FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2015-14
August 2015

Revenue from Contracts with Customers (Topic 606)

Deferral of the Effective Date

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

For additional copies of this Accounting Standards Update and information on applicable prices and discount rates contact:

Order Department
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Please ask for our Product Code No. ASU2015-14.

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published quarterly by the Financial Accounting Foundation. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $242 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 421**

Accounting Standards Update

No. 2015-14
August 2015

Revenue from Contracts with Customers (Topic 606)

Deferral of the Effective Date

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

Accounting Standards Update 2015-14

Revenue from Contracts with Customers (Topic 606)

Deferral of the Effective Date

August 2015

CONTENTS

Page Numbers

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. For public business entities, certain not-for-profit entities, and certain employee benefit plans, the effective date was for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The effective date for all other entities was for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

In response to stakeholders' requests to defer the effective date of the guidance in Update 2014-09 and in consideration of feedback received through extensive outreach with preparers, practitioners, and users of financial statements, the Board issued proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. Respondents to the proposed Update overwhelmingly support a deferral. Respondents noted that providing sufficient time for implementation of the guidance in Update 2014-09 is critical to its success. The Board is issuing this Update in consideration of respondents' feedback, including the timing of when Update 2014-09 was issued, the current status of key standard-setting activities associated with the guidance in Update 2014-09, and the availability of information technology solutions to facilitate the implementation of the guidance in Update 2014-09.

What Are the Main Provisions?

The amendments in this Update defer the effective date of Update 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

All other entities should apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in Update 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in Update 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in Update 2014-09.

Amendments to the *FASB Accounting Standards Codification®*

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Subtopic 606-10

2. Amend pending content transition date for all paragraphs that link to paragraph 606-10-65-1 as follows:

Transition Date: *(P) December 16, 2017~~2016~~; (N) December 16, 2018~~2017~~*
Transition Guidance: 606-10-65-1

Note: These transition date changes comprise Maintenance Update 2015-15; see release notes for details.

3. Amend paragraph 606-10-65-1 as follows:

Revenue from Contracts with Customers—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*

606-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606):*

a. 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, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2017~~2016~~, including interim reporting periods within that reporting period.

Earlier application is ~~not~~ permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

b. All other entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2018~~2017~~, and interim reporting periods within annual reporting periods beginning after December 15, 2019~~2018~~. However, all other entities may elect to apply the pending content that links to this paragraph earlier only as of either:
   1. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period ~~(public entity effective date)~~.
   2. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the pending content that links to this paragraph~~December 15, 2017~~.
   3. Subparagraph superseded by Accounting Standards Update 2015-14. ~~An annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period.~~

c. For the purposes of the transition guidance in (d) through (i):
   1. The date of initial application is the start of the reporting period in which an entity first applies the pending content that links to this paragraph.
   2. 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.

d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
   1. Retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 subject to the expedients in (f).
   2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (h) through (i).

e. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-3 in the period of adoption.

f. An entity may use one or more of the following practical expedients when applying the pending content that links to this paragraph retrospectively in accordance with (d)(1):
   1. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.

2. 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.
3. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining **performance obligations** and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 606-10-50-13).

g. For any of the practical expedients in (f) that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
   1. The expedients that have been used
   2. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.

h. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(2), the entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity shall apply this guidance retrospectively only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018~~2017~~, for an entity with a December 31 year-end).

i. For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if the pending content that links to this paragraph is applied retrospectively in accordance with (d)(2):
   1. The amount by which each financial statement line item is affected in the current reporting period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change
   2. An explanation of the reasons for significant changes identified in (i)(1).

4. Amend paragraph 606-10-00-1, by adding the following item to the table, as follows:

606-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
606-10-65-1	Amended	2015-14	08/12/2015

The amendments in this Update were adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Siegel dissented.

Mr. Siegel dissents from the issuance of this Accounting Standards Update because he believes that allowing an entity to adopt the guidance in Topic 606 as of the original effective date will negatively affect users of financial statements. Mr. Siegel would have preferred that this Update defer the effective date of the guidance in Topic 606 for all entities by one year but prohibit earlier application of that guidance.

Mr. Siegel notes that the objective of financial reporting is to provide information that is useful to users of financial statements and that comparability is one of the four qualitative characteristics that enhance the usefulness of financial information. Mr. Siegel believes that allowing entities to adopt the guidance in Topic 606 as of the original effective date will reduce the comparability of financial reporting between entities that adopt the guidance in Topic 606 as of the original effective date and those that adopt the guidance as of the deferred effective date. Mr. Siegel notes that similar concerns were raised by several preparers and an institution representing users of financial statements in their comment letters submitted on the proposed Update on this deferral.

Mr. Siegel acknowledges that permitting entities to apply the guidance in Topic 606 as of the original effective date will result in noncomparability for a fairly short period as a result of the amendments in this Update. However, Mr. Siegel is concerned that the period of noncomparability could be longer if the Board later determines that an additional deferral of the effective date is necessary.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Update 2014-09 was issued on May 28, 2014. For public business entities, certain not-for-profit entities, and certain employee benefit plans, the effective date was for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. All other entities were required to apply the guidance in Update 2014-09 in annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Those other entities also were permitted to adopt the guidance in Update 2014-09 as of the effective date for public business entities, certain not-for-profit entities, and certain employee benefit plans.

BC3. Before and after the issuance of Update 2014-09, the Board received unsolicited comment letters and informal requests from stakeholders to defer the effective date of the guidance in that Update. Stakeholders indicated that it would be difficult to implement successfully the guidance in Update 2014-09 by the original effective date and that a deferral of the effective date was advisable.

BC4. After extensive outreach, including site visits with preparers, practitioners, and users of financial statements, the Board issued a proposed Update on deferring the effective date of Update 2014-09. The proposed Update would defer the effective date of Update 2014-09 for all entities by one year but would permit application of the guidance in Update 2014-09 as of the original effective date. The proposed Update also solicited feedback on a potential two-year deferral only for entities applying the guidance in Update 2014-09 retrospectively to each prior reporting period presented.

BC5. The Board proposed to defer the effective date for the following reasons:

a. Update 2014-09 was issued approximately nine months later than the Board had anticipated when it selected the effective date. Consequently, the implementation period intended by the Board was less than expected.

b. As of the date of the Board's initial deliberations of the proposed Update, the Board was in the process of drafting proposed amendments to certain aspects of Update 2014-09, including the accounting for licenses of intellectual property and identifying performance obligations.
c. As of the date of the Board's initial deliberations of the proposed Update, complete information technology solutions to facilitate implementation of the guidance in Update 2014-09 generally were unavailable. Therefore, many entities may have had to manually process transactions to apply the guidance in Update 2014-09 by the original effective date, which could have increased the cost of implementation.
d. Internal controls over new systems and processes resulting from the guidance in Update 2014-09 generally could not be fully designed and fully implemented until information technology solutions to facilitate implementation of the new revenue standard became available and the proposed amendments to certain aspects of Update 2014-09 have been finalized.

BC6. The Board received 67 comment letters in response to the proposed Update. Respondents overwhelmingly support a deferral of the guidance in Update 2014-09. The Board considered respondents' comments and concerns in reaching the conclusions in this Update.

Deferral of the Effective Date

BC7. The Board decided to defer the effective date of the guidance in Update 2014-09 by one year for public business entities, certain not-for-profit entities, and certain employee benefit plans. The Board concluded that a one-year deferral not only will provide those entities with sufficient time to apply the guidance in Update 2014-09, but also is consistent with the IASB's decision to defer the effective date of the guidance in IFRS 15, *Revenue from Contracts with Customers,* by one year, which the Board concluded is important for many global entities.

BC8. The Board also decided to defer the guidance in Update 2014-09 for one year from the original effective dates for all other entities. This decision maintains the one-year difference in effective dates for annual periods for all other entities when compared with public business entities, certain not-for-profit entities, and certain employee benefit plans. The Board noted that an annual effective date one year after the effective date for public business entities is consistent with the original transition provisions in Update 2014-09 and the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies.* The Board believes that the additional one-year deferral will provide entities that might have fewer resources available to them with sufficient time to implement the guidance in Update 2014-09.

BC9. The Board decided on a one-year deferral for all entities on the basis of the reasons described in paragraph BC5, including that the Board will complete key standard-setting activities associated with the guidance in Update 2014-09 near the end of 2015. The Board recognizes the importance of expediting its effort to complete key standard-setting activities associated with the guidance in Update 2014-09. Some Board members supported a one-year deferral on the basis that it provides additional incentive to complete those standard-setting activities on a timely basis. However, the Board does not consider the timing of the completion of those activities solely as a basis for any further deferral. Stakeholders should proceed under the assumption that no further deferral of the effective date will be considered by the Board, absent extraordinary circumstances.

BC10. The proposed Update solicited feedback about whether an optional two-year deferral should be provided to entities applying the guidance in Update 2014-09 retrospectively to each prior period presented, which would benefit users of financial statements by providing additional comparative financial information. Based on that feedback, the Board decided not to provide an optional two-year deferral because it is important to align the effective dates of the guidance in Update 2014-09 and IFRS 15 and to minimize the period of noncomparability of financial information across entities. Some Board members questioned whether an additional deferral based on transition method is operable and whether it would serve its intended purpose (that is, it may not compel an entity to apply the standard retrospectively).

Early Application

BC11. The Board decided to permit application of the guidance in Update 2014-09 as of the original effective date. The Board concluded that an early application provision will enhance convergence of the transition requirements in GAAP and IFRS because IFRS 15 already permits early application and will help to motivate entities to continue implementation activities. The Board also concluded that entities that have moved forward on an implementation plan to meet the original effective date should not be prevented from adopting the new revenue standard as of the original effective date. Those entities might incur additional costs if they could not adopt the guidance as of the original effective date.

BC12. The Board acknowledged that permitting early application could result in noncomparability across entities but that noncomparability would occur for a fairly short period. Additionally, the Board noted that because different entities have different year-ends, there would be some degree of noncomparability during the transition period.

Benefits and Costs

BC13. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC14. The Board anticipates that entities will not incur significant costs as a result of the amendments in this Update. The amendments defer the effective date of GAAP that is not yet effective, while permitting application of that GAAP as of the original effective date. Based on outreach with stakeholders, the Board expects that the amendments in this Update will reduce implementation costs for some organizations.

BC15. The amendments in this Update could potentially and temporarily increase costs for users of financial statements because of noncomparability resulting from different effective dates. However, some entities may have insufficient time to implement the guidance in Update 2014-09 without the deferral, which could affect the quality of financial information provided to users of financial statements and could be more costly for those users in the long term.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.