

Financial Reporting Center – Revenue Recognition

Working Draft: Airlines Revenue Recognition Implementation Issue



Issue #2-11 - Change Fees

Expected Overall Level of Impact to Industry Accounting:
Significant

Wording to be Included in the Revenue Recognition Guide:

Ticket Change Fees

1. Airlines may separately charge customers to make changes to already purchased nonrefundable tickets (referred to as *change fees*). Generally, change fees are not refundable, have no separate value to the customer once paid, and do not attach to the ticket. In other words, if the ticket is exchanged again, only the value of the ticket (the fare paid), exclusive of the separately charged change fee, could be used against the value of the new ticket, and another change fee would likely apply. In addition, the customer would separately pay for or receive credit back for any difference in fare on the new ticket compared to the ticket exchanged, such as for a flight to a different location.
2. The airline should evaluate whether there is additional service being provided to the traveler associated with the change fee. FASB ASC 606-10-25-17 states that

Promised goods or services do not include activities that an entity must undertake to fulfill a contract unless those activities transfer a good or service to a customer. For example, a services provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not promised goods or services in the contract with the customer.
3. Because the customer is only obtaining a revised itinerary in exchange for the change fee, such as a different flight time or date, no additional promised goods or services are provided to the customer and, therefore, FinREC believes the process of changing the customer's itinerary would be considered an administrative task and not a promised service that would require assessment under FASB ASC 606-10-25-19 to determine if it is distinct.
4. In most cases, the change transaction will meet the definition of a contract modification because it amends the original contract, changes the rights to the original flight, and may have a corresponding impact on the price of the ticket if fares have changed since the original ticket was booked. FASB ASC 606-10-25-10 defines a contract modification as "a change in the scope or price (or both) of a contract that is approved by the parties to the contract". Additionally, FASB ASC 606-10-25-12 specifies that

An entity shall account for a contract modification as a separate contract if both of the following conditions are present:

- a. The scope of the contract increases because of the addition of promised goods or services that are distinct....
 - b. The price of the contract increases by an amount of consideration that reflects the entity's standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract...
5. In some situations, the function of revising the traveler's itinerary may meet the requirements in FASB ASC 606-10-25-12 and, therefore, will be accounted for as a separate contract. However, as indicated in paragraph 3, FinREC believes the function of revising the traveler's itinerary would be considered an administrative task and, in most cases, no additional goods or services have been promised or provided to the customer on the day of the change. In that case, FinREC believes the ticket change fee transaction would represent a contract modification described in FASB ASC 606-10-25-13(a), which provides the following guidance:

If a contract modification is not accounted for as a separate contract in accordance with paragraph 606-10-25-12, an entity shall account for the promised goods or services not yet transferred at the date of the contract modification (that is, the remaining promised goods or services) in whichever of the following ways is applicable:

- a. An entity shall account for the contract modification as if it were a termination of the existing contract, and the creation of a new contract, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 606-10-25-14(b)) is the sum of:
 1. The consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognized as revenue and
 2. The consideration promised as part of the contract modification.
6. Regardless of whether the function of revising the traveler's itinerary is considered a contract modification under the guidance in FASB ASC 606-10-25-13(a) or a separate contract under FASB ASC 606-10-25-12, FinREC believes that the accounting would be the same: that is, the amount paid by the customer for the change fee would need to be combined with the price of the original ticket less any credit due to the passenger and recognized as revenue when the performance obligation, which is the flight in this case, has been fulfilled.
7. Prior to the implementation of FASB ASC 606, the predominant industry practice was to recognize revenues associated with change fees upon assessment (which generally occurred prior to the flight date) and to classify it as Other Revenues. However, application of FASB ASC 606 results in the combining of the change fee with the price of the original ticket less any credit due to the passenger into a single performance obligation, with the recognition of revenue occurring when the passenger takes the flight.

Comments should be received by June 1, 2017, and sent by electronic mail to Yelena Mishkevich at yelena.mishkevich@aicpa-cima.com, or you can send them by mail to Yelena Mishkevich, Accounting Standards, AICPA, 1211 Avenue of the Americas, NY 10036.