Working Draft:

Telecommunications Revenue Recognition Implementation Issue

Issue #15-9– Determining the standalone selling price and allocating the transaction price

Expected Overall Level of Impact to Industry Accounting:
Significant

Wording to be Included in the Revenue Recognition Guide:

1. Step 4 of the revenue standard requires a company to allocate the transaction price to identified performance obligations based on the relative standalone selling prices (SSP), except when certain exceptions are met. Issue #15-8: Determining the Transaction Price paper, provides guidance on how the total transaction price for a contract should be allocated under Step 4 of the revenue standard. This paper provides a more in-depth discussion of the objective to be met using the relative standalone selling price allocation to depict the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.

2. FASB ASC 606-10-32-32 explains that the best evidence of standalone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. FASB ASC 606-10-32-33 requires that if the observable price of a good or service is not directly observable, a company should estimate a standalone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective in ASC 606-10-32-28 while maximizing the use of observable inputs. FASB ASC 606-10-32-34 provides examples of estimation methods that may be appropriate to use when the standalone selling price is not directly available (e.g., adjusted market assessment approach).

3. Telecommunication entities frequently provide multiple products and services to their customers as part of multi-faceted bundled offerings and therefore will need to determine appropriate methodologies for establishing SSP. These arrangements may consist of the sale of communication services along with the sale of supporting equipment (e.g., mobile device, router, modem, mobile services, data, etc.).

Possible methods for determining standalone selling price available to telecommunication companies

4. As stated in FASB ASC 606-10-32-32, the best price to use when allocating the transaction price is that price which is directly observable. The standalone selling price in telecommunication contracts (wireless, wireline, etc.) may often be observable. That is, telecommunication entities may have a directly observable transaction where a performance obligation is sold on a standalone basis to a similar customer. In those instances, telecommunications companies should use the directly observable price in entity-specific contracts with similar customers as SSP. When available, a telecommunications company would likely give the greatest weight to their own contract pricing data, in identifying directly observable evidence of SSP, as it is consistent with the directly observable notion of when the entity sells that good or service separately in similar circumstances and to similar customers, as noted in FASB ASC 606-10-32-32.

5. In the case where a published list price (whether internal or external) is equivalent to the directly observable price, then this price should be used when allocating the total transaction price for the contract. Utilizing list price to allocate the transaction price would generally be appropriate in cases in which list price reflects the price a similar customer in a similar transaction and market would receive. However, the list price should not be assumed to be the SSP for products and services sold within certain standalone or multi-product marketing programs in which every product receives a discount.

Product-specific considerations

6. In many telecommunication contracts (both wireless and wireline), hardware may be sold as part of a bundled service offering. In most cases, the hardware (e.g., mobile device or modem) in the bundled package will also be available on a standalone basis. In these cases, the standalone selling price of the hardware will generally be the price when sold in a separate transaction with a similar customer. Note, the standalone selling price for similar hardware may differ depending on jurisdiction in which it is sold or the class of customer to whom it is sold. FinREC believes it is possible to establish different standalone selling prices for the hardware based on a defined customer class (e.g., enterprise or business customers versus end consumers) or jurisdiction, assuming that the objective of allocation under FASB ASC 606-10-32-28 is still being met.

7. Specific to wireless service contracts, many times customers have various options for paying for their device, resulting in multiple observable prices for the same device. However, the SSP may be the price a customer pays when they purchase a device without the purchase of any other devices or committing to a service agreement of any term. This is commonly referred to as the no commitment price.

8. In some instances, a telecommunication entity may offer a free product (e.g., a tablet or television) as a marketing initiative to incent a customer to enter into a particular contract. Unless determined to be an immaterial promised good or service in the context of the contract, that free product will generally meet the definition of a separate performance obligation in most cases. If the free product is sold separately, an entity should rely on directly observable inputs in order to determine the SSP of the free product. However, it may be the case, under these circumstances, that the entity does not sell the free product separately. In these cases, if entity-specific directly observable SSP is not available for the separate performance obligation, a telecommunications entity will need to estimate the SSP. An adjusted market assessment approach or cost-plus approach are estimation alternatives provided under FASB ASC 606-10-32-34 that may serve as a suitable method for estimating for standalone selling price in these situations. Many times a similar standalone market transaction may exist (i.e. sales of the product by others), and, therefore, an adjusted market assessment approach could be the most appropriate. However, in instances where the marketing incentive is not widely sold separately, an entity may conclude that a different estimation technique is appropriate.

Service-specific considerations

9. Similar to paragraph 7, customers typically are provided many different options of service pricing depending on a mix of voice/data options. As such, the monthly service plan charge may be different depending on the option chosen for the service plan. However, FinREC believes the SSP of the service plan for revenue recognition purposes will generally be the monthly amount charged to the customer when they bring their own device or pay

the no commitment price for the device that is being connected for service, considering the established customer class (i.e., corporate customers versus retail customers). Observable prices for value-added services and options will generally be considered the SSP. Refer to Issue #15-2, *Identification of Separate Performance Obligations,* for additional discussion about whether the components of a service plan (e.g., voice, text, and data services) would be accounted for as one or multiple performance obligations.

10. In other telecommunication service plans, add-on voice and data options will typically be priced separately. Assuming these add-on services are determined to be separate performance obligations and the billed price reflects the price a similar customer in a similar transaction would pay, it may be possible for those separate billed prices to represent SSP for those performance obligations. However, FASB ASC 606-10-32-32 clarifies that a contractually stated price or list price for a good or service may be, but shall not be presumed to be, the standalone selling price of that good or service. Therefore, if an entity concludes list price cannot be used as a basis for determining SSP, SSP for data and voice/text services will need to be established outside of the billed prices.

11. Periodically, marketing departments may offer promotional service plan alternatives. Typically, these new plans may only be offered for a limited time, but will be available to customers who select the plan for as long as they maintain that particular plan. Even though the plan may be offered for a limited time, FinREC believes it may be considered a new plan with a newly established SSP if the plan is available to all customers (current or new) and if the price is not dependent on any other purchases. FinREC believes that in cases where the promotional pricing is for all goods and services promised in one arrangement and the promotional pricing is consistent across the entire term of the contract, the promotional pricing may be considered the SSP. If an entity is using promotional pricing for only specific performance obligations in an overall bundled arrangement, the promotional pricing may not be reflective of the SSP. As such, other methods to determine the SSP may need to be considered, in addition, it should be determined whether the discount provided as part of promotional pricing should be allocated to one or more specific performance obligations within a bundled arrangement, in accordance with FASB ASC 606-10-32-36 through 32-38.

12. FinREC believes that for the purposes of establishing SSP, telecommunication entities may determine that stratifying customers into separate classes, for example by sales channel, pre-defined customer size/class, or geographic region, and establishing different SSPs for the same performance obligations in each class best achieves the allocation objective in FASB ASC 606-10-32-28. In other instances (for example large business customers that negotiate highly customized services), where a telecommunications company contracts with a business to provide a highly customized service that it does not regularly sell separately, the standalone selling price of the customized service may be the contract's transaction price; however, it should not be presumed to be. Other analysis, including the adjusted market assessment approach or the expected cost plus a margin approach described in FASB ASC 606-10-32-34 should be performed to assess the SSP. Note, this area will be subjective and require management judgement.

Allocating a discount to one or more (but not all) performance obligations in a contract

13. In accordance with FASB ASC 606-10-32-36, except when an entity has observable evidence that the entire discount relates to only one or more, but not all, performance obligations in the contract, the entity should allocate a discount proportionately to all performance obligations in a contract. A contract contains a discount when the sum of the SSPs exceeds the promised consideration in the contract. FASB ASC 606-10-32-37 provides three criteria to meet to allocate a discount in other than a proportional fashion.

14. The language in paragraph FASB ASC 606-10-32-37 results in a relatively high hurdle to allocate a discount specifically to one performance obligation in a contract. In order to do so, the second and third criteria (i.e., paragraph FASB ASC 606-10-32-37b and 37c) require observable evidence of a substantially similar discount being provided for the performance obligation in a separate bundled arrangement. Significant judgment will be required in order to determine whether directly observable evidence exists in order to show the discount relates entirely to one or more, but not all, performance obligations in a contract with a customer.

Comments should be received by March 1, 2017, and sent by electronic mail to Desiré Carroll at dcarroll@aicpa.org, or you can send them by mail to Desiré Carroll, Accounting Standards, AICPA, 1211 Avenue of the Americas, NY 10036.