the amount of consideration that an entity has a right to invoice corresponds directly with the value to the customer of each incremental good or service transferred to the customer).

Stakeholder Concerns

34. Some stakeholders think that, while a contractual minimum requirement and a volume discount in some instances could preclude entities from using the practical expedient for disclosure in paragraph 606-10-50-14 [121], the resulting disclosures (as required in paragraph 606-10-50-13 [120]) would be costly to prepare and audit and would not be useful to investors. This is of particular concern to an entity that does not think it can reliably estimate the expected quantities that a customer will purchase over a long-term period.

35. This may be the case in the wireless industry for multi-year contracts with customers. Some wireless providers do not think they qualify to apply the recognition practical expedient in paragraph 606-10-55-18 [B16] to certain multi-year arrangements, and, consequently, they cannot apply the disclosure practical expedient in paragraph 606-10-50-14 [121]. Those entities are concerned about whether they can reliably estimate customers' future usage so that they can disclose the remaining transaction price. While those entities forecast revenue, they do not always forecast revenue for the same period of time that remains for performance obligations, and it is not necessarily done with the degree of precision that would be necessary to include the information in audited financial statements.

36. Another example is the data processing industry, such as the credit card processors, whose remaining transaction price for a long-term agreement (for example, 5 to 10 years) with a customer is significantly impacted by economic factors that are difficult to estimate in a reliable manner, such as gross domestic product, the price of fuel, and foreign currency exchange rates.

37. The staff suggests that entities should carefully evaluate whether it qualifies for the practical expedient for measuring progress provided in paragraph 606-10-55-18 [B16]. As discussed in Question 1 of this paper, judgement should be applied to evaluate if an entity qualifies for that expedient and, thus, the expedient for disclosure requirements included in paragraph 606-10-50-14 [121].

38. For those entities that do not think they qualify for the disclosure practical expedient in paragraph 606-10-50-14 [121], they should consider the guidance in paragraph 606-10-50-15 [122]. That paragraph states that an entity may *qualitatively* describe consideration that is not included in the transaction price. For example, the estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained.

Question for the TRG Members
1. Do the TRG members agree with the staff's interpretations in this paper?

Appendix A: Relevant Accounting Guidance

Measuring Progress toward Complete Satisfaction of a Performance Obligation – Output Methods

39. Paragraph 606-10-55-17 [B15] states that output methods recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed, and units produced or delivered. When an entity evaluates whether to apply an output method to measure its progress, the entity should consider whether the output selected would faithfully depict the entity's performance toward complete satisfaction of the performance obligation.

40. As a practical expedient, in paragraph 606-10-55-18 [B16], if an entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice.

41. Paragraph BC163 explains that when applying an output method, "value to the customer" refers to an objective measure of the entity's performance in the contract. However, value to the customer is not intended to be assessed by reference to the market prices or standalone selling prices of the individual goods or services promised in the contract, nor is it intended to refer to the value that the customer perceives to be embodied in the goods or services.

42. Paragraph BC167 further explains that the practical expedient outlined in paragraph 606-10-55-18 [B16] is appropriate if the amount of consideration that the entity has a right to invoice corresponds directly with the value to the customer of each incremental good or service that the entity transfers to the customer. For example, this may occur in a services contract in which an entity invoices a fixed amount for each hour of service provided.

Disclosure – Transaction Price Allocated to the Remaining Performance Obligations

43. Paragraph 606-10-50-13 [120] states that an entity must disclose certain information about its remaining performance obligations. That information includes the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the period and a quantitative or qualitative explanation of when the entity expects to recognize as revenue the amount disclosed.

44. Paragraph 606-10-50-14 [121] provides a practical expedient in which the entity is not required to disclose the information in paragraph 606-10-50-13 [120] for a performance obligation if either of the following conditions is met:

    (a) The performance obligation is part of a contract that has an original expected duration of one year or less.

    (b) The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph 606-10-55-18 [B16].

45. Paragraph 606-10-50-15 [122] states that an entity shall explain qualitatively whether it is applying the expedient in paragraph 606-10-50-14 [121] and whether any consideration from contracts with customers is not included in the transaction price and therefore not include in the information disclosed in accordance with 606-10-50-13 [120]. For example, an estimate of the transaction price would not include estimated amounts of variable consideration that are constrained.

46. Paragraph BC352 (a) explains that including the practical expedient in paragraph 606-10-20-14(b) [121(b)] was intended to maintain the relief provided to an entity in paragraph 606-10-55-18 [B16] for those performance obligations (that is, performance obligations for which the entity has a right to consideration that corresponds directly with its performance completed to date).

Appendix B: Example of the Practical Expedient for Disclosure

> > > Example 42—Disclosure of the Transaction Price Allocated to the Remaining Performance Obligations

606-10-55-298 [IE212] On June 30, 20X7, an entity enters into three contracts (Contracts A, B, and C) with separate customers to provide services. Each contract has a two-year noncancellable term. The entity considers the guidance in paragraphs 606-10-50-13 through 50-15 [120 through 122] in determining the information in each contract to be included in the disclosure of the transaction price allocated to the remaining performance obligations at December 31, 20X7.

> > > > Contract A

606-10-55-299 [I213] Cleaning services are to be provided over the next two years typically at least once per month. For services provided, the customer pays an hourly rate of $25.

606-10-55-300 [IE214] Because the entity bills a fixed amount for each hour of service provided, the entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with paragraph 606-10-55-18 [B16]. Consequently, no disclosure is necessary if the entity elects to apply the practical expedient in paragraph 606-10-50-14(b) [121(b)].

> > > > Contract B

606-10-55-301 [I215] Cleaning services and lawn maintenance services are to be provided as and when needed with a maximum of four visits per month over the next two years. The customer pays a fixed price of $400 per month for both services. The entity measures its progress toward complete satisfaction of the performance obligation using a time-based measure.

606-10-55-302 [IE216] The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to recognize the amount as revenue. The information for Contract B included in the overall disclosure is as follows.

	20X8	20X9	Total
Revenue expected to be recognized on this contract as of December 31, 20X7	$ 4,800 (a)	$ 2,400 (b)	$ 7,200

(a) $4,800 = $400 × 12 months

(b) $2,400 = $400 × 6 months

> > > > Contract C

606-10-55-303 [IE217] Cleaning services are to be provided as and when needed over the next two years. The customer pays fixed consideration of $100 per month plus a one-time variable consideration payment ranging from $0 – $1,000 corresponding to a one-time regulatory review and certification of the customer's facility (that is, a performance bonus). The entity estimates that it will be entitled to $750 of the variable consideration. On the basis of the entity's assessment of the factors in paragraph 606-10-32-12 [57], the entity includes its estimate of $750 of variable consideration in the transaction price because it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The entity measures its progress toward complete satisfaction of the performance obligation using a time-based measure.

606-10-55-304 [IE218] The entity discloses the amount of the transaction price that has not yet been recognized as revenue in a table with quantitative time bands that illustrates when the entity expects to recognize the amount as revenue. The entity also includes a qualitative discussion about any significant variable consideration that is not included in the disclosure. The information for Contract C included in the overall disclosure is as follows.

	20X8		20X9		Total
Revenue expected to be recognized on this contract as of December 31, 20X7	$ 1,575	(a)	$ 788	(b)	$ 2,363

(a) Transaction price = $3,150 ($100 × 24 months + $750 variable consideration) recognized evenly over 24 months at $1,575 per year

(b) $1,575 ÷ 2 = $788 (that is, for 6 months of the year)

606-10-55-305 [IE219] In addition, in accordance with paragraph 606-10-50-15 [122], the entity discloses qualitatively that part of the performance bonus has been excluded from the disclosure because it was not included in the transaction price. That part of the performance bonus was excluded from the transaction price in accordance with the guidance on constraining estimates of variable consideration.