

Financial Reporting Center – Revenue Recognition

Working Draft: Airlines Revenue Recognition Implementation Issue



Issue #2-4 – Ancillary Fees and Services

Expected Overall Level of Impact to Industry Accounting:
Minimal

Wording to be Included in the Revenue Recognition Guide:

Ancillary Services and Related Fees

1. Airlines may charge customers separately for various goods and services that can enhance the travel experience. These ancillary items could include baggage fees (for either checked or carry-on bags), seat assignment fees, priority boarding fees, and so on, and generally occur in conjunction with the flight. Some airlines also have ancillary products and services that are separate from transportation, including fees to access an airline's airport lounges.
2. In determining the appropriate accounting for these ancillary services, airlines should evaluate if such services are distinct from the travel component of the transaction. FASB ASC 606-10-25-19 states that

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- a. The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct).
 - b. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).
3. Further, FASB ASC 606-10-25-20 states that

A customer can benefit from a good or service in accordance with paragraph 606-10-25-19(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value, or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available

resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

4. Additionally, per FASB ASC 606-10-25-22
If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.
5. FinREC believes certain ancillary services provided to airline passengers are not distinct from the travel component because they do not meet criteria (a) in FASB ASC 606-10-25-19 (that is, they are not capable of being distinct). This is due to the fact that a customer could not separately benefit from an ancillary service that occurs in conjunction with or during the actual flight. That is, the flight and the ancillary service are dependent on each other—while the flight is capable of being distinct from the ancillary services, the ancillary services in these cases cannot be distinct from the flight because they cannot be provided without the purchase of a ticket and are not sold separately. For airlines, the ability to provide these services requires the purchase of an airline ticket since a customer cannot gain access to the aircraft or gate without such a ticket. Further, for fees charged to transport checked baggage, which is the most prevalent of these ancillary services, an airline may be legally prohibited from transporting baggage on international flights for customers who are not passengers on the flight. Also, as these ancillary services must be delivered concurrently or consumed in conjunction with the flight, FinREC does not believe that the flight could be considered a readily available resource as described in FASB ASC 606-10-25-20 because it was not “a resource that the customer has already obtained from the entity ...or from other transactions or events.” Because criteria (a) in FASB ASC 606-10-25-19 is not met, criteria (b) in FASB ASC 606-10-25-19 would not need to be considered.
6. The fact that some ancillary services are not purchased at the time the travel is purchased, but are purchased separately (generally after booking the travel but before taking the flight, including on the day of travel) also raises the question as to whether in those transactions the ancillary services should be considered distinct. As part of making this assessment, the airline would have to consider whether the separate purchase of ancillary services represents a modification of the original contract with the customer (which is the ticket for transportation) and, if so, whether it should be accounted for as a separate contract. Although each airline’s ticketing and fee policies are different, FinREC believes that in most cases, the purchase of ancillary services would qualify as a modification of the original ticket purchase transaction because the airline’s contract of carriage specifies whether such other services (such as checking a bag, reserving a specific seat, etc.) are included in the price of the ticket.
7. 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”. If the contract modification guidance is met, FASB ASC 606-10-25-12 further 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...
8. In the case of most ancillary services, the customer has paid an incremental amount in addition to the fare to receive the benefit of the ancillary service. However, since certain ancillary services would not qualify as being distinct (or capable of being distinct) as described in paragraph 5, the FASB ASC 606-10-25-12 criteria for accounting for a contract modification as a separate contract is not met for those services. However, regardless of whether the function of providing the customer with an additional ancillary service is considered a contract modification under the guidance in FASB ASC 606-10-25-10 or a separate contract under FASB ASC 606-10-25-12, FinREC believes that the accounting would be the same: that is, the ancillary services provided are highly interdependent or highly interrelated with the flight, and are not separately identifiable services or transactions, as described in FASB ASC 606-10-25-21. Therefore, consistent with guidance in FASB ASC 606-10-25-22, such ancillary services would likely be combined with the flight into a single performance obligation and accounted for as a bundled transaction with the recognition of revenue occurring at the flight date.
9. Some services offered by airlines may be considered distinct if the customer can benefit from the services without the purchase of a ticket. An example of this would be a one-time or annual fee paid to access a carrier’s lounges at various airports. For ancillary services that are considered distinct, and for which the customer could benefit without purchasing or utilizing a ticket for transportation, the airline would allocate the total arrangement consideration between the identified performance obligations and recognize revenue for each performance

obligation as it is satisfied. For example, FinREC believes that a fee charged for unlimited access to airport lounges for a determinable period of time represents an advance payment for future services, which would be accounted for in accordance with guidance in paragraphs 50-53 of FASB ASC 606-10-55 (that is, recognized as revenue when those future services are provided). FinREC believes that, in this scenario, the service being provided is the continuous access to the airport lounge, regardless of the number of times the customer actually utilizes the service during the period. In this example, if the lounge access were provided on an unlimited basis for one year, the associated revenue would be recognized on a straight-line basis over that period. In addition, certain airlines sell non-distinct services using annual subscription fees. One example is that a customer may purchase a subscription from the airline entitling them to unlimited premium seating upgrades (when such upgrades are available) for the full year by paying an upfront annual fee. In these cases, the subscription has no benefit to the customer without the purchase of a ticket to fly on the carrier in order to utilize the subscription services. As a result, the subscription contract for the non-distinct service would be combined with the related separately purchased ticket contract(s) to create the combined performance obligation of the ticket with a premium seat. As such, revenue for such subscription services would be recorded commensurately with the associated travel, based on the satisfaction of the combined performance obligation (i.e., flights taken) during the subscription period. This is expected to be a change in current practice under which these subscriptions are typically recognized on a straight line basis.

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.

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