

# STAFF PAPER

**November 9, 2015**

<b>Project</b>	<b>FASB/IASB Joint Transition Resource Group for Revenue Recognition</b>		
<b>Paper topic</b>	July 2015 Meeting – Summary of Issues Discussed and Next Steps		
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## Purpose

1. The fifth meeting of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG) was held on July 13, 2015. The purpose of the meeting was for the TRG members to inform the FASB and the IASB about potential issues with implementing 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”), to help the Boards determine what, if any, action may be needed to address those issues.
2. The purpose of this paper is to provide a summary of (a) the issues discussed at the July 13, 2015 meeting, (b) the views expressed at the meeting by the TRG members and FASB-IASB staff views about those issues, and (c) the Boards’ planned next steps, if any, for each of those issues.
3. Board members noted that there is one more TRG meeting scheduled for 2015 on November 9 and encouraged stakeholders to submit implementation questions by the end of September if they would like them to be considered for discussion at the November meeting.

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## Background

4. The following topics were discussed at the July 13, 2015 meeting:
  - (a) *Topic 1*: Consideration payable to a customer
  - (b) *Topic 2*: Scope: credit cards
  - (c) *Topic 3*: Portfolio practical expedient and application of variable consideration constraint
  - (d) *Topic 4*: Completed contracts at transition
  - (e) *Topic 5*: Application of the series provision and allocation of variable consideration
  - (f) *Topic 6*: Practical expedient for measuring progress toward complete satisfaction of a performance obligation
  - (g) *Topic 7*: Measuring progress when multiple goods or services are included in a single performance obligation
  - (h) *Topic 8*: Determining when control of a commodity transfers
  - (i) *Topic 9*: Accounting for restocking fees and related costs
5. The staff papers for each of those topics were made public to all stakeholders before the TRG meeting and are available on the [FASB's](#) and the [IASB's](#) websites. A direct link to the staff papers also is included within each topic below. This summary should be read in conjunction with those staff papers which contain a more detailed description of the issues, views, and staff analysis.
6. A replay of the entire meeting is available on the FASB's and the IASB's websites. The websites also contain a [log](#) of questions submitted to the TRG.

### **Topic 1: Consideration payable to a customer ([TRG Agenda Ref No. 37](#))**

7. Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer), including credits that can be applied against amounts owed to the entity. Consideration payable to a customer is accounted for as

a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service.

8. TRG members discussed the following three questions related to consideration payable to a customer:
  - (a) Which payments to a customer are in the scope of the guidance on consideration payable to a customer? (*Issue 1*)
  - (b) Does the guidance on consideration payable to a customer relate to customers in the distribution chain, or more broadly to a customer of an entity's customer? (*Issue 2*)
  - (c) Timing of recognition of consideration payable to a customer (*Issue 3*)
9. Those issues previously were discussed at TRG meetings on January 26, 2015 and March 30, 2015.
10. On Issue 1, TRG members agreed with the staff's summary of the separate discussions that occurred in London and Norwalk at the March 30, 2015 TRG meeting. The following three views were discussed for this issue (at both the March and the July TRG meetings):
  - (a) View A: Entities should assess all consideration payable to a customer
  - (b) View B: Entities should assess consideration payable to a customer only within the context of that contract with a customer (or combined contracts)
  - (c) View C: Entities should assess consideration payable to a customer only within a contract with a customer (or combined contracts) and to a customer in the distribution chain of that contract with a customer.
11. TRG members agreed that a reasonable application of either View A or View B should result in similar financial reporting outcomes and that reasonable application of either view could be accomplished with processes and internal controls to identify payments to customers that could be related to a revenue contract. No TRG member agreed with View C.
12. In regards to application of View A, some TRG members were concerned that the articulation of View A in [TRG Agenda Ref No. 28](#) would require an entity to

separately assess and document each payment made to a customer. They did not think that was a reasonable application of the new revenue standard and observed that it could be significantly more costly to apply than existing practice under U.S. GAAP and not practical in some cases. The staff observed that many entities already have processes and internal controls to comply with consideration payable to a customer guidance under existing U.S. GAAP.

13. In regards to application of View B, some TRG members expressed concern that a strict application of View B might not identify a payment to a customer that is linked to a revenue contract. For example, payments to customers that significantly exceed the fair value of the goods or services received from the customer or payments to an end customer within the distribution chain that are intended to move the entity's products through the distribution chain might not be combined with the contract for the promised goods or services under the contract combination guidance in the new revenue standard if those contracts are not entered into at or near the same time. However, many TRG members thought that a reasonable application of the modification guidance in the new revenue standard when applying View B would identify such payments as a modification of the original transaction (for example, a modification of the transaction price of the type described in paragraph 606-10-32-45 [90<sup>1</sup>]) because the two transactions would be economically linked.
  
14. On Issue 2, TRG members agreed with the staff's summary of the separate discussions in London and Norwalk that occurred at the March 30, 2015 TRG meeting. The following two views were discussed for this issue (at both the March and the July TRG meetings):
  - (a) View A: An entity's customers are limited to those in the distribution chain.
  - (b) View B: An entity's customers include those in the distribution chain and *might* include a customer's customer outside of the distribution chain.

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<sup>1</sup> IFRS 15 references are included in "[XX]" throughout this paper.

15. Most TRG members supported View B. Under View B, an entity must identify its customer in each revenue transaction and entities within the distribution chain. In addition, an entity that is acting as an agent (that is, arranging for another party to provide goods or services), *might* identify multiple customers depending on the facts and circumstances of the arrangement. That is, the entity might view both the principal and the end customer as customers in the arrangement. TRG members noted that under existing U.S. GAAP an entity might view the principal’s end customer as its customer, while others might not, and as a result there is some diversity in practice today about whether an entity that is an agent thinks its customer is only the principal. Regardless of whether an entity concludes that the principal’s end customer is also a customer of the entity, a payment to a principal’s end customer that was contractually required based on an agreement between the entity and the principal would represent consideration payable to a customer.
  
16. On Issue 3, TRG members discussed when an entity should recognize consideration payable to a customer as a reduction to revenue. The guidance on consideration payable to a customer in paragraph 606-10-32-27 [52] states that such amounts should be recognized as a reduction of revenue at the later of when the related revenue is recognized or the entity pays or promises to pay such consideration (promises could be implied by customary business practices). This is referred to as the “later of guidance” in this summary. Some TRG members highlighted that if an entity intends to provide its customer with a price concession when entering into the contract (regardless of the form of the price concession, for example, cash payment, rebate, account credit, or coupon), then the contract includes variable consideration and it should consider that price concession when estimating variable consideration (subject to the constraint on variable consideration). In determining whether an entity intends to provide the customer with a price concession, the entity should consider the guidance in paragraphs 606-10-32-6 through 32-7 [51 through 52]. If the contract includes variable consideration because of an expected price concession, then the entity would not wait until it has communicated the price concession to the customer to recognize a reduction in revenue under the later of guidance. Instead, the entity would account for the variable consideration in accordance with paragraph 606-10-32-14 [59].

17. TRG members agreed that the later of guidance in the new revenue standard would be applied in more limited circumstances than the later of guidance in existing U.S. GAAP<sup>2</sup>. This is because the core principle of the new revenue standard is that an entity recognizes revenue in an amount that reflects the consideration to which the entity *expects to be entitled*. Consistent with that core principle, the new revenue standard includes estimates of variable consideration (subject to the constraint) in the transaction price, and it requires an entity to reassess the transaction price when the amount to which the entity *expects to be entitled* changes. Under the new revenue standard, in accordance with paragraphs 606-10-32-6 through 32-7 [51 through 52], an entity would account for consideration payable to a customer as variable consideration when either the customer has a valid expectation based on customary business practices or the entity's intention is to provide consideration to the customer when entering into the contract.
18. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 2: Scope: credit cards ([TRG Agenda Ref No. 36](#))**

19. TRG members discussed two questions about the scope of Topic 606 as it relates to a credit card issuing bank's contract with a cardholder.
- (a) Are the rights and obligations of the card issuing bank in a contract with the cardholder in the scope of Topic 606? (*Issue 1*)
  - (b) Are cardholder rewards programs subject to Topic 606? (*Issue 2*)
20. On Issue 1, TRG members agreed with the staff view that credit card fees are within the scope of Topic 310, Receivables. On Issue 2, TRG members agreed with the

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<sup>2</sup> Existing U.S. GAAP in paragraph 605-50-25-3 requires sales incentives to be recognized at the later of (a) the date at which the related revenue is recognized by the vendor (b) the date at which the sales incentive is offered (which would be the case when the sales incentive offer is made after the vendor has recognized revenue; for example, when a manufacturer issues coupons offering discounts on a product that it already has sold to retailers).

staff view that if the fees are in the scope of Topic 310, then the rewards programs are not in the scope of Topic 606.

21. A TRG observer noted that the staff view in paragraph 16 of the TRG paper is important. That paragraph explains the staff's view that if any entity (bank or otherwise) enters into an arrangement that is labelled a credit card lending arrangement, but the overall nature of the arrangement is not a credit card lending arrangement, then the entity should not presume that the arrangement is entirely within the scope of Topic 310 and outside the scope of Topic 606.
22. TRG members highlighted that application of U.S. GAAP and IFRS could result in different outcomes due to the differences between Topic 310 and IFRS 9 *Financial Instruments*. TRG members in London observed that IFRS 15 did not change the requirements in respect of determining whether fees received by a card issuing bank are in the scope of IFRS 9 or IFRS 15. The card issuing bank first would determine whether any fees (or part of the fees) are in the scope of IFRS 9. If the card issuing bank concludes that the fees are not in the scope of IFRS 9, then the fees would be accounted for in accordance with IFRS 15. On Issue 2, IFRS 15 does not explicitly exclude credit card rewards programs from its scope. Paragraph BC388 of the Basis for Conclusions on IFRS 15 explains the Boards' considerations in this regard. As noted in that paragraph, IFRS 15 includes all the requirements to enable a card issuing bank (a) to determine whether the arrangements are in the scope of the new revenue standard; and (b) account for the arrangements that are in the scope of the new revenue standard.
23. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 3: Portfolio practical expedient and application of variable consideration constraint ([TRG Agenda Ref No. 38](#))**

24. The new revenue standard requires that an entity estimate variable consideration using one of two methods: expected value or most likely amount. Some

stakeholders have questioned whether an entity is applying the portfolio practical expedient allowed by the new revenue standard when it considers evidence from other, similar contracts to develop an estimate of variable consideration using the expected value method. Stakeholders raised this question because the portfolio practical expedient can only be applied if the entity reasonably expects that the difference from applying the new revenue standard to a portfolio of contracts as compared to an individual contract would not result in a material effect on the financial statements. The TRG discussed the following two questions about application of the portfolio practical expedient and the use of the expected value method to estimate variable consideration:

- (a) Question 1: Is an entity applying the portfolio practical expedient when it considers evidence from other, similar, contracts to develop an estimate using the expected value method?
- (b) Question 2: Can the estimated transaction price under the expected value method be an amount that is not a possible outcome of an individual contract?

25. In some circumstances, an entity will develop estimates using a portfolio of data to account for a specific contract with a customer. For example, to account for a specific contract with a customer, an entity might consider historical experience with similar contracts to make estimates and judgments about variable consideration and the constraint on variable consideration for that specific contract. On question 1, TRG members agreed with the staff's view that the use of a portfolio of data is not the same as applying the portfolio practical expedient.
26. On question 2, a few TRG members thought that the transaction price must be a possible outcome in that specific contract. However, most TRG members thought that the application of that view would not result in recognizing revenue in a manner that is consistent with the core principle of the new revenue standard. When an entity has concluded that the expected value approach is the appropriate method to estimate variable consideration, application of the constraint also is performed based on the expected value method. That is, an entity is not required to switch from an expected value method to most likely amount for purposes of applying the constraint. As a result, if an entity applies the expected value method (and uses a



portfolio of data in determining the expected value) for a particular contract, the estimated transaction price might not be a possible outcome in an individual contract. The TRG agenda paper explained that an entity must still consider the constraint on variable consideration. That is, in some cases, an entity might constrain an expected value estimate when determining the transaction price.

27. TRG members also raised a question about when an entity is required to use the expected value method versus the most likely amount method to estimate variable consideration. Paragraph 606-10-32-8 [53] requires that an entity select the method that the “entity expects to better predict the amount of consideration to which it will be entitled.” The expected value method may better predict the amount of consideration to which the entity will be entitled if an entity has a large number of contracts with similar characteristics. The determination of which method to use in estimating variable consideration will require judgment.
28. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 4: Completed contracts at transition ([TRG Agenda Ref No. 42](#))**

29. Under the modified retrospective transition method, entities will apply the new revenue standard only to contracts that are not completed contracts as of the date of initial application. The standard also includes two practical expedients in relation to completed contracts when applying the full retrospective approach<sup>3</sup>. In accordance with the new revenue standard, a completed contract is a contract for which the entity has transferred all of the goods or services identified in accordance with revenue guidance that is in effect before the date of initial application. TRG members discussed the following two questions related to completed contracts at transition:

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<sup>3</sup> (a) For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period. (b) For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

- (a) When is a contract considered “completed” for purposes of applying the transition guidance? (*Issue 1*)
  - (b) How should an entity account for “completed contracts” after adoption of a new standard? (*Issue 2*)
30. TRG members had different views as to what constitutes a completed contract. Some TRG members thought that a completed contract might be when the revenue accounting for a contract is complete. In contrast, other TRG members thought that a contract was completed when all of the goods or services have been transferred under the contract, irrespective of whether the revenue had been recognized. TRG members observed that the implications of Issue 2 vary depending on the answer to Issue 1. Because there was some divergence in views on Issue 1, TRG members did not agree on how to account for completed contracts after adoption of the new standard.
31. Board members directed the staff to perform additional research on this topic so that each Board could decide whether any clarifications to the new revenue standard are necessary.

**Topic 5: Application of the series provision and allocation of variable consideration ([TRG Agenda Ref No. 39](#))**

32. A performance obligation is a promise to transfer to the customer either (a) a good or service that is distinct or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A series of distinct goods or services has the same pattern of transfer to the customer if each distinct good or service in the series would be a performance obligation recognized over time and if the same method would be used to measure the entity’s progress towards satisfaction of the performance obligation. TRG members discussed the following questions related to application of the series provision and allocation of variable consideration:
- (a) In order to apply the series provision, how should entities consider whether the performance obligation consists of distinct goods or services that are substantially the same? (*Issue 1*)

- (b) If there is an undefined quantity of outputs but the contractual rate per unit of output is fixed, is the consideration variable? (*Issue 2*)
- (c) In order to meet the requirements in paragraph 606-10-32-40(b) [85(b)], is the allocation to be made on a relative standalone selling price basis? (*Issue 3*)
33. On Issue 1, TRG members agreed with the staff view that the first step is to determine the nature of the entity's promise in providing the services to the customer. For example, in some cases, an entity might need to determine whether the nature of the promise is the actual delivery of a specified quantity of goods or services or the act of standing ready to perform. If the nature of the promise is the delivery of a specified quantity of a service, then the evaluation should consider whether each service is distinct and substantially the same. If the nature of the entity's promise is the act of standing ready or providing a single service for a period of time (that is, because there is an unspecified quantity of various activities to be performed to fulfil the service), the evaluation likely would focus on whether each time increment, rather than the underlying activities, are distinct and substantially the same. This evaluation will require judgment.
34. On Issue 2, TRG members agreed with the staff view that if there is an undefined quantity of outputs in a contract but the contractual rate per unit of output is fixed, the consideration is variable. An entity would need to consider all substantive terms of the contract, which could include contractual minimums or other clauses that would make some or all of the consideration fixed. Some TRG members highlighted that quantities of a good or service that represent "optional purchases" do not create variable consideration and indicated that the topic of optional purchases should be discussed at a future meeting.
35. On Issue 3, TRG members agreed with the staff view that the allocation of variable consideration to a distinct good or service in a series does not require a relative standalone selling price allocation to meet the allocation objective in paragraph 606-10-32-28 [73] (that is, to meet the criterion in paragraph 606-10-32-40(b) [84(b)]). However, Example 35 in the new revenue standard demonstrates that, when variable consideration is allocated to various performance obligations (or

distinct goods or services in a series), use of standalone selling prices is *one* acceptable method to evidence the reasonableness of the allocation.

36. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 6: Practical expedient for measuring progress toward complete satisfaction of a performance obligation ([TRG Agenda Ref No. 40](#))**

37. 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. As a practical expedient, paragraph 606-10-55-18 [B16] states that an entity may recognize revenue in the amount to which the entity has a right to invoice when that amount corresponds directly with the value to the customer of the entity's performance completed to date.
38. TRG members discussed the following two questions related to the practical expedient for measuring progress toward complete satisfaction of a performance obligation:
- (a) Does the practical expedient apply to contracts with rates that change during the contract term? (*Issue 1*)
  - (b) 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 applied? (*Issue 2*)
39. TRG members agreed with the staff's analysis on both issues. On Issue 1, TRG members thought the staff's clarification that paragraph BC163 should not be used to interpret paragraph 606-10-25-18 [B16] provided clarification. While those two

paragraphs both use the phrase *value to the customer*, the phrase is used in different contexts. The phrase in paragraph 606-10-25-18 [B16] is about determining whether or not the practical expedient can be applied. The phrase in paragraph BC163 is about measuring 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).

40. TRG members also agreed that an entity is not precluded from applying the practical expedient in situations in which the price per unit changes during the duration of the contract. The staff and TRG members noted that application of the practical expedient in those situations involves an analysis of the facts and circumstances of the arrangement. The objective of the analysis is to determine whether the amount invoiced for goods or services reasonably represents the value to the customer of the entity's performance completed to date. For example, a contract to purchase electricity at prices that change each year based on the forward market price of electricity would qualify for the practical expedient if the rates per unit reflect the value of the provision of those units to the customer. The TRG memo included some other illustrative examples.
41. The staff, Board members, and TRG members acknowledged that judgment will be required about whether the practical expedient can be applied in fact patterns that include upfront and back-end fees. An assessment of the significance of those upfront and back-end fees relative to the variable consideration in the arrangement likely would be important. Additionally, TRG members generally agreed that a series of distinct goods or services (in accordance with the guidance in paragraphs 606-10-25-14 through 25-15 [22-23]) could also be in the scope of the practical expedient in paragraph 606-10-25-18 [B16].
42. For Issue 2, TRG members agreed with the staff view that the disclosure practical expedient may not be applied if an entity is not applying the measurement practical expedient. One TRG member observed that an entity may apply the series guidance for a performance obligation but may not be able to apply the the disclosure practical expedient in paragraph 606-10-50-14 [121] because it does not meet the criteria in that paragraph. In that case, the entity would need to estimate the transaction price for the contract in order to comply with the required disclosures in

the new revenue standard. However, an entity may qualitatively describe consideration (in accordance with guidance in paragraph 606-10-50-15 [122]) that is not included in the transaction price. For example, the estimate of the transaction price would not include estimated amounts of variable consideration that are constrained.

43. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 7: Measuring progress when multiple goods or services are included in a single performance obligation ([TRG Agenda Ref No. 41](#))**

44. In current U.S. GAAP and IFRS and the new revenue standard, sometimes it might be challenging to determine the appropriate method for measuring progress towards satisfaction of a performance obligation when a single performance obligation contains multiple promised goods or services. This might be the case when the individual goods or services are not distinct or when a non-distinct good or service is combined with a distinct good or service.
45. TRG members discussed whether the new revenue standard allows for multiple measures of progress to be utilized to depict an entity's performance in completing a performance obligation. TRG members agreed with the staff view that a single measure of progress is required by the new revenue standard and that this will be a change from current practice for some entities. The identification of performance obligations and methods of measuring progress is based on the facts and circumstances of the arrangement and might require judgment. An entity should consider the nature of its overall promise for the combined performance obligation and performance required to completely satisfy the entire performance obligation. To make that assessment, an entity should consider the reasons why it decided that the goods or services are not distinct and have been bundled into a combined performance obligation.

46. In cases in which it is challenging to identify a single measure of progress for a combined performance obligation, TRG members agreed with the staff that it might be an indicator that the entity has not identified the appropriate performance obligations (that is, there might be more than one performance obligation). That is not to say that in such cases the entity definitively would have identified the performance obligation(s) incorrectly. This is because there will be cases under the new revenue standard (similar to current practice) in which the entity has properly identified the unit of account, and selecting a single measure of progress for the combined performance obligation will require significant judgment.
47. The TRG members generally agreed with the examples that were presented by the staff in the TRG paper and thought that the paper provided a useful framework for how entities should think about determining the single measure of progress when multiple goods or services are bundled into a single performance obligation. However, TRG members also noted that each example was illustrative and that judgment will need to be applied based on the specific facts and circumstances of an arrangement with a customer.
48. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 8: Determining when control of a commodity transfers ([TRG Agenda Ref No. 43](#))**

49. In a contract to deliver commodities, some stakeholders questioned whether the nature of an entity's promise is to deliver a good (the commodity) at a point in time or to provide a service of delivering a commodity that the customer consumes and received benefit from over time. Specifically, those stakeholders questioned what factors an entity should consider when evaluating the criterion in paragraph 606-10-25-27(a) [35(a)] for determining whether a customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs in a contract to provide a commodity.

50. TRG members agreed with the staff view that all relevant facts and circumstances should be considered when making this assessment. This includes, but would not be limited to, the inherent characteristics of the commodity, the contract terms, and information about infrastructure or other delivery mechanisms.
51. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

**Topic 9: Accounting for restocking fees and related costs ([TRG Agenda Ref No. 35](#))**

52. Entities sometimes charge customers a “restocking fee” when a product is returned. Restocking fees typically are charged to compensate entities for various costs associated with a product return, such as shipping costs and repacking costs. Restocking fees also may be charged to compensate an entity for the reduced selling price that an entity may charge other customers for a returned product.
53. TRG members discussed the following two questions related to restocking fees and related costs:
  - (a) How should an entity account for restocking fees for products expected to be returned? (*Issue 1*)
  - (b) How should an entity account for restocking costs for expected product returns (for example, estimated shipping or repackaging costs)? (*Issue 2*)
54. TRG members generally agreed with the staff view that restocking fees for products expected to be returned by the customer should be included as part of the transaction price when control of the product transfers to the customer. That is, the accounting for estimated product returns should, in determining the transaction price for the contract, consider the portion of the transaction price that will not be refunded to the customer as a restocking fee. The TRG paper explained that the staff view is significantly influenced by the staff’s view that restocking fees are not substantively different from the entity granting a partial refund on returned



products. TRG members also agreed with the staff view that an entity's expected costs of restocking should be recognized as a reduction of the carrying amount of the asset expected to be recovered at the point in time control of the product transfers to the customer.

55. Because the discussion indicated that stakeholders can understand and apply the applicable guidance in the new revenue standard in a manner that the staff believe is consistent with the standard, the staff recommend that the Boards take no further action.

### **Research Update**

56. At the TRG meeting, the staff provided a research update on issues raised at previous TRG meetings. The majority of the implementation questions discussed at the first four TRG meetings have been resolved at those meetings without any further action needed. However, standard setting has been required on a few of the issues. The Boards have jointly discussed at public Board meetings each of those issues and have each made tentative decisions how to proceed with each issue. Refer to the [FASB](#) and [IASB](#) websites for the most recent status of standard setting efforts for each Board.