IFRS Accounting

Staff paper

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IASB® meeting

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Project	**Post-implementation Review of IFRS 15**
Topic	**Other matters**
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Purpose and structure

1. This paper provides a summary of the feedback and staff analysis of matters raised by respondents in response to question 11 *Other matters* of the Request for Information: *Post-implementation Review of IFRS 15* Revenue from Contracts with Customers (the RFI) and not covered in the February–April 2024 IASB papers.

2. At this meeting, the IASB will be asked to decide whether to take action on those matters and, if so, how to prioritise those matters, applying its framework for responding to the matters identified in a post-implementation review (PIR).[1]

3. This paper provides:

   (a) summary of staff recommendations; and

   (b) summary of the feedback and staff analysis of specific application matters.

[1] See Agenda Paper 6 for the framework.

Summary of staff recommendations

4. Based on the analysis in this paper, the staff recommend the IASB take no action on the matters raised by respondents related to:

   (a) allocating the transaction price to performance obligations; and

   (b) other aspects of applying IFRS 15 described in Appendix A.

Summary of the feedback and staff analysis of specific application matters

5. In addition to questions on specific topics, the RFI provided stakeholders with an opportunity to comment on other matters relevant to the PIR of IFRS 15.

6. Based on the feedback the staff have identified one main application matter—allocating the transaction price to performance obligations.

7. This section analyses whether to take action in response to this application matter based on whether the feedback provides evidence that:

   (a) there are fundamental questions about the clarity and suitability of the requirements;

   (b) the benefits to users of financial statements of the information arising from applying the requirements are significantly lower than expected (for example, there is significant diversity in application); or

   (c) the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply the requirements consistently).

8. In addition, Appendix A summarises feedback on other matters raised by one or a few respondents and provides our responses. The staff do not recommend acting on any of these matters because the feedback does not provide evidence of fundamental questions about the clarity and suitability of the principles in the requirements, of

significant diversity in application or significant ongoing costs. The feedback received does not suggest that the matters are pervasive or have substantial consequences on revenue information provided in financial statements.

Allocating the transaction price to performance obligations

Summary of IFRS 15 requirements

Paragraph 73 sets out the objective of allocating the transaction price to each performance obligation which is to depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

Paragraphs 74 and 77 state that an entity allocates the transaction price to each performance obligation in the contract based on a relative stand-alone selling price (SSP), that is the price at which an entity would sell a promised good or service separately to a customer.

Paragraphs 78–80 provide guidance and suitable methods for estimating SSP while maximising the use of observable inputs.

Paragraph 79(c) states that the residual approach—that is estimating the SSP by reference to the total transaction price less the sum of the observable SSPs of other goods or services in the contract—may only be used if one of the following criteria is met:

(a) the entity sells the same good or service to different customers for a broad range of amounts; or

(b) the entity has not yet established a price for that good or service and the good or service has not previously been sold on a stand-alone basis.

Paragraph 81 explains that an entity allocates a discount proportionately to all performance obligations in the contract, unless the entity has observable evidence that the entire discount relates to only one or more, but not all, performance obligations.

Feedback

9. A few respondents said applying IFRS 15 requirements on allocating the transaction price is challenging, in particular when determining a SSP for goods or services with no observable prices, for example:

   (a) for highly customised ('bespoke') software with multiple deliveries and complex pricing or for software updates;

   (b) for a mobile phone sold in a bundle with insurance contract if the seller is acting as a principal for the phone sale and as an agent for the insurance services sale;

   (c) for transactions with variable consideration; and

   (d) for service-type warranties.

10. The respondents suggested the IASB add application guidance and illustrative examples to assist entities with estimating SSP, in particular for software and telecommunications industries.

11. A standard-setter and an accounting body identified allocation of the transaction price and determining SSP as a major application matter. One standard-setter gave low priority to the matter and one group of preparers said the determination of SSP could be challenging, but there is no need for revision as the principles are 'reasonable'.

12. A preparer suggested the IASB could reduce the costs of application of IFRS 15 by amending paragraph 79(c) of IFRS 15 to extend the use of the residual method of allocating the transaction price. The respondent said that estimating SSP in the automotive industry is particularly complex and burdensome, because it requires consideration of a great variety of factors, such as the basic price of the vehicle, the scope and composition of the optional equipment ordered by the customer, the type of the customer, the market location and the season. The respondent also suggested that in their industry any discount should be allocated to the vehicle only, because the value of service components (insurance, warranty, etc.) is negligible compared to the

value of the vehicle and a discount, if any, is granted regardless of any additional services.

13. The FASB also identified determining SSP as a challenging application matter. Appendix B provides more information on the FASB's findings on this matter.

Staff analysis

Clarity and suitability of the requirements

14. Estimating SSP and allocating the transaction price based on principle-based requirements inherently requires judgement, especially when there are no observable prices. Respondents' examples of challenges mostly related to complex arrangements—we would expect judgement for such arrangements to be more challenging.

15. To help entities make judgement, the IASB and the FASB (the boards) provided the principle for allocating the transaction price. Paragraph BC268 of the Basis for Conclusions on IFRS 15 notes that the Standard does not preclude or prescribe any particular method for estimating a SSP so long as the estimate is a faithful representation of the price at which the entity would sell the distinct good or service if it were sold separately to the customer.

16. In addition, the IASB provided Illustrative Examples 33–35, accompanying IFRS 15. The Examples illustrate how an entity might approach allocating the transaction price, including estimating SSP, allocating discounts and allocating variable consideration between performance obligations. Adding illustrative examples of specific complex fact patterns, as suggested by a few respondents, would be unlikely to help many stakeholders as the outcome could be dependent on the specific facts and circumstances.

17. The feedback does not indicate that the challenges are widespread. This may suggest that despite initial challenges most entities have developed accounting policies for estimating SSP and allocating the transaction price.

18. As for the use of the residual approach, the feedback on the PIR does not suggest that there are significant concerns about the approach.

19. Furthermore, paragraph BC272 of the Basis for Conclusions on IFRS 15 explains that in developing the Standard the boards received requests from some respondents, in particular in the software industry, to clarify whether they could use a residual approach if there is more than one good or service in the contract with highly variable or uncertain stand-alone selling prices. The boards decided that in those cases an entity should not be prevented from applying the residual approach but may need to use a combination of techniques to determine that the estimate is reasonable.

20. For the reasons discussed in paragraphs 14–19, the staff think that the feedback provides insufficient evidence to suggest that there are fundamental questions about the clarity and suitability of the requirements on allocating the transaction price to performance obligations or that the requirements are not working as intended.

Benefits to users of financial statements

21. IFRS 15 provides requirements intended to help users understand revenue amounts. Specifically, paragraph 126(c) of IFRS 15 requires entities to disclose information about the methods, inputs and assumptions used for allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable).

22. Users did not provide any feedback that might indicate that they do not receive sufficient information about the allocation of the transaction price or that applying the requirements on allocating the transaction price results in lower benefits than expected.

Costs of applying the requirements

23. A few respondents said that estimating SSP is a complex exercise and is therefore costly. However, the feedback suggests that the concerns relate to specific challenging

fact patterns and that for most contracts accounting policies have been developed. Therefore, the staff think that the feedback provides insufficient evidence that applying the requirements is significantly more costly than expected.

Staff recommendation and question for the IASB

24. Based on the analysis in paragraphs 14–23, the staff think the findings from the RFI provide insufficient evidence that the characteristics to take action described in the PIR framework are present. Therefore, the staff recommend the IASB take no action in relation to allocating the transaction price to performance obligations.

Question 1 for the IASB
Do IASB members agree with the staff recommendation in paragraph 24 of this paper?

Question 2 for the IASB
As explained in paragraph 8, the staff recommend taking no action in relation to the matters discussed in Appendix A. Do you agree with the staff recommendation?

Appendix A—Other application matters raised by a few respondents

	Application matter	Staff response
1	A few respondents (mainly standard-setters) suggested the IASB add guidance on what activities constitute 'ordinary activities' as used in the definition of a customer in paragraph 6 of IFRS 15. A standard-setter noted that paragraph BC53 of the Basis for Conclusions on IFRS 15 explains that the boards decided not to provide additional requirements as the notion of ordinary activities is derived from the definitions of revenue in the boards' respective conceptual frameworks. However, the current edition of the IASB's Conceptual Framework for Financial Reporting (Conceptual Framework) no longer contains definitions of revenue or 'ordinary activities'. A few respondents asked whether a one-off sale of raw materials or climate-related items, such as carbon credits, constitute 'ordinary activities'.	The Basis for Conclusions reflects the boards' thinking at the time of developing the Standard. The Conceptual Framework is not a Standard and when it is revised it does not automatically lead to changes to the Standards (see paragraph SP1.4 of the Conceptual Framework). The staff suggest no action because feedback received provides insufficient evidence that the matter is widespread.
2	Three standard-setters and a preparer from the IT industry suggested the IASB add more guidance or illustrative examples on applying the principles of IFRS 15 to contracts approved by parties either orally or in accordance with other customary business practices (for example, contracts approved electronically). The respondents	The staff suggest no action because the application of IFRS 15 requirements on identifying the contract depends on specific facts and circumstances and feedback received provides insufficient evidence that the matter is widespread. Paragraph 10 of IFRS 15 states that a contract is an agreement between two or

	said that sometimes preparers might find it hard to determine whether a contract with the customer exists and apply the requirements of the Standard. The preparer also highlighted challenges an IT developer faces with providing evidence to auditors about contract modifications agreed orally or contract progress based on the entity's internal experts' assessment.	more parties that creates enforceable rights and obligations, which is a matter of law. In paragraph BC35 of the Basis for Conclusions on IFRS 15 the boards said that some respondents questioned whether oral and implied contracts could meet the criterion in paragraph 9(a) of IFRS 15 of being approved by the parties, especially if it is difficult to verify an entity's approval of that contract. The boards noted that the form of the contract does not, in and of itself, determine whether the parties have approved the contract. Instead, an entity should consider all relevant facts and circumstances in assessing whether the parties intend to be bound by the terms and conditions of the contract. Consequently, in some cases, the parties to an oral or an implied contract (in accordance with customary business practices) may have agreed to fulfil their respective obligations. In other cases, a written contract may be required to determine that the parties to the contract have approved it.
3	An accounting body suggested the IASB consider introducing the concept of 'predominant', similar to US GAAP, in determining the appropriate accounting standard to be applied to a transaction. For example, if a non-lease component is the predominant component in a contract, both the lease and non-lease components are accounted for in accordance with the FASB	Paragraph 5 of IFRS 15 sets out the scope of the Standard and paragraph 7 of IFRS 15 explains how to account for contracts that are partially within the scope of IFRS 15 and partially within the scope of other IFRS Accounting Standards. An entity would need to apply judgement in determining which Standard applies to a specific contract. April 2024 Agenda papers 6A, 6B, 6C, 6D and 6E discussed

	ASC Topic 606, Revenue from Contracts with Customers.	some matters raised by respondents in relation to applying IFRS 15 with other Standards. The staff suggest no action because the application of IFRS 15 or other standards depends on specific facts and circumstances and feedback received provides insufficient evidence that the matter is widespread.
4	An accounting firm suggested adding guidance, such as flow charts or illustrative examples, to clarify application of IFRS 15 requirements to 'barter' transactions.	The staff suggest no action because the feedback does not suggest that the matter is widespread. 'Barter' transactions are not defined in IFRS Accounting Standards or Interpretations. If the question refers to non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers, they are excluded from the scope of IFRS 15 (see paragraph 5 of IFRS 15). If the question refers to non-monetary exchanges within the scope of IFRS 15, an entity needs to consider facts and circumstances when applying the requirements of IFRS 15, including the requirements on non-cash consideration in paragraphs 66–69.
5	Two standard-setters suggested the IASB clarify the meaning of 'contracts entered into at or near the same time' in paragraph 17 of IFRS 15, and whether an entity could combine contracts entered into within a few	Paragraph BC75 of the Basis for Conclusions on IFRS 15 explains that the boards decided not to specify that all contracts should be combined if they were negotiated as a package to achieve a

	months or even years from each other if they are signed as part of one project, which is common in construction industry.	single commercial objective, regardless of whether those contracts were entered into at or near the same time with the same customer, because doing so could have had the unintended consequence of an entity combining too many contracts and not faithfully depicting the entity's performance. Furthermore, the boards decided that an entity should apply judgement to determine whether a contract is entered into 'at or near the same time'. However, the boards noted that the longer the period between the commitments of the parties to the contracts, the more likely it is that the economic circumstances affecting the negotiations have changed. The staff suggest no action because the considerations are still valid and feedback received provides insufficient evidence that the matter is widespread.
6	A standard-setter and a preparer from one jurisdiction discussed a specific fact pattern, which, in view of the respondents, results in a material misstatement of the financial statements when applying the IFRS 15 requirements on the combination of contracts. A manufacturer has two distinct sales contracts: one with a leasing company and another one with an end customer. In accordance with the contract with the end customer, the customer can choose to lease a specific quantity of goods from the leasing company or to buy the goods from the manufacturer. If the	Paragraphs BC71–BC75 of the Basis for Conclusions on IFRS 15 explain the boards' reasons for developing the conditions for combining contracts. Accounting for the specific arrangement requires thorough analysis of the facts and circumstances. The staff suggest no action because feedback received provides insufficient evidence to suggest that the matter is widespread or that the requirements for accounting for contract combinations are unsuitable.

	end customer leases or purchases the specific combined quantity of goods, the manufacturer will deliver to the customer an additional good at no cost. When accounting for the arrangement the respondent applies requirements of IFRS 15 on combination of contracts[2] and concludes that the requirements prevent the manufacturer from combining the sales contracts it has with the end customer and the leasing company because they are not related parties, therefore it cannot allocate the combined transaction price to all the promised goods, including the complimentary good, delivered to the end customer directly or via the leasing company. The respondents raised concerns that the resulting revenue and profit amounts do not reflect the economic substance of the arrangement.	
7	A standard-setter suggested the IASB add guidance on accounting for contract assets in contract modifications that terminate the existing contract and create a new contract. An accounting body suggested the IASB add a flowchart illustrating decision making in applying contract modification requirements in paragraphs 18–21 of IFRS 15. The FASB also received some feedback in relation to challenges in accounting for	An entity should use judgement and consider the facts and circumstances of an arrangement when applying contract modification requirements in paragraphs 18–21 of IFRS 15. Examples 5–9, accompanying IFRS 15, illustrate the requirements on contract modifications. Concerns related to contract modifications appear not widespread. The staff suggest no action.

[2] Paragraph 17 of IFRS 15: ‘An entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if [certain] criteria are met’.

	contract modifications in their PIR (see Appendix B).	
8	A standard-setter said it is challenging to determine which costs to fulfil a contract should be recognised as an asset. The FASB also identified challenges in relation to accounting for costs to fulfil a contract in their PIR. Appendix B provides more information of the FASB's findings on this matter. Another standard-setter said that they interpret the Committee's June 2019 Agenda Decision *Costs to Fulfil a Contract* as illustrating that contract costs should generally be expensed as incurred according to paragraph 98(c) of IFRS 15, however, in view of the respondent, the message is not clear from the wording of paragraph 98(c). In the respondent's view, the agenda decision also implies that only a cost-to-cost progress measure can be used in practice. The respondent suggested that the IASB add relevant guidance and illustrative examples using the discussion in the agenda decision.	The staff suggest no action because feedback received provides insufficient evidence that the matters are widespread. Costs to fulfil a contract are accounted for applying requirements in paragraphs 95–98 of IFRS 15. Example 37, accompanying IFRS 15, illustrates how the requirements can be applied. The agenda decision *Costs to Fulfil a Contract* does not imply that only a cost-to-cost method can be used for measuring progress. Paragraph 39 of IFRS 15 states that 'the objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer'. The Committee also observed that when evaluating whether to apply an output method to measure progress, paragraph B15 of IFRS 15 requires an entity to 'consider whether the output selected would faithfully depict the entity's performance towards complete satisfaction of the performance obligation'.
9	A standard-setter suggested the IASB add more guidance and illustrative examples on determining the incremental costs to obtain a contract and the	The staff suggest no action because the feedback does not suggest that the matter is widespread.

	amortisation period for any costs capitalised. The respondent said it is difficult to determine whether costs, such as distribution fees, advertising expenses and channel fees, are incremental costs. The FASB also identified challenges in relation to accounting for costs to obtain a contract in their PIR. Appendix B provides more information of the FASB's findings on this matter.	Costs of obtaining a contract are accounted for applying requirements in paragraphs 91–94 of IFRS 15, and paragraphs 99–100 contain requirements for amortisation of contract costs. Examples 36–37, accompanying IFRS 15, illustrate how the requirements can be applied. An entity would need to use judgement in applying the requirements and consider the facts and circumstances.
10	A few respondents asked the IASB to clarify the classification and presentation in financial statements of items arising from IFRS 15: (a) an accounting firm suggested the IASB clarify how contract costs recognised as an asset should be classified in the statement of financial position. The respondent said that some entities present the costs as intangible assets and others within trade and other receivables. (b) a standard-setter suggested the IASB add guidance on which line in the income statement the amortisation of contract costs should be included. The respondent said that some entities in the telecommunications industry present the amortisation of the costs according to the original nature of the costs and others as amortisation expense.	The staff suggest no action because the feedback provides insufficient evidence to suggest that the matters are widespread or significantly affect the usefulness of information in financial statements. Paragraph 97 of IAS 1 *Presentation of Financial Statements* requires an entity to disclose the nature and amounts of material items of income or expense separately. Paragraph 43 of IFRS 18 *Presentation and Disclosure in Financial Statements* requires an entity to provide all descriptions and explanations necessary for a user of financial statements to understand the item, including, in some cases, the meaning of the terms the entity uses and information about how it has aggregated or disaggregated assets, liabilities, equity, income, expenses and cash flows.

11	A standard-setter said that IFRS 15 is too complex for small and medium-sized entities (SMEs) and suggested the requirements be simplified.	The IASB develops a separate accounting Standard that is intended to be applied by SMEs—the *IFRS for SMEs* Accounting Standard. The IASB is currently reviewing the Standard to align it with new and amended IFRS Accounting Standards, including IFRS 15. In September 2022, the IASB issued the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (the Exposure Draft), which proposed revising the requirements for revenue in the Standard to align them with the principles and language of IFRS 15. The Exposure Draft also proposed simplifications of the IFRS 15 requirements. The IASB is currently redeliberating the proposals in the Exposure Draft.
12	A standard-setter suggested the IASB research the usefulness and effectiveness of practical expedients and whether they increase diversity in practice.	The staff suggest no action. Many respondents to the RFI said that practical expedients were helpful and appreciated (see paragraph 84 of January 2024 Agenda Paper 6A).
13	An accounting body suggested the IASB add illustrative examples on applying IFRS 15 requirements to accounting for ESG risks.	The IASB is now exploring targeted actions to improve application of the requirements in IFRS Accounting Standards related to reporting on the effects of climate-related and other uncertainties in the financial statements.
14	A standard-setter said it is challenging to account for a performance obligation to provide goods or services only if the	Accounting for the performance obligations depends on specific terms and conditions of the arrangement.

	customer achieves a certain level of performance.	The staff suggest no action because the feedback does not suggest that the matter is widespread.
15	A standard-setter suggested the IASB clarify whether an entity that prepares financial statements applying IFRS Accounting Standards can apply guidance that only exists in US GAAP, for example, ASC paragraphs 705-20-25-4 to 7, Consideration for Sales Incentives Offered to Customers by Manufacturers.	Paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that in the absence of an IFRS [Accounting Standard] that specifically applies to a transaction, other event or condition, management uses its judgement in developing and applying an accounting policy. Paragraph 12 of IAS 8 states that in making the judgement, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the requirements in IFRS [Accounting Standards] dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the *Conceptual Framework for Financial Reporting*.
16	An accounting body suggested the IASB add guidance on amortisation of intangible assets related to development of software for licensing to customers. In view of the respondent, such amortisation expense should be recognised in cost of sales as the associated revenue is recognised. However, paragraph 98 of IAS 38	IAS 38 is not in scope of this PIR. The IASB has now started initial research on the potential scope of the Intangible Assets project. We will share the feedback with the Intangible Assets project team.

	Intangible Assets appears to restrict the use of an amortisation method based on generated revenue to some limited circumstances.	
17	A standard-setter and an accounting body said that it is sometimes difficult to distinguish contract assets from receivables. They note that paragraph 108 of IFRS 15 states that a receivable is an entity's right to consideration that is unconditional and then clarifies that a right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. The respondents said the meaning of 'only passage of time' is unclear.	The staff suggest no action because the feedback does not suggest that the matter is widespread. Illustrative Examples 38–Case B, 39 and 40, accompanying IFRS 15, illustrate the notion of unconditional and not unconditional right to payment. Paragraph BC325 of the Basis for Conclusions on IFRS 15 further explains the boards' intentions behind the requirements.

Appendix B—FASB PIR of Topic 606: Extracts from the November 2023 Public Roundtable discussion materials and minutes[3]

Discussion materials

Area C: Standalone Selling Price

35. Stakeholders indicated that the guidance on determining standalone selling price in accordance with paragraphs 606-10-32-31 through 32-35 can be challenging to apply in certain circumstances. Furthermore, some investors noted that it can be difficult to understand how standalone selling price is determined and observed that there are a variety of estimation methods, especially in the software industry. In addition, some stakeholders noted that the guidance on allocating a discount in accordance with paragraphs 606-10-32-37 is difficult to apply and rarely used because of the reliance on observable evidence of the discount and standalone selling price.

36. Topic 606 generally requires that an entity allocate the transaction price to all performance obligations in proportion to the standalone selling prices of the goods or services underlying each performance obligation, at contract inception. The standard requires that an entity estimate the standalone selling price of a good or service if it is not directly observable. The standard includes three methods for estimating standalone selling price but notes that these are not the only suitable estimation techniques that an entity may apply.

37. The allocation principle in Topic 606 is broadly consistent with Topic 605[4]. However, the staff observes that the root cause of some of the challenges in determining standalone selling price is the guidance on identifying performance obligations and additional separation of performance obligations under Topic 606 as compared with the previous revenue guidance. For example, for the software industry, there has been a change in outcomes due to the elimination of the industry-specific guidance in Topic 605 on allocating consideration in software arrangements (that is, the requirement to have vendor specific objective evidence (VSOE) for all elements in the arrangements before consideration can be allocated). Furthermore, the staff is aware of other scenarios in which additional performance obligations are being separated under Topic 606 compared with similar transactions under Topic 605 (for example, because of the removal of the cap on contingent consideration), which require estimation of standalone selling prices in new scenarios. Therefore, the staff observes that there is some interrelation between this area and Area B on identification of performance obligations.

38. Although the Board allowed for the estimation of standalone selling price in Topic 606, the staff has observed in practice that entities tend to focus on observable selling prices, even if historical selling prices may not be consistent with the standalone selling price in a current transaction. In cases in which there is no observable standalone selling price, the staff has heard feedback that some entities have difficultly developing estimates if there is little or no cost basis (or an undeterminable

[3] See November 2023 Public Roundtable Discussion Materials and Meeting Minutes.

[4] The FASB ASC Topic 605, Revenue Recognition, contained guidance on revenue recognition before Topic 606 was issued.

cost basis) or if competitors are not selling similar goods or services. Furthermore, stakeholders noted hesitancy to rely on estimated standalone selling price methods other than those included on the list of acceptable methods to determine standalone selling price in paragraph 606-10-32-34, even though the list is not all-inclusive.

Area H: Incremental Costs of Obtaining a Contract

56. During the staff's outreach, stakeholders observed that applying the guidance on incremental costs of obtaining a contract in paragraphs 340-40-25-1 through 25-4, and the related amortization guidance in paragraphs 340-40-35-1 through 35-2, can be challenging. Specifically, stakeholders noted that it can be difficult to identify which costs should be capitalized and to determine the appropriate amortization period for those capitalized costs.

57. Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, requires that an entity capitalize incremental costs to obtain a contract with a customer (for example, sales commissions) if the entity expects to recover those costs, and capitalized costs to be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The guidance also includes a practical expedient that allows an entity to expense incremental costs to obtain a contract if the amortization period for those costs, assuming they were capitalized, would be one year or less.

58. The previous guidance included an accounting policy election that allowed an entity to recognize an asset for acquisition costs or to recognize those costs as an expense (with disclosure of its accounting policy election). The Board initially considered requiring that an entity recognize all costs of obtaining a contract as an expense under Topic 340-40 but, during redeliberations, decided that in some cases this may be misleading (for example, recognizing a sales commission as an expense when the commission is reflected in the pricing of the contract). Therefore, the Board ultimately decided that incremental costs of obtaining a contract should be capitalized as an asset under the new guidance.

59. The staff thinks that some of the challenges in this area stem from the previous diversity in the accounting for costs to obtain a contract (that is, the previous guidance of accounting policy election discussed above).

Minutes

Standalone Selling Price (SSP)

A few participants stated that it was beneficial to move away from the previous revenue requirement of vendor-specific objective evidence in the software industry. However, it also was noted that it could be challenging to support and audit an observable price, especially when the good or service has a price on a company's standard price list but has never been sold on a standalone basis. Participants further noted that although Topic 606 allows different methods to determine SSP, it is rare in practice to use the residual method because it requires the other goods or services in the arrangement to have an observable price. Furthermore, it was noted that it is difficult to determine the SSP when there is a wide range of selling prices for an item or when the item has no cost basis.

Incremental Costs of Obtaining a Contract

Some participants, including practitioners and investors, expressed different views on whether they would prefer sales commissions to be expensed rather than capitalized in accordance with the accounting requirements. One investor participant highlighted the importance of the information on the cost of obtaining a contract and preferred additional disclosures (for example, a rollforward of the asset). Some participants noted diversity in practice in determining whether certain costs, such as nontraditional sales commissions, are within the scope of the guidance on incremental costs of obtaining a contract. Additionally, some practitioner participants noted mixed views in accounting for the costs to fulfil a contract. One preparer participant noted that additional visibility and transparency could be achieved with lower implementation costs if more disclosures were required versus putting these items on the balance sheet.

Other Challenges

A few practitioners raised other challenges of applying Topic 606, including loss contracts, partial termination of contracts and contract modifications, and the interaction of Topic 606 with other Topics such as Topic 815, Derivatives and Hedging, Topic 718, Compensation—Stock Compensation, Topic 842, Leases, and Topic 460, Guarantees.