

# FINANCIAL ACCOUNTING SERIES

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## ACCOUNTING STANDARDS UPDATE

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No. 2018-18  
November 2018

### Collaborative Arrangements (Topic 808)

Clarifying the Interaction between  
Topic 808 and Topic 606

An Amendment of the *FASB Accounting Standards Codification*®

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Financial Accounting Standards Board

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# Accounting Standards Update 2018-18

## Collaborative Arrangements (Topic 808)

### Clarifying the Interaction between Topic 808 and Topic 606

November 2018

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# Summary

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

The FASB is issuing this Update to clarify the interaction between Topic 808, Collaborative Arrangements, and Topic 606, Revenue from Contracts with Customers. A collaborative arrangement, as defined by the guidance in Topic 808, is a contractual arrangement under which two or more parties actively participate in a joint operating activity and are exposed to significant risks and rewards that depend on the activity's commercial success. Topic 808 does not provide comprehensive recognition or measurement guidance for collaborative arrangements, and the accounting for those arrangements is often based on an analogy to other accounting literature or an accounting policy election. Some entities apply revenue guidance directly or by analogy to all or part of their arrangements, and others apply a different accounting method as an accounting policy. Those accounting differences result in diversity in practice on how entities account for transactions on the basis of their view of the economics of the collaborative arrangement.

Although the lack of guidance for collaborative arrangements has resulted in diversity in practice for more than a decade, the issuance of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, raised new questions about the interaction between Topic 808 and Topic 606. Certain aspects of the amendments in Update 2014-09 have resulted in uncertainty in practice about the effect of the revenue standard on the accounting for collaborative arrangements. Specifically, stakeholders indicated that it is unclear whether Topic 606 could be applied to certain transactions in collaborative arrangements.

## Who Is Affected by the Amendments in This Update?

The amendments in this Update affect all entities that have collaborative arrangements.

## What Are the Main Provisions?

The amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) for collaborative arrangements as follows:

1. Clarify that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of

a unit of account. In those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation, and disclosure requirements.

2. Add unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606.
3. Require that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, presenting the transaction together with revenue recognized under Topic 606 is precluded if the collaborative arrangement participant is not a customer.

## How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update provide guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. The Board did not address the accounting for transactions with a collaborative arrangement participant that are directly related to third-party sales of either collaborative arrangement participant. Therefore, current practice for those transactions is unchanged. The Board also did not address the accounting for nonrevenue transactions between collaborative arrangement participants.

In addition, the amendments in this Update provide more comparability in the presentation of revenue for certain transactions between collaborative arrangement participants. Before the issuance of Topic 606, stakeholders indicated that revenue from collaborative arrangements may have included (1) revenue that was recognized in accordance with Topic 605, Revenue Recognition, (2) revenue that was recognized through analogy to the guidance in Topic 605, and (3) revenue that was recognized through the application of a policy election. The amendments improve comparability by allowing the presentation of the units of account in collaborative arrangements that are within the scope of Topic 606 together with revenue accounted for under Topic 606.

## When Will the Amendments Be Effective?

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period, (1) for public business entities for periods for which financial



statements have not yet been issued and (2) for all other entities for periods for which financial statements have not yet been made available for issuance. An entity may not adopt the amendments earlier than its adoption date of Topic 606.

The amendments in this Update should be applied retrospectively to the date of initial application of Topic 606. An entity should recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings of the later of the earliest annual period presented and the annual period that includes the date of the entity's initial application of Topic 606.

An entity may elect to apply the amendments in this Update retrospectively either to all contracts or only to contracts that are not completed at the date of initial application of Topic 606. An entity should disclose its election.

An entity may elect to apply the practical expedient for contract modifications that is permitted for entities using the modified retrospective transition method in Topic 606.



# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–8. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. 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 paragraph 606-10-15-3, with a link to transition paragraph 808-10-65-2, as follows:

### **Revenue from Contracts with Customers—Overall**

#### **Scope and Scope Exceptions**

##### **> Transactions**

**606-10-15-2** An entity shall apply the guidance in this Topic to all **contracts** with **customers**, except the following:

- a. Lease contracts within the scope of Topic 842, Leases.
- b. Contracts within the scope of Topic 944, Financial Services—Insurance.
- c. Financial instruments and other contractual rights or obligations within the scope of the following Topics:
  1. Topic 310, Receivables
  2. Topic 320, Investments—Debt Securities
  - 2a. Topic 321, Investments—Equity Securities
  3. Topic 323, Investments—Equity Method and Joint Ventures
  4. Topic 325, Investments—Other
  5. Topic 405, Liabilities
  6. Topic 470, Debt
  7. Topic 815, Derivatives and Hedging
  8. Topic 825, Financial Instruments
  9. Topic 860, Transfers and Servicing.

- d. Guarantees (other than product or service warranties) within the scope of Topic 460, Guarantees.
- e. Nonmonetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers. For example, this Topic would not apply to a contract between two oil companies that agree to an exchange of oil to fulfill demand from their customers in different specified locations on a timely basis. Topic 845 on nonmonetary transactions may apply to nonmonetary exchanges that are not within the scope of this Topic.

**606-10-15-3** An entity shall apply the guidance in this Topic to a contract (other than a contract listed in paragraph 606-10-15-2) only if the counterparty to the contract is a customer. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. ~~A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities.~~

## Amendments to Subtopic 808-10

- 3. Amend paragraph 808-10-15-5 and add paragraphs 808-10-15-5A through 15-5C, with a link to transition paragraph 808-10-65-2, as follows:

### Collaborative Arrangements—Overall

#### Scope and Scope Exceptions

##### > Transactions

**808-10-15-3** The guidance in this Topic does not apply to arrangements for which the accounting is specifically addressed within the scope of other authoritative accounting literature.

##### > Other Considerations

**808-10-15-4** A collaborative arrangement within the scope of this Topic is not primarily conducted through a separate legal entity created for that activity. However, in some situations part of a collaborative arrangement may be conducted in a legal entity for specific activities or for a specific geographic location. The existence of a legal entity for part of an arrangement does not prevent an

arrangement from being a collaborative arrangement. The part of the arrangement that is conducted in a separate legal entity shall be accounted for under the guidance in Topic 810, Consolidation, Subtopic 323-10, Investments—Equity Method and Joint Ventures, or other related accounting literature. However, the disclosures required by paragraph 808-10-50-1 apply to the entire collaborative arrangement, notwithstanding that a portion of the collaborative arrangement may be conducted in a legal entity.

**808-10-15-5** This Topic does not address all recognition or measurement matters related to collaborative arrangements, for example, determining the appropriate units of accounting, the appropriate recognition requirements for a given unit of ~~account~~ accounting, or when the recognition criteria are met.

**808-10-15-5A** A collaborative arrangement within the scope of this Topic may be partially within the scope of other Topics, including, but not limited to, Topic 606 on revenue from contracts with customers.

**808-10-15-5B** A collaborative arrangement is partially within the scope of Topic 606 if a unit of account, identified as a promised good or service (or bundle of goods or services) that is distinct within the collaborative arrangement using the guidance in paragraphs 606-10-15-4 and 606-10-25-19 through 25-22, is with a customer. An entity shall apply the guidance in Topic 606 to a unit of account that is within the scope of that Topic, including the recognition, measurement, presentation, and disclosure requirements. If a portion of a distinct bundle of goods or services is not with a customer, the unit of account is not within the scope of Topic 606.

**808-10-15-5C** For a collaborative arrangement that is wholly or partially outside the scope of other Topics, including Topic 606, the unit of account, recognition, and measurement for the unit(s) of account outside the scope of other Topics, including Topic 606, shall be based on an analogy to authoritative accounting literature or, if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election.

4. Amend paragraphs 808-10-45-1 and 808-10-45-3 and supersede paragraph 808-10-45-4, with a link to transition paragraph 808-10-65-2, as follows:

## **Other Presentation Matters**

**808-10-45-1** Participants in a **collaborative arrangement** shall report costs incurred and **{add glossary link}revenue{add glossary link}** generated from transactions with *third parties* (that is, parties that do not participate in the arrangement) in each entity's respective income statement pursuant to the guidance on principal versus agent considerations in paragraphs 606-10-55-36 through 55-40. An entity shall not apply the equity method of accounting under Subtopics 323-10 and 323-30 to activities of collaborative arrangements.

**808-10-45-2** For costs incurred and revenue generated from third parties, the participant in a collaborative arrangement that is deemed to be the principal for a given transaction under paragraphs 606-10-55-36 through 55-40 shall record that transaction on a gross basis in its financial statements.

**808-10-45-3** ~~Payments between participants pursuant to~~ Parts of a collaborative arrangement that are within the scope of other authoritative accounting literature ~~in accordance with paragraph 808-10-15-5A on income statement classification~~ shall be ~~presented~~ accounted for using the relevant provisions of that literature. If ~~the payments~~ parts of the arrangement are ~~not within~~ outside the scope of other authoritative accounting literature, the ~~income statement classification for the payments~~ presentation of those parts shall be based on an analogy to authoritative accounting literature or if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election. An entity shall evaluate the presentation of parts of a collaborative arrangement on the basis of the nature of the arrangement, the nature of its business operations, and the contractual terms of the arrangement. For example, if one party to an arrangement is required to make a payment to the other party to reimburse a portion of that party's research and development costs, that portion of the net payment may be classified as research and development expense in the payor's financial statements in accordance with Topic 730. An entity is precluded from presenting transactions in a collaborative arrangement together with revenue from contracts with customers unless the entity applies the guidance in Topic 606 to a unit of account that is within the scope of that Topic in accordance with paragraph 808-10-15-5B.

**808-10-45-4** Paragraph superseded by Accounting Standards Update No. 2018-18.~~An entity shall evaluate the income statement classification of payments between participants pursuant to a collaborative arrangement based on the nature of the arrangement, the nature of its business operations, the contractual terms of the arrangement, and whether those payments are within the scope of other authoritative accounting literature on income statement classification. If the payments are within the scope of other authoritative accounting literature, then the entity shall apply the relevant provisions of that literature. To the extent that these payments are not within the scope of other authoritative accounting literature, the income statement classification for the payments shall be based on an analogy to authoritative accounting literature or if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election. For example, if one party to an arrangement is required to make a payment to the other party to reimburse a portion of that party's research and development cost, that portion of the net payment may be classified as research and development expense in the payor's financial statements pursuant to Topic 730.~~

**808-10-45-5** See Section 808-10-55 for additional guidance, including Examples 1 through 4.

5. Amend paragraphs 808-10-55-1, 808-10-55-3 through 55-10, 808-10-55-12 through 55-14, and 808-10-55-17 through 55-19, with a link to transition paragraph 808-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

**808-10-55-1** This Section is an integral part of the requirements of this Topic. This Section provides Examples that illustrate potential application of this Topic for ~~payments between participants in a collaborative arrangement~~ **collaborative arrangements** based on the limited facts presented. The evaluations following each of the Example fact patterns are not intended to represent the only manner in which the guidance in this Topic could be applied. These illustrative Examples do not address all recognition or measurement matters related to collaborative arrangements. For arrangements, for example, ~~the appropriate units of accounting~~, the appropriate recognition requirements for a given unit of account ~~accounting~~, or when the recognition criteria that are met are addressed in other authoritative accounting literature. Additional facts would most likely be required in order to fully evaluate the accounting and presentation issues related to these arrangements (in other words, to evaluate the possible effect of other authoritative accounting literature).

**808-10-55-2** For the purpose of the Examples in this Section, assume that all of the arrangements are collaborative arrangements within the scope of this Topic.

### > Example 1: Equal Participation in Results of Research, Development, and Commercialization Arrangement, Participants Perform Different Activities

**808-10-55-3** This Example illustrates the guidance in Section 808-10-45. Pharma and Biotech agree to equally participate in the results of research and development activities for a drug candidate and in the commercialization activities if and when the drug candidate is approved for sale, pursuant to a joint development and marketing agreement (a 50 percent, 50 percent arrangement). Biotech is responsible for conducting research and development activities relating to the drug candidate, and Pharma is responsible for the commercialization activities if and when the drug candidate is approved for sale. On a quarterly basis, Pharma and Biotech provide the other party with financial information about the research and development activities performed by Biotech and the commercialization activities performed by Pharma under the joint development and marketing agreement. One participant is required to make a payment to the other participant for the proportionate share of the excess of the entities' combined operating results pursuant to their joint development and marketing agreement. In the first annual period after the product launch, Biotech incurred research and development

expenses of \$10 million million, and Pharma had sales to third parties of \$50 million million, and related manufacturing expenses of \$20 million million, and marketing expenses of \$10 million. Pharma owes Biotech \$15 million, such that each participant realizes a \$5 million net profit from the arrangement (total sales of \$50 million, less total expenses (including research and development) of \$40 million, divided by 2).

**808-10-55-4** Based on an evaluation of the facts and circumstances, Pharma concludes that it is the principal on the sales transactions with third parties and will present 100 percent of the sales, cost of sales, and marketing expenses in its income statement. Pharma has concluded that other authoritative accounting literature does not apply directly to these net payments to Biotech, either directly or by analogy, including Topic 606 on revenue from contracts with customers because Biotech is not a customer. Pharma has concluded that Biotech is not a customer because Biotech has not contracted with Pharma to obtain goods or services that are an output of Pharma's ordinary activities in exchange for consideration. Pharma also has concluded that there is no other authoritative accounting literature that is appropriate to apply by analogy, and, accordingly, its accounting policy is to evaluate the income statement classification for presentation of amounts due from or owed to other participants associated with multiple activities in a collaborative arrangement based on the nature of each separate activity. As a result, Pharma disaggregates its \$15 million net payable to Biotech in accordance with the nature of the individual components of the payable and characterizes the profit-sharing portion of the payable for 50 percent of the profit related to the sales as cost of sales (\$10 million) and characterizes the portion of the payable to Biotech for research and development activities as research and development expense (\$5 million). Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	\$ 50,000
Cost of goods sold (including \$10,000 payable to Biotech for profit sharing)	30,000
Selling, general and administrative expense	10,000
Research and development expense (including \$5,000 payable as a reimbursement of Biotech's expenses incurred)	5,000
Net profit	<u>\$ 5,000</u>

**808-10-55-5** Biotech records research and development expense (\$10 million) for its research and development activities. Licensing intellectual property and performing contract research and development services are part of Biotech's ongoing major or central operations. Biotech has concluded that the research and development services to Pharma represent a distinct service provided to Pharma as a customer. Biotech has concluded that Pharma is a customer because Pharma



~~contracted with Biotech to obtain research and development services that are an output of Biotech’s ordinary activities in exchange for consideration. Therefore, Biotech applies the guidance in Topic 606 on revenue from contracts with customers to account for and present its net receivable from Pharma, including profit-sharing payments, as revenue (\$15 million) when recognized. Biotech has concluded that other authoritative accounting literature does not apply to these payments, either directly or by analogy, and, accordingly, its accounting policy is to characterize the portion of its net receivable from Pharma related to research and development services and the portion of the net receivable for profit sharing as revenue (\$5 million and \$10 million, respectively) when recognized. Biotech will not present sales, cost of sales, or marketing expenses related to the sales transactions with third parties because it is not the principal on those transactions.~~

Biotech presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Revenues from collaborative arrangement	\$ 15,000
Cost of goods sold	-
Selling, general and administrative expense	-
Research and development expense	<u>10,000</u>
Net profit	<u><u>\$ 5,000</u></u>

~~**808-10-55-6** This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described in this Example or the appropriateness of the conclusions reached on determining whether and how authoritative accounting literature applies directly or by analogy. Rather, those conclusions have been assumed as facts in this Example. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, including whether or not the guidance in Topic 606 on revenue from contracts with customers, is applicable.~~

**> Example 2: Equal Participation in Results of Research, Development, and Commercialization Arrangement, Participants Perform Some of the Same Activities**

**808-10-55-7** This Example illustrates the guidance in Section 808-10-45. Pharma and Biotech agree to equally participate in the results of research and development activities for a drug candidate and in the commercialization activities if the drug candidate is approved for sale, pursuant to a joint development and marketing agreement (a 50 percent, 50 percent arrangement). Assume that Pharma and Biotech both agree to provide resources during the research and development phase, and Pharma is responsible for the commercialization activities if the drug candidate is approved for sale. As both participants are performing research and development activities, there may be periods in which Biotech must make a

payment to Pharma for its proportionate share of the research and development activities and periods in which Pharma must make payments to Biotech. On a quarterly basis, Pharma and Biotech provide financial information about the research and development activities performed by both parties and the commercialization activities performed by Pharma under the joint development and marketing agreement. One participant is required to make a payment to the other participant for a proportionate share of the excess of the parties' combined operating results pursuant to their joint development and marketing agreement. In the first annual period after the product launch, Biotech and Pharma incurred research and development expenses of \$10 million and \$15 million, respectively. Pharma had sales to third parties of \$75 million, related manufacturing expenses of \$22.5 million, and marketing expenses of \$20 million. As a result, Pharma owes Biotech \$13.75 million, such that each participant realizes \$3.75 million net profit from the arrangement (total sales of \$75 million, less total expenses of \$67.5 million, divided by 2).

**808-10-55-8** Based on an evaluation of the facts and circumstances, Pharma concludes that it is the principal on the sales transactions with third parties and will present 100 percent of the sales, cost of sales, and marketing expenses in its income statement. Pharma has concluded that other authoritative accounting literature does not apply directly to these net payments to Biotech, either directly or by analogy, including Topic 606 because Biotech is not a customer. Pharma has concluded that Biotech is not a customer because Biotech has not contracted with Pharma to obtain goods or services that are an output of Pharma's ordinary activities in exchange for consideration. Pharma also has concluded that there is no other authoritative accounting literature that is appropriate to apply by analogy, and, accordingly, its accounting policy is to evaluate the ~~income statement classification for presentation of~~ amounts due from or owed to other participants associated with multiple activities in a collaborative arrangement based on the nature of each separate activity. As a result, Pharma disaggregates the \$13.75 million net payable to Biotech in accordance with the nature of the individual components of the payable and characterizes the portion of the payable related to 50 percent of the commercialization activities (sales to third parties less associated manufacturing and marketing costs) as cost of sales (\$16.25 million). Pharma characterizes the portion of the net payable related to research and development activities as a reduction of its research and development expenses (\$2.5 million), because performing contract research and development services is not part of its ordinary activities ongoing major or central operations. Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	\$ 75,000
Cost of goods sold (including \$16,250 payable to Biotech for profit sharing)	38,750
Selling, general and administrative expense	20,000
Research and development expense (including \$2,500 payable <u>receivable</u> as a reimbursement of <del>Biotech's</del> <u>Pharma's</u> expenses incurred)	<u>12,500</u>
Net profit	<u>\$ 3,750</u>

**808-10-55-9** Biotech records research and development expense (\$10 million) for its research and development activities. Biotech will characterize the portion of the net receivable from Pharma related to Pharma's sales to third parties commercialization activities (\$16.25 million) as revenue, ~~based on the fact that licensing intellectual property is part of Biotech's ongoing major or central operations.~~ Biotech also considers performing research and development services to be part of its ordinary activities and is providing the output of those activities to Pharma as a customer in the context of the unit of account related to research and development services ongoing major or central operations. Biotech analyzes its specific facts and circumstances under the guidance on consideration payable to a customer in paragraphs 606-10-32-25 through 32-27 and determines that the portion of the net receivable that relates to a reimbursement of Pharma's research and development costs (\$2.5 million) should be characterized as a reduction of revenue. Biotech will not present sales, cost of sales, or marketing expenses related to the sales transactions with third parties because it is not the principal on those transactions. Biotech presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Revenues from collaborative arrangement	\$ 13,750
Cost of goods sold	-
Selling, general and administrative expense	-
Research and development expense	<u>10,000</u>
Net profit	<u>\$ 3,750</u>

**808-10-55-10** This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described in this Example or the appropriateness of the conclusions reached on determining whether and how authoritative accounting literature applies directly or by analogy. Rather, those conclusions have been assumed as facts in this Example. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, including whether or not the guidance in Topic 606 is applicable.

**> Example 3: Unequal Participation in Results of Research, Development, and Commercialization Arrangement, Participants Perform Some of the Same Activities**

**808-10-55-11** This Example illustrates the guidance in Section 808-10-45. Big Pharma and Little Pharma agree to jointly participate in the results of the research and development activities for a drug candidate and in the commercialization activities if and when the drug candidate is approved for sale, pursuant to a joint development and marketing agreement. Big Pharma and Little Pharma both agree to provide resources during the research and development and the commercialization activities. Little Pharma will be responsible for commercialization activities in the United States, and Big Pharma will be responsible for commercialization activities in Europe and Asia. Under the arrangement, they will share research and development costs incurred on a 50 percent, 50 percent basis. Little Pharma will retain 65 percent of the net profits from commercialization activities in the United States, and Big Pharma will retain 70 percent of the net profits from commercialization activities in Europe and Asia. On a quarterly basis, Big Pharma and Little Pharma provide financial information about the research and development and the commercialization activities performed by both parties under the joint development and marketing agreement, and one participant is required to make a payment to the other participant for a proportionate share of the excess of the parties' combined operating results pursuant to their joint development and marketing agreement. The results of the first annual period of the collaborative arrangement prior to any payments between the parties were as follows (in thousands):

	<u>Little Pharma</u>	<u>Big Pharma</u>	<u>Combined</u>
Sales to third parties	\$ 120,000	\$ 90,000	\$ 210,000
Cost of goods sold	30,000	35,000	65,000
Selling, general and administrative expense	25,000	20,000	45,000
Research and development expense	<u>35,000</u>	<u>20,000</u>	<u>55,000</u>
Net profit	<u>\$ 30,000</u>	<u>\$ 15,000</u>	<u>\$ 45,000</u>

**808-10-55-12** Based on an evaluation of the facts and circumstances, Big Pharma concludes that it is the principal on the sales transactions with third parties in Europe and Asia and will present 100 percent of the sales, cost of sales, and marketing expenses related to those efforts in its income statement. Big Pharma has concluded that other authoritative accounting literature does not apply directly to these net payments to Little Pharma, either directly or by analogy, including Topic 606 because Little Pharma is not a customer. Big Pharma has concluded that Little Pharma is not a customer because Little Pharma has not contracted with Big Pharma to obtain goods or services that are an output of Big Pharma's ordinary

activities in exchange for consideration. Big Pharma also has concluded that there is no other authoritative accounting literature that is appropriate to apply by analogy, and, accordingly, its accounting policy is to evaluate the income statement classification for presentation of amounts associated with each separate activity. As a result, Big Pharma disaggregates its \$4.75 million net receivable from Little Pharma in accordance with the nature of the individual components of the payable and characterizes the portion of the net receivable related to 30 percent of the profit related to the sales in Europe and Asia as expenses from collaborative arrangement (\$10.5 million) and characterizes the portion of the net receivable related to a reimbursement of Little Pharma's research and development costs as research and development expenses (\$7.5 million). Big Pharma concludes that the portion of the net receivable directly related to Little Pharma's third-party sales in the United States is analogous to a royalty and therefore characterizes the \$22.75 million as revenue similar to a royalty. Big Pharma also concludes that any payment from Little Pharma for research and development activities would be characterized as a reduction of its research and development costs because performing contract research and development services is not part of its ordinary activities ongoing major or central operations. Big Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	\$ 90,000
Revenues from collaborative arrangement	22,750
Cost of goods sold	35,000
Expenses from collaborative arrangement	10,500
Selling, general and administrative expense	20,000
Research and development expense (including \$7,500 payable as a reimbursement of Little Pharma's expenses incurred)	<u>27,500</u>
Net profit	<u>\$ 19,750</u>

**808-10-55-13** Little Pharma concludes that it is the principal on the sales transactions with third parties in the United States and will present 100 percent of the sales, cost of sales, and marketing expenses related to those efforts in its income statement. Little Pharma has concluded that other authoritative accounting literature does not apply directly to these net payments to Big Pharma, either directly or by analogy, including Topic 606 because Big Pharma is not a customer. Little Pharma has concluded that Big Pharma is not a customer because Big Pharma has not contracted with Little Pharma to obtain goods or services that are an output of Little Pharma's ordinary activities in exchange for consideration. Little Pharma also has concluded that there is no other authoritative accounting literature that is appropriate to apply by analogy, and, accordingly, its accounting policy is to evaluate the income statement classification for presentation of payments associated with each separate activity. As a result, Little Pharma

disaggregates its \$4.75 million net payable to Big Pharma in accordance with the nature of the individual item and characterizes a portion of the net payable related to 35 percent of the profit related to the sales in the United States as expenses from collaborative arrangement (\$22.75 million) and characterizes the portion of the net payable to Big Pharma for research and development activities as research and development expenses. Little Pharma concludes that the portion of the net payable directly related to profit sharing from Big Pharma's third-party sales in Europe and Asia is analogous to a royalty and therefore should characterize the \$10.5 million as revenue similar to a royalty. Little Pharma also concludes that any payment from Big Pharma for research and development activities will be characterized as a reduction of its research and development costs (\$7.5 million) because performing contract research and development services is not part of its ordinary activities ~~ongoing major or central operations~~. Little Pharma presents the following information in its financial statements with respect to this collaborative arrangement (in thousands):

Sales to third parties	\$ 120,000
Revenue from collaborative arrangement	10,500
Cost of goods sold	30,000
Expenses from collaborative arrangement	22,750
Selling, general and administrative expense	25,000
Research and development expense (including \$7,500 due from Big Pharma as a reimbursement)	<u>27,500</u>
Net profit	<u>\$ 25,250</u>

**808-10-55-14** This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described in this Example or the appropriateness of the conclusions reached on determining whether and how authoritative accounting literature applies directly or by analogy. Rather, those conclusions have been assumed as facts in this Example. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, including whether or not the guidance in Topic 606 is applicable.

**> Example 4: Equal Participation in Results of Production and Distribution of Major Motion Picture, Participants Perform Some of the Same Activities**

**808-10-55-15** This Example illustrates the guidance in Section 808-10-45. Studio A and Studio B agree to jointly participate in the production and distribution of a major motion picture. Studio A will manage the day-to-day production activities and will be responsible for distribution in the United States. Studio B will be responsible for distribution in Europe and Asia. Even though Studio A will be managing the production, the terms of the arrangement state that both studios will share equally

in all production costs incurred. Further, Studio A will pay 50 percent of the net profits (that is, revenues less distribution costs) from the United States distribution to Studio B, and Studio B will pay 50 percent of the net profits from European and Asian distribution to Studio A. The studios are responsible for initially funding all distribution costs in their respective locations. For purposes of this example, no license to intellectual property has been conveyed to Studio B.

**808-10-55-16** Assume that Studio A and Studio B have the same estimates of ultimate revenue and ultimate participation costs. Both studios estimate that Studio A will owe Studio B net ultimate participation costs of \$45 million. Based on the individual-film-forecast-computation method in accordance with Section 926-20-35, Studio A's current period participation cost expense (and Studio B's current period participation income) is \$7 million in Year 1 following the film's initial release.

**808-10-55-17** Based on an evaluation of the facts and circumstances, during (or at the completion of) production, Studio A records a receivable from Studio B for production costs and a corresponding reduction of its capitalized film costs. Studio A has determined that, considering the guidance on principal versus agent considerations in paragraphs 606-10-55-36 through 55-40, it is the principal for the revenue generated in the United States. Accordingly, it characterizes all of the gross revenue generated in the United States as revenue in its income statement and likewise records all of the associated distribution costs for distribution in the United States. Studio A concludes that ~~other authoritative accounting literature does not apply, either directly or by analogy, regarding the income statement classification of~~ Topic 606 does not apply to net participation costs owed to Studio B—Studio B because Studio B is not a customer. Studio A also concludes that there is no other authoritative accounting literature that is appropriate to apply by analogy, and, accordingly, Studio A's accounting policy with respect to participation costs due from and to its production partners is to record net amounts due from production partners for profit shares on sales to third parties as additional revenue and net amounts due to production partners for profit shares on sales to third parties as a cost of sales. Accordingly, Studio A characterizes its Year 1 participation cost expense of \$7 million as cost of sales.

**808-10-55-18** During production, Studio B records amounts payable to Studio A for production costs and a corresponding amount as capitalized film costs. Studio B has determined that, after considering the guidance on principal versus agent considerations in paragraphs 606-10-55-36 through 55-40, it is the principal for the revenue generated in Europe and Asia. Accordingly, it characterizes all of the gross revenue generated in Europe and Asia as revenue in its income statement and likewise records all of the associated distribution costs for distribution in Europe and Asia. Studio B concludes that other authoritative accounting literature does not apply directly, either directly or by analogy, including Topic 606 because Studio A is not a customer, regarding the income statement classification presentation of net ultimate participation costs due from Studio A. Studio B has concluded that Studio A is not a customer because Studio A has not contracted with Studio B to obtain goods or services that are an output of Studio B's ordinary

activities in exchange for consideration. Studio B also concludes that other authoritative accounting literature does not apply by analogy, and, accordingly, Studio B's accounting policy for profit sharing amounts due from and to its production partners is to record those amounts on a net basis in cost of sales. It views those amounts either as additional costs for production and distribution or as a reimbursement of such costs. Accordingly, Studio B characterizes its Year 1 participation cost income of \$7 million as a reduction of cost of sales.

~~808-10-55-19 This evaluation is not intended to illustrate the appropriate revenue recognition requirements for any of the transactions described in this Example or the appropriateness of the conclusions reached on determining whether and how applicable authoritative accounting literature applies directly or by analogy. Rather, those conclusions have been assumed as facts in this Example. Such an analysis would include, at a minimum, a determination of the applicable authoritative accounting literature, including whether or not the guidance in Topic 606 is applicable.~~

6. Add paragraph 808-10-65-2 as follows:

## **Transition and Open Effective Date Information**

### **> Transition Related to Accounting Standard Update No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606**

808-10-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606:

- a. The pending content that links to this paragraph shall be effective for **public business entities** for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.
- b. The pending content that links to this paragraph shall be effective for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021.
- c. Earlier application of the pending content that links to this paragraph is permitted if an entity also has adopted the pending content that links to paragraph 606-10-65-1, including adoption in any interim period for:
  1. Public business entities for periods for which financial statements have not yet been issued
  2. All other entities for periods for which financial statements have not yet been made available for issuance.
- d. An entity shall apply the pending content that links to this paragraph retrospectively to the date of its initial application of the pending content that links to paragraph 606-10-65-1. An 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 of the later of the earliest annual period presented and the annual period that includes the date of the entity's initial application of the pending content that links to paragraph 606-10-65-1.

- e. An entity may elect to apply the pending content that links to this paragraph retrospectively either to all contracts or only to contracts that are not completed contracts at the date of initial application of the pending content that links to paragraph 606-10-65-1. A completed contract refers to a contract for which all (or substantially all) of the revenue or expenses were recognized in accordance with guidance that was in effect before the date of initial application. An entity shall disclose whether it has applied this guidance to all contracts or only to contracts that are not completed.
- f. An entity may elect to apply the practical expedient for contract modifications in paragraph 606-10-65-1(f)(4), in accordance with the requirements in paragraph 606-10-65-1(g).
- g. An entity shall provide the disclosures in paragraphs 250-10-50-1 through 50-2 (with the exception of the disclosure in paragraph 250-10-50-1(b)(2)) in the period in which the entity adopts the pending content that links to this paragraph.

## Amendments to Status Sections

7. 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.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
606-10-15-3	Amended	2018-18	11/05/2018

8. Amend paragraph 808-10-00-1, by adding the following items to the table, as follows:

**808-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
<b>Public Business Entities</b>	Added	2018-18	11/05/2018
808-10-15-5	Amended	2018-18	11/05/2018

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
808-10-15-5A through 15-5C	Added	2018-18	11/05/2018
808-10-45-1	Amended	2018-18	11/05/2018
808-10-45-3	Amended	2018-18	11/05/2018
808-10-45-4	Superseded	2018-18	11/05/2018
808-10-55-1	Amended	2018-18	11/05/2018
808-10-55-3 through 55-10	Amended	2018-18	11/05/2018
808-10-55-12 through 55-14	Amended	2018-18	11/05/2018
808-10-55-17 through 55-19	Amended	2018-18	11/05/2018
808-10-65-2	Added	2018-18	11/05/2018

*The amendments in this Update were adopted by the unanimous vote of the six members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Gary R. Buesser  
Marsha L. Hunt  
R. Harold Schroeder

# Background Information and Basis for Conclusions

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## Introduction

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. The guidance in Topic 808 originated from EITF Issue No. 07-1, "Accounting for Collaborative Arrangements." Issue 07-1 defined the characteristics of a collaborative arrangement and primarily provided scope, presentation, and disclosure guidance. The EITF did not provide specific recognition and measurement guidance because of the difficulty in developing a single accounting model that could be applied to the wide range of different collaborative arrangements. There is diversity in practice in how entities account for collaborative arrangements because of the limited recognition and measurement guidance in Topic 808.

BC3. The issuance of Update 2014-09 on revenue from contracts with customers heightened the need for clarity on whether the guidance in Update 2014-09 applies to collaborative arrangements. In March 2015, the FASB received an agenda request asking the Board to clarify the interaction between Topic 606 and Topic 808 and to provide recognition and measurement guidance for collaborative arrangements to address certain areas of diversity. Some stakeholders raised concerns that the guidance in Update 2014-09 appears to be inconsistent with language included in the basis for conclusions of that Update.

BC4. The guidance in Topic 606 specifically excludes parts of collaborative arrangements from the scope of the revenue guidance. The revenue guidance only applies if the counterparty to the contract is a customer. The guidance also states:

A counterparty to the contract would not be a customer if, for example, the counterparty has contracted with the entity to participate in an activity or process in which the parties to the contract share in the risks and benefits that result from the activity or process (such as developing an asset in a collaboration arrangement) rather than to obtain the output of the entity's ordinary activities. [paragraph 606-10-15-3]

BC5. However, the basis for conclusions of Update 2014-09 explains that transactions with partners or participants in a collaborative arrangement can be within the scope of Topic 606 if the counterparty meets the definition of a customer for some or all parts of the arrangement. The basis for conclusions also explains that the principles in Topic 606 might be appropriate to apply to a collaborative arrangement by analogy even if the counterparty is not considered a customer, provided no other Topic applies.

BC6. The agenda request asked the Board to clarify if, and when, transactions in a collaborative arrangement were within the scope of the revenue guidance in Topic 606. In addition, the agenda request asked the Board to consider amending the guidance in Topic 808 to address certain areas of diversity within collaborative arrangements, including how an entity should determine its units of account and how to account for transactions between collaborative arrangement participants that do not qualify as revenue transactions.

BC7. The Board considered whether a project scope limited only to arrangements conducted outside a legal entity could compound existing differences in accounting models for arrangements that may have similar characteristics but are conducted within a legal entity. After considering feedback obtained through additional research and outreach, the Board added a project to its agenda and limited the project's scope to targeted improvements that would clarify when transactions between collaborative arrangement participants should apply the revenue guidance in Topic 606. The Board chose not to expand the scope of the project to include arrangements structured within a legal entity (such as joint ventures). See paragraph BC12–BC16 for the Board's basis for the project's scope.

BC8. On April 26, 2018, the FASB issued a proposed Accounting Standards Update, *Collaborative Arrangements (Topic 808): Targeted Improvements*, with comments due on June 11, 2018. The amendments in the proposed Update made the following targeted improvements:

- a. Clarified that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of the unit of account. In those situations, all the guidance in Topic 606 should be applied, including recognition, measurement, presentation, and disclosure requirements.
- b. Added unit-of-account guidance to Topic 808 to align with the guidance in Topic 606 (that is, a distinct good or service) limited to when an entity is assessing the scope of Topic 606.
- c. Clarified that, in a transaction that is not directly related to sales to third parties, presenting the transaction as revenue would be precluded if the collaborative arrangement participant is not a customer.

BC9. The Board received 27 comment letters in response to the proposed Update. Overall, respondents supported the Board's efforts to clarify when certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606. However, some respondents noted that diversity in practice related to collaborative arrangements will continue to exist given the diverse nature of those arrangements. Some respondents requested that the Board clarify certain aspects of the proposed amendments. The Board considered that feedback during its redeliberations of the issues addressed by the proposed Update, as described in the discussion below.

## Benefits and Costs

BC10. 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 rational 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 benefit of improved information in financial statements.

BC11. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update. The Board agreed that the amendments will benefit users by reducing diversity in practice by clarifying that certain transactions between collaborative arrangement participants should be accounted for in accordance with the guidance in Topic 606 and by clarifying certain presentation requirements. The Board noted that the amendments may, in certain situations, reduce cost by clarifying guidance that various entities and accounting firms indicated is unclear. The Board concluded that the expected benefits of making the targeted improvements justify the expected costs.

## Basis for Conclusions

### Scope

BC12. At various stages in developing the amendments in this Update, the Board considered the project's scope. In the pre-agenda research phase, the Board considered including both collaborative arrangements within the scope of Topic 808 and arrangements with similar economics that are structured in a separate legal entity. The Board rejected including within the scope of this project collaborative-type arrangements structured in a separate legal entity. In making

that decision, the Board acknowledged the different accounting models and outcomes between transactions involving a collaborative arrangement as defined in Topic 808 and those involving a separate legal entity with similar characteristics. However, the Board decided that aligning those models would require a broader, longer term effort that would extend beyond the issues raised in the agenda request. Furthermore, Board members questioned whether the arrangements involving separate legal entities are sufficiently similar to warrant considering expanding the scope of the collaborative arrangement guidance in Topic 808. The Board also acknowledged the need to clarify the items in the agenda request on a timely basis given the effective date of Topic 606.

BC13. The Board decided to focus on targeted improvements to clarify when certain transactions between collaborative arrangement participants are within the scope of the revenue guidance in Topic 606. The Board also decided to limit the project's scope to (a) the accounting for the entity receiving consideration from the other collaborative arrangement participant (that is, the party potentially recording revenue) and (b) transactions not directly related to sales to third parties. The Board did not expand the scope to include the accounting for transactions with collaborative arrangement participants directly related to sales to third parties because feedback from entities and accounting firms indicated that the accounting for those transactions was not challenging and was relatively consistent among entities.

BC14. To clarify that transactions with collaborative arrangement participants directly related to third-party sales were not within the scope of the project, certain proposed amendments included language that reference transactions directly related to sales to third parties. Several respondents requested that the Board clarify the types of transactions directly related to sales to third parties. Other respondents requested that the Board clarify whether transactions directly related to sales to third parties are within the scope of Topic 606. The Board noted that current guidance allows an entity to evaluate the terms of a collaborative arrangement to determine how best to account for and present those transactions. The Board decided against providing recognition and measurement guidance for transactions with collaborative arrangement participants directly related to sales to third parties as part of this project. Accordingly, the amendments in this Update do not result in any changes to the accounting for those transactions.

BC15. The Board also considered whether to provide guidance for two additional areas that were raised in the agenda request: (a) unit of account and (b) recognition and measurement guidance for transactions not within the scope of the revenue guidance (that is, nonrevenue transactions). Those areas also were identified in the staff's research as areas for which the lack of guidance was resulting in diversity in practice. The Board decided to address unit-of-account guidance in the context of the scope of the revenue guidance within the amendments in this Update. See paragraphs BC22–BC26 for the Board's basis for that decision. The Board decided not to include recognition and measurement

guidance for nonrevenue transactions in the amendments. See paragraphs BC31–BC33 for the Board’s basis for that decision.

BC16. The amendments in the proposed Update included conforming edits to the four illustrative examples in Topic 808. The edits focused on changes resulting from the proposed amendments and were not intended to provide additional guidance on the application of Topic 606 or Topic 808. Many respondents requested amendments that would have illustrated how the conclusions were reached. Additionally, some respondents asked for examples that would have included provisions more representative of collaborative arrangements seen in practice, such as upfront payments and licenses. The Board decided not to add additional examples or additional aspects to the existing examples because doing so would have been beyond the project’s objective and scope.

## When a Collaborative Arrangement Includes Revenue from a Customer

BC17. The Board decided to include guidance in Topic 808 to address the issue raised in the agenda request about the apparent inconsistency between Topic 606’s scope and the discussion included in the basis for conclusions of Update 2014-09. The Board concluded that certain transactions between collaborative arrangement participants that are unrelated to sales to third parties (that is, related to developing an asset rather than selling a completed product) could result in revenue under Topic 606 consistent with paragraph BC55 of Update 2014-09.

BC18. Entities involved in collaborative arrangements observed that, in some situations, a collaborative arrangement participant contracts to obtain goods or services that are the output of an entity’s ordinary activities. On the basis of that information, the Board decided that the nature of the joint operating activity and the shared risks and rewards should not preclude revenue recognition according to Topic 606 in those instances. There are many different types of collaborative arrangements, and the accounting for any collaborative arrangement depends on the specific negotiated terms. Consequently, overriding an entity’s ability to consider the specific terms of its arrangements and the nature of its ordinary activities and precluding revenue recognition broadly for collaborative arrangements could have resulted in less relevant financial reporting because the accounting may not have reflected the nature and economics of the arrangement.

BC19. In determining when transactions between collaborative arrangement participants under Topic 808 are within the scope of the revenue guidance in Topic 606, the Board did not intend to develop new or different requirements from the requirements of Topic 606. Therefore, the different alternatives the Board considered were taken from existing concepts in Topic 606, such as transfer of control and customer. The Board ultimately decided that the scope of the revenue guidance in Topic 606 should be aligned for units of account inside and outside collaborative arrangements; that is, the revenue guidance in Topic 606 should be

applied if the collaborative arrangement participant is a customer in the context of a given unit of account.

BC20. In addition, the Board clarified that for a unit of account that is within the scope of Topic 606, an entity is required to apply all the accounting requirements in Topic 606 to that unit of account, including the recognition, measurement, presentation, and disclosure requirements. The Board reached that conclusion because it would be confusing to users of financial statements if transactions in a collaborative arrangement were presented as revenue (see further discussion of presentation in paragraphs BC27–BC30) but follow only certain aspects of Topic 606’s requirements. The Board did not intend to establish an exception to the revenue requirements in Topic 606 for transactions in collaborative arrangements.

BC21. Some respondents requested that the Board provide additional guidance on how to determine whether a collaborative arrangement participant is a customer. Other respondents requested clarity on how to interpret *ordinary activities* in the context of collaborative arrangements. The Board observed that stakeholders currently must make judgments on how to apply the revenue model in Topic 606 and noted that those judgments should be consistently applied to collaborative arrangements. The Board indicated that addressing those questions goes beyond the bounds of this limited-scope project.

### *Unit of Account*

BC22. Both in the agenda request and in other outreach, many preparers indicated that identifying the unit of account in a collaborative arrangement, especially during the development phase, can be challenging because of the ongoing nature of the arrangement. Some entities view all transactions between the collaborative arrangement participants as a single unit of account because of their continuing obligation to participate. Others view each transaction between collaborative arrangement participants, such as an upfront payment or a cost-reimbursement payment, as a separate unit of account.

BC23. Because determining the unit of account is critical to the accounting in a collaborative arrangement, the Board decided to provide unit-of-account guidance in Topic 808 and align that guidance with the guidance in Topic 606 for distinct goods or services. However, because the Board decided not to include recognition and measurement guidance for nonrevenue transactions in a collaborative arrangement (see further discussion in paragraphs BC31–BC33), the decision to align the unit-of-account guidance to the guidance in Topic 606 for distinct goods or services is limited to the context of assessing the scope of the revenue guidance. Within that context of determining whether a part of a collaborative arrangement is within the scope of Topic 606, the Board decided to include unit-of-account guidance that is consistent with the unit-of-account guidance in Topic 606 for distinct goods or services. This decision ultimately aligns with the



accounting model in Topic 808, which is a residual model similar to Topic 606, indicating that an entity should first look to other guidance for separation.

BC24. The Board rejected developing unit-of-account guidance that is specific to collaborative arrangements because that guidance would have applied to all of Topic 808, which would have been inconsistent with the Board's decision not to address a nonrevenue model in this project. By explicitly providing unit-of-account guidance in the context of assessing the scope of the revenue guidance and aligning the unit-of-account guidance with Topic 606, the Board also sought to eliminate potential future diversity in determining units of account when assessing whether a collaborative arrangement is partially within the scope of Topic 606 or other Topics.

BC25. Some respondents requested that the Board clarify in what sequence the unit-of-account guidance should be applied. The Board clarified that an entity should first determine whether the entire collaborative arrangement is a contract with a customer or whether it is entirely within the scope of other GAAP. If a part or parts of the collaborative arrangement are potentially with a customer, an entity would then apply the distinct good or service unit-of-account guidance in Topic 606 to determine whether there is a unit of account that should be accounted for under Topic 606.

BC26. Some respondents requested additional guidance on what to do when an entity concludes that the unit of account consists of promised goods or services that are partially within the scope of Topic 606 and are not *distinct* as determined by applying the guidance in paragraphs 606-10-25-19 through 25-22. The guidance in Topic 606 requires an entity to combine goods or services with other promised goods or services until it identifies a bundle of goods or services that is distinct. The Board concluded that if the collaborative arrangement participant is a customer in the context of the entire bundle of goods or services, an entity should account for that unit of account under Topic 606. However, if the collaborative arrangement participant is not a customer for a portion of a distinct bundle of goods or services, the unit of account is not within the scope of Topic 606 and the entity should account for that unit of account using the residual guidance in Topic 808 that allows for accounting by analogy or, if there is no appropriate analogy, an accounting policy election, including for purposes of determining the unit of account.

### *Presentation Guidance*

BC27. The Board proposed to preclude an entity from presenting transactions that are not related to sales to third parties as revenue when the collaborative arrangement participant does not meet the scope of the guidance in Topic 606 (that is, the other party is not a customer in the context of the unit of account). The Board decided this to further emphasize the implications of the Board's decision to require an entity to apply all the accounting requirements in Topic 606 and to

prevent diversity in how and when transactions in collaborative arrangements are presented as revenue. Before the issuance of the amendments in this Update, an entity was not precluded from presenting payments received in a collaborative arrangement that are not within the scope of other Topics as revenue. An entity was permitted to present the payments based on an analogy to other Topics or, if there is no appropriate analogy, a reasonable, rational, and consistently applied accounting policy election.

BC28. Outreach indicated that, under current GAAP, many entities analogize to the accounting for revenue under Topic 605 or Topic 606 when accounting for transactions between collaborative arrangement participants. Those entities are analogizing to those Topics either because the scope of the revenue guidance is not directly applicable or because the interaction between Topic 808 and those Topics is unclear. Because the amendments in this Update clarify the interaction between the scope of Topics 808 and 606, the Board also decided to require consistent presentation and prevent transactions that are outside the scope of Topic 606 from being presented as revenue. However, the Board continues to believe that the principles in Topic 606 might be appropriate to apply to a collaborative arrangement by analogy even if the counterparty is not considered a customer, provided there is no other more relevant authoritative guidance. Therefore, an entity may still analogize to those principles provided that the entity does not present the transaction together with revenue.

BC29. Several respondents questioned the Board's intent for precluding revenue presentation for transactions outside the scope of Topic 606. Those respondents requested that the Board clarify whether it intended to preclude the aggregation of other sources of revenue from collaborative arrangements with revenue that is within the scope of Topic 606 or to more generally preclude revenue presentation. If the latter, some respondents disagreed because it would negatively affect performance measures that provide users with useful information. The Board acknowledged that entities currently use judgment to determine whether a transaction should be presented in the broader revenue category and that its intent was not to change that practice. The Board clarified that its intent was to preclude presentation together with revenue accounted for under Topic 606 for those transactions outside the scope of Topic 606.

BC30. The amendments in this Update are not intended to address transactions with a collaborative arrangement participant that are directly related to sales to third parties of either participant and, therefore, do not result in changes to the presentation of those transactions. An entity would still be expected to follow the disclosure requirements under Topic 606 for only those transactions that are within the scope of Topic 606. Examples of transactions with a collaborative arrangement participant that are directly related to sales to third parties of either participant may include (a) sales of "production inputs" or other items to a collaborative arrangement participant that are eventually sold to a third party or (b) profit share receivables from collaborative arrangement participants for sales to third parties.

## *Nonrevenue Model*

BC31. The agenda request asked that the Board consider providing recognition and measurement guidance for nonrevenue transactions between collaborative arrangement participants. The Board also considered providing a nonrevenue accounting model because its decisions could result in more transactions that would need recognition and measurement guidance that does not exist in Topic 808. Ultimately, the Board decided not to propose a nonrevenue accounting model for collaborative arrangements for the reasons discussed below. However, to address the concerns that the amendments in this Update potentially could lead to more transactions without recognition and measurement guidance in Topic 808, the Board decided to continue to permit an entity to apply the revenue guidance in Topic 606 by analogy or, if there is no appropriate analogy, as a policy election, without requiring the entity to apply all the guidance in Topic 606, as long as it presents the transaction separate from revenue recognized from contracts with customers.

BC32. The FASB staff explored a potential nonrevenue model that was flexible and would have allowed an entity to reflect the underlying economics of the collaborative arrangement. That model intentionally left substantial room for judgment to allow for different accounting outcomes for a wide range of arrangements that had significant differences in economics. Under that model, once a collaborative arrangement participant determined that an identified unit of account was outside the scope of Topic 606, it would recognize a transaction as either a reduction of cost or other income depending on whether the nature of the underlying transaction was related to a specific and identifiable cost incurred in accordance with the collaboration agreement (using concepts from Topic 606).

BC33. In December 2017, the FASB hosted two workshops for preparers and auditors to provide feedback on the operability of the staff's potential nonrevenue model. Because of the proposed model's flexibility, certain participants raised concerns that the model would be difficult to apply and that it may not solve many of the challenges raised about recognition. Specifically, certain participants indicated that the potential model would not remove the difficulties in determining an activity's underlying nature, allocating consideration to interrelated activities, and determining the recognition period for a unit of account. Overall, the feedback received during the workshops made it clear that if a nonrevenue model was developed, practice would desire more prescriptive guidance; however, there were strong opposing views on what that guidance should be. Because of the diverse views and various issues raised, the Board concluded that it would have been difficult to develop a "one-size-fits-all" accounting model for the various types of collaborative arrangements, particularly within the context of this project on targeted improvements for collaborative arrangements. Therefore, the Board decided not to provide recognition and measurement guidance for nonrevenue transactions in a collaborative arrangement.

## *Disclosures*

BC34. The Board concluded that no additional recurring disclosures are necessary because of the project's limited scope and because the current disclosures in Topics 606 and 808 are robust. The targeted improvements in this Update clarify that when a transaction is within the scope of the guidance in Topic 606, an entity is required to apply all the provisions of Topic 606, including the disclosure requirements. Respondents agreed that no additional disclosures are necessary.

## **Effective Date and Transition**

BC35. The Board decided that the amendments in this Update should be effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. This was consistent with comments from respondents who stated that providing a year for implementation would provide entities that have extensive collaborative arrangements with adequate time to review their contracts. For all other entities, consistent with the Private Company Decision-Making Framework, the Board decided that the amendments in this Update should be effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021.

BC36. The Board decided to permit an entity to early adopt the amendments in this Update, including adoption in any interim period, if the entity has already adopted or is concurrently adopting Topic 606. Most respondents requested that the Board permit early adoption of the amendments, and the Board agreed. Because the amendments in this Update correlate with Topic 606, an entity must have adopted Topic 606 to apply the amendments in this Update.

BC37. The Board decided to require a retrospective transition approach whereby an entity would be required to apply the amendments in this Update retrospectively as of an entity's adoption date of Topic 606 because the amendments relate directly to Topic 606. Therefore, aligning the financial reporting requirements with Topic 606 is the most meaningful to users of financial statements. In addition, the Board decided to allow the same practical expedients in paragraph 606-10-65-1(h) that are permitted for the modified retrospective transition method in paragraph 606-10-65-1(d)(2). The Board clarified that a contract that is not completed in the context of those expedients, as written in paragraph 808-10-65-2(e), refers to an arrangement for which all (or substantially all) of the revenue and expenses were recognized in accordance with guidance that was in effect before the date of initial application.

## Amendments to the XBRL Taxonomy

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The amendments to the *FASB Accounting Standards Codification*<sup>®</sup> in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2019 Taxonomy, are available through Taxonomy Improvements provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.