

FASB FLASH REPORT

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FASB Improves Consolidation Accounting

The FASB issued ASU 2018-18¹ to clarify when certain transactions between participants of a collaborative arrangement are within the scope of ASC 606.² The ASU is available [here](#), and is effective for public entities for fiscal years beginning after December 15, 2019, and for private entities, the effective date is fiscal years beginning after December 15, 2020. Early adoption is permitted.

BACKGROUND

The Master Glossary defines a collaborative arrangement under ASC 808³ as:

A contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties that meet both of the following requirements:

- a. *They are active participants in the activity.*
- b. *They are exposed to significant risks and rewards dependent on the commercial success of the activity.*

ASC 808 does not provide specific recognition or measurement guidance on the accounting for a transaction between participants of a collaborative arrangement. Due to the lack of authoritative guidance, there has historically been diversity in practice. Implementation of ASC 606 led to uncertainty in whether a collaborative arrangement should be accounted for pursuant to ASC 606, or to other guidance. ASU 2018-18 is intended to clarify the interaction between ASC 808 and ASC 606.

¹ Accounting Standards Update (ASU) No. 2018-18, *Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606*

² Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*

³ *Collaborative Arrangements*

MAIN PROVISIONS

The amendments in this ASU make targeted improvements for collaborative arrangements as follows:

- ▶ Clarify that certain transactions between collaborative arrangement participants are within the scope of ASC 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In those situations, all the guidance in ASC 606 should be applied, including recognition, measurement, presentation, and disclosure requirements.
- ▶ Add unit-of-account (i.e., distinct good or service) guidance to ASC 808 to align with the guidance in ASC 606 to determine whether the collaborative arrangement, or a part of the arrangement, is within the scope of ASC 606.
- ▶ Specifies that in a transaction with a collaborative arrangement participant that is not directly related to sales to third parties, if the collaborative arrangement participant is not a customer, an entity is precluded from presenting the transaction together with revenue recognized under ASC 606. The amendments also do not address the accounting for nonrevenue transactions between collaborative arrangement participants.

There were no amendments made to transactions with a collaborative arrangement participant directly related to third-party sales, and as such, current practice remains unchanged for those arrangements.

EFFECTIVE DATE AND TRANSITION REQUIREMENTS

For public business entities, the amendments 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 ASC 606.

The amendments should be applied retrospectively to the date of initial application of ASC 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 ASC 606.

An entity may elect to apply the amendments retrospectively either to all contracts or only to contracts that are not completed at the date of initial application of ASC 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 ASC 606.

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