

# FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2017-05  
February 2017

## Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)

Clarifying the Scope of Asset Derecognition Guidance  
and Accounting for Partial Sales of Nonfinancial Assets

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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### Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

February 2017

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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 scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers.

The scope of Subtopic 610-20 (as originally issued in Update 2014-09) included the derecognition of an in substance nonfinancial asset. At the time the amendments in Update 2014-09 were issued, the Board heard from stakeholders that they were uncertain about what types of transactions should be within the scope of Subtopic 610-20 because the term *in substance nonfinancial asset* was not defined. Stakeholders also noted that other aspects of the scope of Subtopic 610-20 were confusing and complex. For example, stakeholders were unclear about why a transfer of a nonfinancial asset to another entity in exchange for a noncontrolling interest in that entity was excluded from the scope of Subtopic 610-20 (and, instead, was within the scope of Topic 845, Nonmonetary Transactions), while a transfer of a nonfinancial asset for any other form of noncash consideration was within the scope of Subtopic 610-20.

Stakeholders also indicated that they were uncertain about how an entity should account for partial sales of nonfinancial assets once the amendments in Update 2014-09 become effective. Partial sales of nonfinancial assets are common in the real estate industry and include transactions in which the seller retains an equity interest in the entity that owns the assets or has an equity interest in the buyer. The real-estate-specific guidance in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales, included detailed guidance on partial sales transactions but was superseded by the amendments in Update 2014-09. The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) did not address partial sales transactions. In addition, stakeholders informed the Board that there was a lack of clear guidance on how to account for contributions of nonfinancial assets to form joint ventures and that differences in accounting for transfers of assets and businesses to equity method investees, including joint ventures, create additional complexity.

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

The amendments in this Update affect the following:

1. An entity that enters into a contract to transfer to a noncustomer a nonfinancial asset, a group of nonfinancial assets, or an ownership interest in a consolidated subsidiary that is not a business or nonprofit activity
2. An entity that historically had transactions within the scope of the real-estate-specific derecognition guidance
3. An entity that contributes nonfinancial assets that are not a business or a nonprofit activity to a joint venture or other noncontrolled investee.

## What Are the Main Provisions?

### Scope

A contract may involve the transfer of both nonfinancial assets and financial assets (for example, cash and receivables). The amendments in this Update clarify that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term *in substance nonfinancial asset*, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20.

The amendments in this Update also clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. For purposes of that evaluation, the amendments require an entity to evaluate the underlying assets in consolidated subsidiaries to determine whether those assets are within the scope of Subtopic 610-20.

In some cases, substantially all of the fair value of the assets that are promised to the counterparty in a *contract* is not concentrated in nonfinancial assets; however, substantially all of the fair value of the assets promised to a counterparty in an *individual consolidated subsidiary* within a contract is concentrated in nonfinancial assets. To address those situations, the amendments in this Update also define

an *in substance nonfinancial asset* as a financial asset that is held in an individual consolidated subsidiary within a contract if substantially all the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in that subsidiary is concentrated in nonfinancial assets.

The amendments in this Update exclude all businesses and nonprofit activities from the scope of Subtopic 610-20. Therefore, the derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with Subtopic 810-10, Consolidation—Overall.

The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) would have required an entity to apply the guidance in Topic 860, Transfers and Servicing, to a transfer of an equity method investment unless the equity method investment is considered an *in substance nonfinancial asset*. The amendments in this Update remove that scope exception from Topic 860.

## Distinct Nonfinancial Assets

The amendments in this Update clarify that an entity should identify each distinct nonfinancial asset or *in substance nonfinancial asset* promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments also clarify that an entity should allocate consideration to each distinct asset by applying the guidance in Topic 606 on allocating the transaction price to performance obligations.

## Partial Sales

A partial sale of a nonfinancial asset (or *in substance nonfinancial asset*) may be structured in different ways. For example, an entity may transfer a nonfinancial asset to a counterparty and, in exchange, receive a noncontrolling interest in the legal entity to which the asset was transferred. Alternatively, a parent may transfer ownership interests in a consolidated subsidiary that includes a nonfinancial asset but retain a noncontrolling interest in its former subsidiary. The amendments in this Update require an entity to derecognize a distinct nonfinancial asset or distinct *in substance nonfinancial asset* in a partial sale transaction when it (1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and (2) transfers control of the asset in accordance with Topic 606. Once an entity transfers control of a distinct nonfinancial asset or distinct *in substance nonfinancial asset*, it is required to measure any noncontrolling interest it receives (or retains) at fair value.

If an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, it does not derecognize the assets and liabilities of the subsidiary and accounts for the transaction as an equity transaction. Therefore, no gain or loss is recognized.

The amendments in this Update supersede the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845 because that guidance is similar to the guidance for partial sales of nonfinancial assets within the scope of Subtopic 610-20. The amendments also clarify that partial sales transactions within the scope of Subtopic 610-20 include contributions of nonfinancial assets to a joint venture or other noncontrolled investee. In addition, the amendments require an entity to recognize a full gain or loss on transfers of nonfinancial assets within the scope of Subtopic 610-20 to equity method investees.

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

The amendments in this Update differ from current GAAP primarily for the real estate industry but may affect other industries such as power and utilities, alternative energy, life sciences, and shipping. Current GAAP requires an entity to derecognize (or deconsolidate) a business or nonprofit activity in accordance with Topic 810 unless the business or nonprofit activity is considered in substance real estate. In many cases, income-producing real estate is considered in substance real estate and, therefore, is derecognized in accordance with industry-specific guidance. Once the amendments in this Update are effective, all entities are required to account for the derecognition of a business or nonprofit activity (except those related to conveyances of oil and gas mineral rights or contracts with customers) in accordance with Topic 810. That change simplifies GAAP because an entity does not have to consider whether a business or nonprofit activity also is in substance real estate (or an in substance nonfinancial asset). Current GAAP also requires an entity to derecognize an equity method investment in accordance with Topic 860 unless the investment is considered in substance real estate. The amendments in this Update eliminate that scope exception, which simplifies GAAP.

The amendments in this Update also simplify GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses. For example, an entity currently may measure a retained noncontrolling interest in a nonfinancial asset at carryover basis in many transactions related to:

1. A partial sale of real estate
2. A contribution of a nonfinancial asset to form a joint venture
3. A transfer of a nonfinancial asset within the scope of Topic 845
4. A transfer of a nonfinancial asset to an equity method investee.

The amendments in this Update require an entity to initially measure a retained noncontrolling interest in a nonfinancial asset at fair value consistent with a how a

retained noncontrolling interest in a business is measured. Also, if an entity transfers ownership interests in a consolidated subsidiary that is within the scope of Subtopic 610-20 and continues to have a controlling financial interest in that subsidiary, the amendments require the entity to account for the transaction as an equity transaction, which is consistent with how changes in ownership interests in a consolidated subsidiary that is a business are recorded when a parent retains a controlling financial interest in the business.

By defining an *in substance nonfinancial asset*, the amendments in this Update clarify the scope of Subtopic 610-20 and reduce the potential for further diversity in practice. Also, including contributions to joint ventures within the scope of Subtopic 610-20 simplifies GAAP by eliminating the need to distinguish between a joint venture and other types of investees.

## When Will the Amendments Be Effective?

The amendments in this Update are effective at the same time as the amendments in Update 2014-09. Therefore, for public entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

A public entity is an entity that is any one of the following:

1. A public business entity
2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
3. An employee benefit plan that files or furnishes financial statements with or to the U.S. Securities and Exchange Commission (SEC).

For all other entities, the amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance.

An entity is required to apply the amendments in this Update at the same time that it applies the amendments in Update 2014-09.

An entity may elect to apply the amendments in this Update either:

1. Retrospectively to each period presented in the financial statements in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 (retrospective approach)
2. Retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption (modified retrospective approach).

An entity may elect to apply all of the amendments in this Update and Update 2014-09 using the same transition method. Alternatively, an entity may elect to apply a different transition method to transactions with customers (for example, transactions within the scope of Topic 606) than to transactions with noncustomers (for example, transactions within the scope of Subtopic 610-20). For example, an entity may elect to apply the retrospective approach to transactions within the scope of Topic 606 and the modified retrospective approach to transactions within the scope of Subtopic 610-20. Regardless of which transition method an entity applies to contracts with noncustomers, the entity is required to apply the amended definition of a business in Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to those contracts. If an entity concludes that a transaction previously recorded as the disposal of a business is no longer a business, the entity should not reinstate amounts previously allocated to goodwill associated with that disposal.

# 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 3–45. 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~~.
2. The amendments in this Update are divided into two sections.
  - a. Amendments to clarify the scope of Subtopic 610-20 and to provide guidance for partial sales of nonfinancial assets (paragraphs 3–11)
  - b. Amendments to conform the guidance in other Topics to the guidance in Subtopic 610-20 (paragraphs 13–34).

## Amendments to Master Glossary

3. Add the new Master Glossary term *In Substance Nonfinancial Asset*, with a link to transition paragraph 606-10-65-1, as follows:

### **In Substance Nonfinancial Asset**

Paragraphs 610-20-15-5 through 15-8 define an in substance nonfinancial asset.

## Amendments to Subtopic 610-20

4. Amend paragraph 610-20-05-1 and add paragraph 610-20-05-2, with a link to transition paragraph 606-10-65-1, as follows:

### **Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets**

#### **Overview and Background**

**610-20-05-1** This Subtopic provides guidance on the recognition of gains and losses on transfers of nonfinancial assets and in substance nonfinancial assets to counterparties that are not customers. Although the guidance in this Subtopic applies to **contracts** with noncustomers, it refers to revenue recognition principles in Topic 606 on **revenue** from contracts with customers ~~a gain or loss recognized upon the derecognition of a nonfinancial asset within the scope of Topic 350 on intangibles and Topic 360 on property, plant, and equipment (including in substance nonfinancial assets) if those assets are not in a contract with a customer within the scope of Topic 606 on revenue from contracts with customers.~~

**610-20-05-2** The term *transfer* in this Subtopic is used broadly and includes sales and situations in which a **parent** transfers ownership interests (or **variable interests**) in a consolidated **subsidiary** or other changes in facts and circumstances that result in the derecognition of nonfinancial assets or in substance nonfinancial assets that do not constitute a business. For example, an entity may lose control of nonfinancial assets or in substance nonfinancial assets because of the expiration or termination of an existing contractual arrangement, a dilution event, a government action, or upon default of a subsidiary's nonrecourse debt. An entity also may lose control of nonfinancial assets or in substance nonfinancial assets by contributing those assets to a **joint venture** or other noncontrolled investee.

5. Amend paragraphs 610-20-15-2 through 15-3 and supersede the heading preceding paragraph 610-20-15-3 and add paragraphs 610-20-15-4 through 15-10 and their related headings, with a link to transition paragraph 606-10-65-1, as follows:

## Scope and Scope Exceptions

### > Entities

**610-20-15-1** The guidance in this Subtopic applies to all entities.

### > Transactions

**610-20-15-2** Except as described in paragraph 610-20-15-4, the guidance in this Subtopic applies to gains or losses recognized upon the derecognition of nonfinancial assets and in substance nonfinancial assets. Nonfinancial assets within the scope of this Subtopic include **intangible assets**, land, buildings, or materials and supplies and may have a zero carrying value. In substance nonfinancial assets are described in paragraphs 610-20-15-5 through 15-8. The guidance in this Subtopic applies to the following events and transactions:

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. The gain or loss recognized upon the derecognition of a nonfinancial asset within the scope of Topic 350 on intangibles or Topic 360 on property, plant, and equipment, unless the entity sells or transfers the nonfinancial asset in a **contract** with a **customer**~~
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. The gain or loss recognized upon the transfer of financial assets that are in substance nonfinancial assets within the scope of Topic 350 or Topic 360 (for example, the sale of a subsidiary that only consists of an asset [for example, a machine or piece of equipment]).~~

**> Other Considerations**

**610-20-15-3** ~~The guidance in this Subtopic applies to a transfer of an ownership interest (or a **variable interest**) in a consolidated **subsidiary** (that is not a **business** or **nonprofit activity**) only if all of the assets in the subsidiary are nonfinancial assets and/or in substance nonfinancial assets. The guidance in this Subtopic does not apply to the following:~~

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. The derecognition of a nonfinancial asset, including an in-substance nonfinancial asset, in a **contract** with a **customer**, see Topic 606 on revenue from contracts with customers~~
- b. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. The derecognition of a subsidiary or group of assets that constitutes a **business** or **nonprofit activity** (excluding an in-substance nonfinancial asset), see Section 810-10-40 on consolidation~~
- c. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. Real estate sale leaseback transactions, see Subtopics 360-20 and 840-40 on leases~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. A conveyance of oil and gas mineral rights, see Subtopic 932-360 on extractive activities~~
- e. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. A transfer of a nonfinancial asset to another entity in exchange for a noncontrolling ownership interest in that entity, see the guidance on exchanges of a nonfinancial asset for a noncontrolling ownership interest in Section 845-10-30. [Content amended and moved to paragraph 610-20-15-4]~~

**In addition, delete the following pending content for paragraph 610-20-15-3, with no additional link to transition:**

**Pending Content:**

~~**Transition Date:** (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1~~

**610-20-15-3** The guidance in this Subtopic does not apply to the following:

- a. ~~The derecognition of a nonfinancial asset, including an in substance nonfinancial asset, in a **contract** with a **customer**, see Topic 606 on revenue from contracts with customers~~
- b. ~~The derecognition of a subsidiary or group of assets that constitutes a **business or nonprofit activity** (excluding an in substance nonfinancial asset), see Section 810-10-40 on consolidation~~
- c. ~~Sale and leaseback transactions, see Subtopic 842-40 on leases~~
- d. ~~A conveyance of oil and gas mineral rights, see Subtopic 932-360 on extractive activities~~
- e. ~~A transfer of a nonfinancial asset to another entity in exchange for a noncontrolling ownership interest in that entity, see the guidance on exchanges of a nonfinancial asset for a noncontrolling ownership interest in Section 845-10-30.~~

**610-20-15-4** The guidance in this Subtopic does not apply to the following:

- a. A transfer of a nonfinancial asset or an in substance nonfinancial asset ~~The derecognition of a nonfinancial asset, including an in substance nonfinancial asset,~~ in a **contract** with a **customer**, see Topic 606 on **revenue** from contracts with customers
- b. ~~The derecognition~~ A transfer of a subsidiary or group of assets that constitutes a **business or nonprofit activity** ~~(excluding an in substance nonfinancial asset)~~, see Section 810-10-40 on consolidation
- c. A real estate sale-leaseback transaction or a non-real-estate sale-leaseback transaction within the scope of Subtopic 360-20 on property, plant, and equipment—real estate sales or within the scope of Subtopic 840-40 on leases—sale-leaseback transactions ~~Real estate sale-leaseback transactions, see Subtopics 360-20 and 840-40 on leases~~
- d. A conveyance of oil and gas mineral rights, ~~see~~ within the scope of Subtopic 932-360 on extractive activities—oil and gas
- e. A transaction that is entirely accounted for in accordance with Topic 860 on transfers and servicing (for example, a transfer of investments accounted for under Topic 320 on investments—debt and equity securities, Topic 323 on investments—equity method and **joint ventures**, Topic 325 on investments—other, Topic 815 on derivatives and hedging, and Topic 825 on financial instruments) ~~A transfer of a nonfinancial asset to another entity in exchange for a noncontrolling ownership interest in that entity, see the guidance on exchanges of a nonfinancial asset for a noncontrolling ownership interest in Section 845-10-30.~~ **[Content amended as shown and moved from paragraph 610-20-15-3]**
- f. A transfer of nonfinancial assets that is part of the consideration in a business combination within the scope of Topic 805 on business combinations, see paragraph 805-30-30-8

- g. A nonmonetary transaction within the scope of Topic 845 on nonmonetary transactions
- h. A lease contract within the scope of Topic 840 on leases
- i. An exchange of takeoff and landing slots within the scope of Subtopic 908-350 on airlines—intangibles
- j. A contribution of **cash** and other assets, including a promise to give, within the scope of Subtopic 720-25 on other expenses—contributions made or within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition
- k. A transfer of an investment in a venture that is accounted for by proportionately consolidating the assets, liabilities, revenues, and expenses of the venture as described in paragraph 810-10-45-14
- l. A transfer of nonfinancial assets or in substance nonfinancial assets solely between entities or persons under common control, such as between a **parent** and its subsidiaries or between two subsidiaries of the same parent.

**In addition, add the following pending content for paragraph 610-20-15-4, with a link to transition paragraph 825-10-65-2:**

**Pending Content:**

**Transition Date: (P) December 16, 2017; (N) December 16, 2018 | Transition Guidance: 825-10-65-2**

**610-20-15-4** The guidance in this Subtopic does not apply to the following:

- a. A transfer of a nonfinancial asset or an in substance nonfinancial asset  
~~The derecognition of a nonfinancial asset, including an in substance nonfinancial asset,~~ in a **contract** with a **customer**, see Topic 606 on **revenue** from contracts with customers
- b. ~~The derecognition~~A transfer of a subsidiary or group of assets that constitutes a **business** or **nonprofit activity** ~~(excluding an in substance nonfinancial asset)~~, see Section 810-10-40 on consolidation
- c. A real estate sale-leaseback transaction or a non-real-estate sale-leaseback transaction within the scope of Subtopic 360-20 on property, plant, and equipment—real estate sales or Subtopic 840-40 on leases—sale-leaseback transactions~~Real estate sale-leaseback transactions, see Subtopics 360-20 and 840-40 on leases~~
- d. A conveyance of oil and gas mineral rights,~~see~~ within the scope of Subtopic 932-360 on extractive activities—oil and gas
- e. A transaction that is entirely accounted for in accordance with Topic 860 on transfers and servicing (for example, a transfer of investments accounted for under Topic 320 on investments—debt securities, Topic 321 on investments—equity securities, Topic 323 on investments—equity method and **joint ventures**, Topic 325 on investments—other, Topic 815 on derivatives and hedging, and Topic 825 on financial instruments)~~A~~

~~transfer of a nonfinancial asset to another entity in exchange for a noncontrolling ownership interest in that entity, see the guidance on exchanges of a nonfinancial asset for a noncontrolling ownership interest in Section 845-10-30. [Content amended as shown and moved from paragraph 610-20-15-3]~~

- f. A transfer of nonfinancial assets that is part of the consideration in a business combination within the scope of Topic 805 on business combinations, see paragraph 805-30-30-8
- g. A nonmonetary transaction within the scope of Topic 845 on nonmonetary transactions
- h. A lease contract within the scope of Topic 840 on leases
- i. An exchange of takeoff and landing slots within the scope of Subtopic 908-350 on airlines—intangibles
- j. A contribution of **cash** and other assets, including a promise to give, within the scope of Subtopic 720-25 on other expenses—contributions made or within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition
- k. A transfer of an investment in a venture that is accounted for by proportionately consolidating the assets, liabilities, revenues, and expenses of the venture as described in paragraph 810-10-45-14
- l. A transfer of nonfinancial assets or in substance nonfinancial assets solely between entities or persons under common control, such as between a **parent** and its subsidiaries or between two subsidiaries of the same parent.

**In addition, add the following pending content for paragraph 610-20-15-4, with a link to transition paragraph 842-10-65-1:**

**Pending Content:**

**Transition Date: (P) *December 16, 2018*; (N) *December 16, 2019* | **Transition Guidance: 842-10-65-1****

**610-20-15-4** The guidance in this Subtopic does not apply to the following:

- a. ~~The derecognition of a nonfinancial asset, including an in-substance nonfinancial asset.~~ A transfer of a nonfinancial asset or an in-substance nonfinancial asset in a **contract** with a **customer**, see Topic 606 on **revenue** from contracts with customers
- b. ~~The derecognition~~ A transfer of a subsidiary or group of assets that constitutes a **business** or **nonprofit activity** (excluding an in-substance nonfinancial asset), see Section 810-10-40 on consolidation
- c. Sale and leaseback transactions within the scope of, see Subtopic 842-40 on leases
- d. A conveyance of oil and gas mineral rights, ~~see~~ within the scope of Subtopic 932-360 on extractive activities—oil and gas

- e. A transaction that is entirely accounted for in accordance with Topic 860 on transfers and servicing (for example, a transfer of investments accounted for under Topic 320 on investments—debt securities, Topic 321 on investments—equity securities, Topic 323 on investments—equity method and **joint ventures**, Topic 325 on investments—other, Topic 815 on derivatives and hedging, and Topic 825 on financial instruments) A transfer of a nonfinancial asset to another entity in exchange for a noncontrolling ownership interest in that entity, see the guidance on exchanges of a nonfinancial asset for a noncontrolling ownership interest in Section 845-10-30. [Content amended as shown and moved from paragraph 610-20-15-3]
- f. A transfer of nonfinancial assets that is part of the consideration in a business combination within the scope of Topic 805 on business combinations, see paragraph 805-30-30-8
- g. A nonmonetary transaction within the scope of Topic 845 on nonmonetary transactions
- h. A lease contract within the scope of Topic 842 on leases
- i. An exchange of takeoff and landing slots within the scope of Subtopic 908-350 on airlines—intangibles
- j. A contribution of **cash** and other assets, including a promise to give, within the scope of Subtopic 720-25 on other expenses—contributions made or within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition
- k. An investment in a venture that is accounted by proportionately consolidating the assets, liabilities, revenues, and expenses of the venture as described in paragraph 810-10-45-14
- l. A transfer of nonfinancial assets or in substance nonfinancial assets solely between entities or persons under common control, such as between a **parent** and its subsidiaries or between two subsidiaries of the same parent.

### **> In Substance Nonfinancial Assets**

**610-20-15-5** An **in substance nonfinancial asset** is a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty in the contract are in substance nonfinancial assets. For purposes of this evaluation, when a contract includes the transfer of ownership interests in one or more consolidated **subsidiaries** that is not a business, an entity shall evaluate the underlying assets in those subsidiaries.

**610-20-15-6** When a contract includes the transfer of ownership interests in one or more consolidated subsidiaries that is not a business, and substantially all of the fair value of the assets promised to a counterparty in the contract is not

concentrated in nonfinancial assets, an entity shall evaluate whether substantially all of the fair value of the assets promised to the counterparty in an individual subsidiary within the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets in an individual subsidiary is concentrated in nonfinancial assets, then the financial assets in that subsidiary are in substance nonfinancial assets. (See Case C of Example 1 in paragraphs 610-20-55-9 through 55-10.)

**610-20-15-7** When determining whether substantially all of the fair value of the assets promised to a counterparty in a contract (or an individual consolidated subsidiary within a contract) is concentrated in nonfinancial assets, **cash** or **cash equivalents** promised to the counterparty shall be excluded. Also, any liabilities assumed or relieved by the counterparty shall not affect the determination of whether substantially all of the fair value of the assets transferred is concentrated in nonfinancial assets.

**610-20-15-8** If all of the assets promised to a counterparty in an individual consolidated subsidiary within a contract are not nonfinancial assets and/or in substance nonfinancial assets, an entity shall apply the guidance in paragraph 810-10-40-3A(c) or 810-10-45-21A(b)(2) to determine the guidance applicable to that subsidiary.

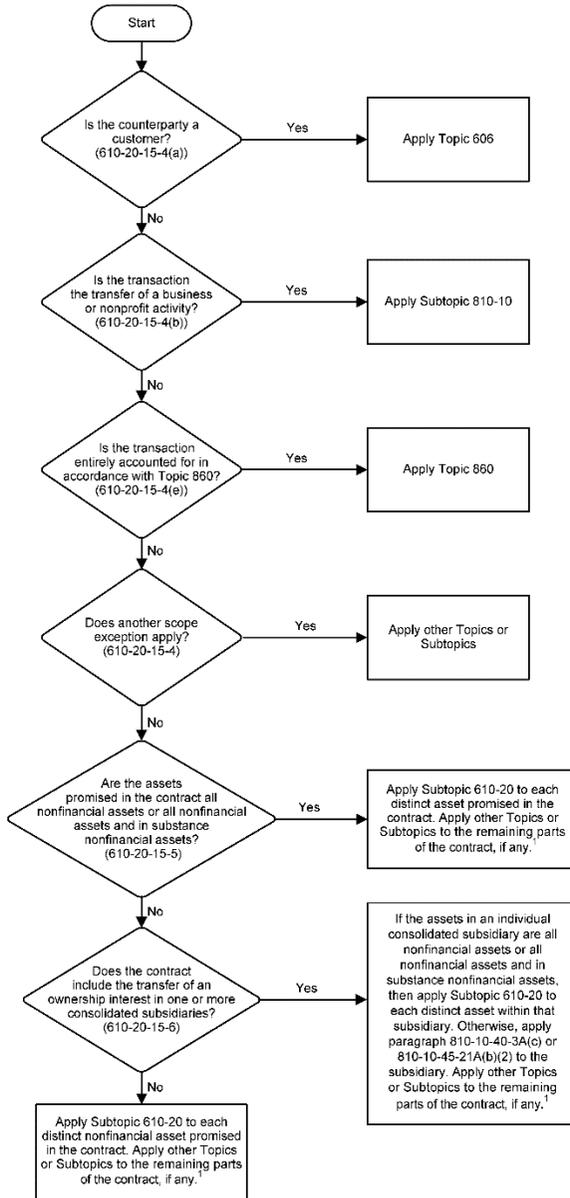
#### **> Contracts Partially within the Scope of Other Topics**

**610-20-15-9** If the promises to a counterparty in a contract are not all nonfinancial assets or all nonfinancial assets and in substance nonfinancial assets, a contract may be partially within the scope of this Subtopic and partially within the scope of other Topics. For example, in addition to transferring nonfinancial assets and in substance nonfinancial assets that are within the scope of this Subtopic, an entity may issue a guarantee to the counterparty that is within the scope of Topic 460 on guarantees. An entity shall apply the guidance in paragraph 606-10-15-4 to determine how to separate and measure one or more parts of a contract that are within the scope of other Topics. (See also Case A of Example 1 in paragraphs 610-20-55-2 through 55-5 and Case C of Example 1 in paragraphs 610-20-55-9 through 55-10.)

#### **> Decision Tree**

**610-20-15-10** The following decision tree depicts the process for evaluating whether assets promised to a counterparty in a **contract** (or parts of a contract) shall be derecognized within the scope of this Subtopic. The decision tree is not intended as a substitute for the guidance in this Subtopic.

**[For ease of readability, the new decision tree is not underlined.]**



<sup>1</sup>If the transfer includes other contractual arrangements that are not assets of the seller to be derecognized (for example, guarantees), those contracts are separated and accounted for in accordance with other Topics or Subtopics.

6. Amend paragraph 610-20-25-1 and add paragraphs 610-20-25-2 through 25-7, with a link to transition paragraph 606-10-65-1, as follows:

## **Recognition**

**610-20-25-1** To recognize a gain or loss from the transfer of nonfinancial assets or **in substance nonfinancial assets** within the scope of this Subtopic, an entity shall apply the guidance in Topic 810 on consolidation and in Topic 606 on **revenue** from **contracts** with **customers** as described in paragraphs 610-20-25-2 through 25-7. An entity shall recognize a gain or loss in accordance with the derecognition guidance in Section 610-20-40.

### **> Determining Whether an Entity Has a Controlling Financial Interest**

**610-20-25-2** An entity shall first evaluate whether it has (or continues to have) a controlling financial interest in the **legal entity** that holds the nonfinancial assets and/or **in substance nonfinancial assets** by applying the guidance in Topic 810 on consolidation. For example, if a **parent** transfers ownership interests in a consolidated **subsidiary**, the parent shall evaluate whether it continues to have a controlling financial interest in that subsidiary. Similarly, when an entity transfers assets directly to a counterparty (or a legal entity formed by the counterparty), the entity shall evaluate whether it has a controlling financial interest in the counterparty (or the legal entity formed by the counterparty).

**610-20-25-3** If an entity determines it has (or continues to have) a controlling financial interest in the legal entity that holds the nonfinancial assets or in substance nonfinancial assets, it shall not derecognize those assets and shall apply the guidance in paragraphs 810-10-45-21A through 45-24.

**610-20-25-4** Any nonfinancial assets or in substance nonfinancial assets transferred that are held in a legal entity in which the entity does not have (or ceases to have) a controlling financial interest shall be further evaluated in accordance with the guidance in paragraphs 610-20-25-5 through 25-7.

### **> Applying Revenue Recognition Guidance**

**610-20-25-5** After applying the guidance in paragraphs 610-20-25-2 through 25-4, an entity shall next evaluate a **contract** in accordance with the guidance in paragraphs 606-10-25-1 through 25-8. If a **contract** does not meet all of the criteria in paragraph 606-10-25-1, an entity shall not derecognize the nonfinancial assets or **in substance nonfinancial assets** transferred, and it shall apply the guidance in paragraph 350-10-40-3 to any **intangible assets** and the guidance in paragraph 360-10-40-3C to any property, plant, and equipment. An entity shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when a contract subsequently meets all of the criteria in paragraph 606-10-25-1.

**610-20-25-6** Once a contract meets all of the criteria in paragraph 606-10-25-1, an entity shall identify each distinct nonfinancial asset and distinct in substance nonfinancial asset promised to a counterparty in accordance with the guidance in paragraphs 606-10-25-19 through 25-22. An entity shall derecognize each distinct asset when it transfers control of the asset in accordance with paragraph 606-10-25-30. In some cases, control of each asset may transfer at the same time such that an entity may not need to separate and allocate consideration to each distinct nonfinancial asset and in substance nonfinancial asset. That may be the case, for example, when a parent transfers ownership interests in a consolidated subsidiary that holds nonfinancial assets (or nonfinancial assets and in substance nonfinancial assets) and ceases to have a controlling financial interest in the subsidiary in accordance with Topic 810. However, control of each asset may not transfer at the same time if the parent has control of some of the assets in accordance with paragraph 606-10-25-30 (for example, through repurchase agreements).

**610-20-25-7** For purposes of evaluating the indicators of the transfer of control in paragraph 606-10-25-30, if an entity has (or continues to have) a **noncontrolling interest** in the **legal entity** that holds the nonfinancial assets or in substance nonfinancial assets as a result of the transaction, the entity shall evaluate the point in time at which the legal entity holding the assets obtains (or has) control (for example, by evaluating whether the legal entity can direct the use of, and obtain substantially all of the benefits from, each distinct nonfinancial asset or in substance nonfinancial asset within it). (See Case A of Example 2 in paragraphs 610-20-55-11 through 55-14.) If the entity does not have a noncontrolling interest in the legal entity that holds the nonfinancial assets or in substance nonfinancial assets as a result of the transaction, it shall evaluate the point in time at which a counterparty (or counterparties, collectively) obtains control of the assets in the legal entity (for example, by evaluating whether a counterparty [or counterparties, collectively] can direct the use of, and obtain substantially all of the benefits from, each distinct nonfinancial asset or in substance nonfinancial asset within the legal entity).

7. Supersede paragraph 610-20-32-1 and add paragraphs 610-20-32-2 through 32-6, with a link to transition paragraph 606-10-65-1, as follows:

## Measurement

**610-20-32-1** Paragraph superseded by Accounting Standards Update No. 2017-05. To determine the amount of consideration to be included in the calculation of a gain or loss recognized upon the derecognition of a nonfinancial asset, an entity shall apply the following paragraphs in Topic 606 on **revenue** from **contracts** with **customers**:

- a. Paragraphs 606-10-32-2 through 32-7 on determining the **transaction price**, including all of the following:

1. ~~Estimating variable consideration~~
  2. ~~Constraining estimates of variable consideration~~
  3. ~~The existence of a significant financing component~~
  4. ~~Noncash consideration~~
  5. ~~Consideration payable to a customer.~~
- b. ~~Paragraphs 606-10-32-42 through 32-45 on accounting for changes in the transaction price. [Content amended and moved to paragraph 610-20-32-3]~~

**610-20-32-2** When an entity meets the criteria to derecognize a distinct nonfinancial asset or a distinct in substance nonfinancial asset, it shall recognize a gain or loss for the difference between the amount of consideration measured and allocated to that distinct asset in accordance with paragraphs 610-20-32-3 through 32-6 and the carrying amount of the distinct asset. The amount of consideration promised in a contract that is included in the calculation of a gain or loss includes both the transaction price and the carrying amount of liabilities assumed or relieved by a counterparty.

**610-20-32-3** To determine the transaction price amount of consideration to be included in the calculation of a gain or loss recognized upon the derecognition of a nonfinancial asset, an entity shall apply the following paragraphs in Topic 606 on revenue from {remove glossary link}contracts{remove glossary link} with customers:

- a. Paragraphs 606-10-32-2 through 32-27 on determining the {remove glossary link}transaction price{remove glossary link}, including all of the following:
  1. Estimating variable consideration
  2. Constraining estimates of variable consideration
  3. The existence of a significant financing component
  4. Noncash consideration
  5. Consideration payable to a customer.
- b. Paragraphs 606-10-32-42 through 32-45 on accounting for changes in the transaction price. **[Content amended as shown and moved from paragraph 610-20-32-1]**

**610-20-32-4** If an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset in exchange for a noncontrolling interest, the entity shall consider the noncontrolling interest received from the counterparty as noncash consideration and shall measure it in accordance with the guidance in paragraphs 606-10-32-21 through 32-24. Similarly, if a parent transfers control of a distinct nonfinancial asset or in substance nonfinancial asset by transferring ownership interests in a consolidated subsidiary but retains a noncontrolling interest in its former subsidiary, the entity shall consider the noncontrolling interest retained as noncash consideration and shall measure it in accordance with the guidance in paragraphs 606-10-32-21 through 32-24. (See Case A of Example 2 in paragraphs 610-20-55-11 through 55-14.)

**610-20-32-5** If a counterparty promises to assume or relieve a liability of an entity in exchange for a transfer of nonfinancial assets or in substance nonfinancial assets within the scope of this Subtopic, the transferring entity shall include the carrying amount of the liability in the consideration used to calculate the gain or loss. Although a liability assumed or relieved by a counterparty shall be included in the consideration used to calculate a gain or loss, an entity shall not derecognize the liability until it has been extinguished in accordance with the guidance in paragraph 405-20-40-1 (see paragraph 610-20-45-3 on how to present the liability if it is extinguished before or after the entity transfers control of the nonfinancial assets or in substance nonfinancial assets). If an entity transfers control of the nonfinancial assets or in substance nonfinancial assets before a liability is extinguished, it shall apply the guidance on constraining estimates of variable consideration in paragraph 606-10-32-11 to determine the carrying amount of the liability to be included in the gain or loss calculation.

**610-20-32-6** An entity shall allocate the consideration calculated in accordance with the guidance in paragraphs 610-20-32-2 through 32-5 to each distinct nonfinancial asset or in substance nonfinancial asset by applying the guidance in paragraphs 606-10-32-28 through 32-41.

8. Supersede paragraphs 610-20-40-1 through 40-2, with a link to transition paragraph 606-10-65-1, as follows:

## **Derecognition**

**610-20-40-1** ~~Paragraph superseded by Accounting Standards Update No. 2017-05. To determine when a nonfinancial asset shall be derecognized, an entity shall apply the following paragraphs in Topic 606 on **revenue from contracts with customers**:~~

- ~~a. Paragraphs 606-10-25-1 through 25-8 on the existence of a contract~~
- ~~b. Paragraph 606-10-25-30 on when an entity satisfies a **performance obligation** by transferring control of an asset.~~

**610-20-40-2** ~~Paragraph superseded by Accounting Standards Update No. 2017-05. When the guidance in paragraph 610-20-40-1 is met, an entity shall derecognize the nonfinancial asset and recognize as a gain or loss the difference between the amount of consideration measured in accordance with paragraph 610-20-32-1 and the carrying amount of the nonfinancial asset. When the guidance in paragraph 610-20-40-1 is not met, an entity shall apply the guidance in paragraphs 350-10-40-3 to intangible assets and 360-10-40-3C to property, plant, and equipment.~~

9. Add paragraphs 610-20-45-2 through 45-3, with a link to transition paragraph 606-10-65-1, as follows:

## Other Presentation Matters

**610-20-45-1** See paragraph 360-10-45-5 for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (**disposal group**).

**610-20-45-2** When either party to a **contract** has performed, an entity shall apply the guidance in paragraphs 606-10-45-1 through 45-5 to present the relationship between the entity's performance and the counterparty's payment.

**610-20-45-3** If an entity meets the criteria in paragraph 405-20-40-1 to derecognize a liability assumed (or relieved) by a counterparty before transferring control of a distinct nonfinancial asset, the liability shall be derecognized but no gain or loss shall be recognized. Instead, the entity shall record a **contract liability**, which represents consideration received before transferring control of the asset. If an entity transfers control of a distinct nonfinancial asset before meeting the criteria to derecognize a liability assumed by a counterparty, the entity shall recognize a **contract asset** to the extent the carrying amount of the liability is included in the calculation of the gain or loss.

10. Add Section 610-20-50, with a link to transition paragraph 606-10-65-1, as follows:

## Disclosure

### General

**610-20-50-1** See paragraphs 360-10-50-3 through 50-3A for guidance on disclosure of a gain or loss recognized upon the derecognition of a long-lived asset (**disposal group**).

11. Amend paragraph 610-20-55-1 and supersede its related heading, amend paragraphs 610-20-55-2 through 55-4 and their related heading, and add paragraphs 610-20-55-5 through 55-19 and their related headings, with a link to transition paragraph 606-10-65-1, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### >> ~~Sale of a Nonfinancial Asset~~

**610-20-55-1** The following Examples illustrate~~Example illustrates~~ the guidance in this Subtopic.

#### >>> ~~Example 1—Sale of a Nonfinancial Asset for Variable Consideration~~

## > > Example 1—Scope

### > > > Case A—Nonfinancial Assets, In Substance Nonfinancial Assets, and a Guarantee

~~610-20-55-2 Seller enters into a **contract** to transfer real estate, the related operating leases, and accounts receivable to Buyer. Seller guarantees Buyer that the cash flows of the property will be sufficient to meet all of the operating needs of the property for two years after the sale. In the event that the cash flows are not sufficient, Seller is required to make a payment in the amount of the shortfall. An entity sells the rights to in process research and development that it recently acquired in a business combination and measured at fair value of \$50 million in accordance with Topic 805 on business combinations. The buyer of the in process research and development agrees to pay a nonrefundable amount of \$5 million at inception plus 2 percent of sales of any products derived from the in process research and development over the next 20 years. The entity concludes that the sale of in process research and development is not a good or service that is an output of the entity's ordinary activities. [Content amended and moved to paragraph 610-20-55-17]~~

~~610-20-55-3 Seller concludes that the assets promised in the contract are not a **business** within the scope of Topic 810 on consolidation and are not an output of Seller's ordinary activities within the scope of Topic 606 on **revenue** from contracts with **customers**. In addition, assume that Seller concludes that substantially all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets (that is, substantially all of the fair value is concentrated in the real estate and in-place lease intangible assets). Therefore, the accounts receivable promised in the contract are **in substance nonfinancial assets**. In accordance with the guidance in this Subtopic, all of the assets in the contract, including the accounts receivable, are within the scope of this Subtopic. Topic 350 on goodwill and other intangibles requires the entity to apply the guidance on existence of a **contract**, control, and measurement in Topic 606 on **revenue** from contracts with **customers** to determine the amount and timing of income to be recognized as follows:~~

- ~~a. The entity concludes that the criteria for identifying a contract in paragraph 606-10-25-1 are met.~~
- ~~b. The entity also concludes that on the basis of the guidance in paragraph 606-10-25-30, it has transferred control of the in process research and development asset to the buyer as of contract inception. This is because as of contract inception the buyer can use the in process research and development's records, patents, and supporting documentation to develop potential products and the entity has relinquished all substantive rights to the in process research and development asset.~~
- ~~c. In estimating the consideration received, the entity applies the guidance in Topic 606 on determining the **transaction price**, including estimating and constraining variable consideration. The entity estimates that the~~

amount of consideration that it will receive from the sales-based royalty is \$100 million over the 20-year royalty period. However, the entity cannot assert that it is probable that recognizing all of the estimated variable consideration in other income would not result in a significant reversal of that consideration. The entity reaches this conclusion on the basis of its assessment of factors in paragraph 606-10-32-12. In particular, the entity is aware that the variable consideration is highly susceptible to the actions and judgments of third parties, because it is based on the buyer completing the in-process research and development asset, obtaining regulatory approval for the output of the in-process research and development asset, and marketing and selling the output. For the same reasons, the entity also concludes that it could not include any amount, even a minimum amount, in the estimate of the consideration. Consequently, the entity concludes that the estimate of the consideration to be used in the calculation of the gain or loss upon the derecognition of the in-process research and development asset is limited to the \$5 million fixed upfront payment. [Content amended and moved to paragraph 610-20-55-18]

**610-20-55-4** Seller concludes that the guarantee, which is a liability of Seller, is within the scope of Topic 460 on guarantees. Therefore, Seller would apply the guidance in paragraph 606-10-15-4 to separate and measure the guarantee as described in paragraph 610-20-15-9. At inception of the contract, the entity recognizes a net loss of \$45 million (\$5 million of consideration, less the in-process research and development asset of \$50 million). The entity reassesses the transaction price at each reporting period to determine whether it is probable that a significant reversal would not occur from recognizing the estimate as other income and, if so, recognizes that amount as other income in accordance with paragraphs 606-10-32-14 and 606-10-32-42 through 32-45. [Content moved to paragraph 610-20-55-19]

**610-20-55-5** Seller's conclusions would be the same if it transferred the real estate, leases, and receivables by transferring ownership interests in a consolidated subsidiary. That is, Seller would still conclude that all of the assets in the subsidiary are nonfinancial assets and in substance nonfinancial assets within the scope of this Subtopic and that the guarantee is within the scope of Topic 460.

### **> > > Case B—Nonfinancial Assets and Financial Assets**

**610-20-55-6** Entity X enters into a contract to transfer machinery and financial assets, both of which have significant fair value. Entity X concludes that the assets promised in the contract are not a business within the scope of Topic 810 and are not an output of the entity's ordinary activities within the scope of Topic 606. Entity X also concludes that substantially all of the fair value of the assets promised in the contract is not concentrated in nonfinancial assets. Therefore, the financial assets promised in the contract are not in substance nonfinancial assets.

**610-20-55-7** In accordance with the guidance in paragraph 610-20-15-9, Entity X should derecognize only the machinery in accordance with this Subtopic. Entity X should apply the guidance in paragraph 606-10-15-4 to separate and measure the financial assets.

**610-20-55-8** If Entity X transfers the machinery and financial assets by transferring ownership interests in a consolidated subsidiary, it would still conclude that the financial assets are not in substance nonfinancial assets. As described in paragraph 610-20-15-8, if all of the assets promised to the counterparty in an individual consolidated **subsidiary** within a contract are not nonfinancial assets and/or in substance nonfinancial assets, those assets should not be derecognized in accordance with this Subtopic. Instead, Entity X should apply the guidance in paragraph 810-10-40-3A(c) or 810-10-45-21A(b)(2) to determine the guidance applicable to that subsidiary.

### **>>> Case C—One Subsidiary That Holds Nonfinancial Assets and One Subsidiary That Holds Financial Assets**

**610-20-55-9** Entity A enters into a contract to transfer ownership interests in two consolidated subsidiaries to a single counterparty. Subsidiary 1 consists entirely of nonfinancial assets, and Subsidiary 2 consists entirely of financial assets. Assume that the assets in Subsidiary 1 and Subsidiary 2 have an equal amount of fair value. Entity A concludes that the transaction is not the transfer of a business within the scope of Topic 810 and that the subsidiaries are not outputs of the entity's ordinary activities within the scope of Topic 606.

**610-20-55-10** Entity A first considers whether substantially all of the fair value of the assets promised to the counterparty in the contract is concentrated in nonfinancial assets. Because the contract includes the transfer of ownership interests in one or more consolidated subsidiaries, Entity A evaluates the underlying assets in those subsidiaries. Entity A concludes that because both the financial assets and nonfinancial assets have an equal amount of fair value, substantially all of the fair value of the assets promised to the counterparty in the contract is not concentrated in nonfinancial assets. Entity A next considers whether substantially all of the fair value of the assets within Subsidiary 1 or Subsidiary 2 is concentrated in nonfinancial assets. Because the assets transferred within Subsidiary 1 are entirely nonfinancial assets, Entity A concludes that those assets are within the scope of this Subtopic. Entity A also concludes that the financial assets in Subsidiary 2 are not in substance nonfinancial assets and, therefore, are not within the scope of this Subtopic. Entity A should apply the guidance in paragraph 606-10-15-4 to separate and measure the financial assets in Subsidiary 2 from the nonfinancial assets in Subsidiary 1 that are derecognized within the scope of this Subtopic.

### **>> Example 2—Transfer of Control**

### **>>> Case A—Control Transfers under Topics 810 and 606**

**610-20-55-11** Entity A owns 100 percent of Entity B, a consolidated subsidiary. Entity B holds title to land with a carrying amount of \$5 million. Entity A concludes that the land is not an output of its ordinary activities within the scope of Topic 606 and that Entity B does not meet the definition of a business within the scope of Topic 810.

**610-20-55-12** Entity A enters into a contract to transfer 60 percent of Entity B to Entity X for \$6 million cash due at contract inception. For ease of illustration, assume that at contract inception the fair value of the 40 percent interest retained by Entity A is \$4 million. Because all of the assets (the land) promised to Entity X in the contract are nonfinancial assets, Entity A concludes that it should derecognize the land in accordance with this Subtopic.

**610-20-55-13** As described in paragraphs 610-20-25-2 through 25-7, Entity A first considers the guidance in Topic 810 and concludes that it no longer has a controlling financial interest in Entity B or in Entity X (the buyer). Entity A then determines that the contract meets the criteria in paragraph 606-10-25-1 and that control of the land has been transferred in accordance with the guidance in paragraph 606-10-25-30. Because Entity A continues to have a noncontrolling interest in Entity B, it evaluates the point in time at which Entity B, its former subsidiary, has control of the distinct nonfinancial asset as described in paragraph 610-20-25-7. Entity A concludes that it has transferred control of the distinct nonfinancial asset because Entity B controls the distinct nonfinancial asset. When evaluating the indicators of control in paragraph 606-10-25-30, Entity A concludes the following:

- a. It has the present right to payment.
- b. Entity B has legal title to the land.
- c. It does not have physical possession of the asset because it cannot restrict or prevent other entities from accessing the land.
- d. Entity B has the significant risks and rewards of ownership.
- e. There is no acceptance clause (assumption).

**610-20-55-14** Entity A derecognizes the land and calculates the gain or loss as the difference between the amount of consideration measured in accordance with the guidance in paragraphs 610-20-32-2 and 610-20-32-6 and the carrying amount of the land. The amount of the consideration is \$10 million, which includes \$6 million in cash plus \$4 million for the fair value of the noncontrolling interest in Entity B. Entity A recognizes a gain of \$5 million (\$10 million consideration – \$5 million carrying amount of the assets) and presents the gain in the income statement in accordance with the guidance in paragraph 360-10-45-5. In accordance with the guidance in paragraph 610-20-32-4, Entity A records the noncontrolling interest in Entity B at \$4 million and subsequently accounts for that interest in accordance with other Topics.

**> > > Case B—Control Transfers under Topic 810 but Not under Topic 606**

**610-20-55-15** Assume the same facts as in Case A, except that Entity A has the right but not the obligation to repurchase the 60 percent ownership interest in Entity B that it transferred to Entity X (that is, Entity A has a call option). The call option gives Entity A the right to repurchase the 60 percent ownership interest in 2 years for \$7 million.

**610-20-55-16** Entity A concludes that although the call option represents a **variable interest** in Entity B, it does not have a controlling financial interest in Entity B in accordance with the guidance in Topic 810. However, when evaluating whether control of the land has been transferred in accordance with the guidance in paragraph 606-10-25-30, Entity A considers the guidance on repurchase features in paragraphs 606-10-25-30(c) and 606-10-55-68 and concludes that it does not transfer control of the land. In addition, because the exercise price on the call option is an amount that is greater than the original selling price, the transaction is considered a financing agreement in accordance with the guidance in paragraph 606-10-55-68(b). Entity A does not derecognize the land and records a financial liability of \$6 million in accordance with the guidance in paragraph 606-10-55-70. Entity A does not recognize an investment for its retained 40 percent ownership interest until it derecognizes the land.

**>>> Example 1 > Example 3—Sale of a Nonfinancial Asset for Variable Consideration**

**610-20-55-17** An entity sells (that is, does not out license) the rights to in-process research and development that it recently acquired in a business combination and measured at fair value of \$50 million in accordance with Topic 805 on business combinations. The entity concludes that the transferred in-process research and development is not a business. The buyer of the in-process research and development agrees to pay a nonrefundable amount of \$5 million at inception plus 2 percent of sales of any products derived from the in-process research and development over the next 20 years. The entity concludes that the sale of in-process research and development is not a good or service that is an output of the entity's ordinary activities. **[Content amended as shown and moved from paragraph 610-20-55-2]**

**610-20-55-18** Topic 350 on goodwill and other intangibles requires the entity to apply the guidance in this Subtopic ~~existence of a contract, control, and measurement in Topic 606 on revenue from contracts with customers~~ to determine the amount and timing of income to be ~~recognized~~recognized. Therefore, the entity applies the derecognition guidance in this Subtopic as follows:

- a. The entity concludes that it does not have a controlling financial interest in the buyer.
- ~~a.b.~~ The entity concludes that the criteria for identifying a contract ~~meets the criteria~~ in paragraph 606-10-25-1 ~~are met~~.
- ~~b.c.~~ The entity also concludes that on the basis of the guidance in paragraph 606-10-25-30, it has transferred control of the in-process research and development asset to the buyer ~~as of contract inception~~. This is because

~~as of contract inception~~ the buyer can use the in-process research and development's records, patents, and supporting documentation to develop potential products and the entity has relinquished all substantive rights to the in-process research and development asset.

- e.d. In estimating the consideration received, the entity applies the guidance in Topic 606 on determining the **transaction price**, including estimating and constraining variable consideration. The entity estimates that the amount of consideration that it will receive from the sales-based royalty is \$100 million over the 20-year royalty period. However, the entity cannot assert that it is probable that recognizing all of the estimated variable consideration in other income would not result in a significant reversal of that consideration. The entity reaches this conclusion on the basis of its assessment of factors in paragraph 606-10-32-12. In particular, the entity is aware that the variable consideration is highly susceptible to the actions and judgments of third parties, because it is based on the buyer completing the in-process research and development asset, obtaining regulatory approval for the output of the in-process research and development asset, and marketing and selling the output. For the same reasons, the entity also concludes that it could not include any amount, even a minimum amount, in the estimate of the consideration. Consequently, the entity concludes that the estimate of the consideration to be used in the calculation of the gain or loss upon the derecognition of the in-process research and development asset is limited to the \$5 million fixed upfront payment. **[Content amended as shown and moved from paragraph 610-20-55-3]**

**610-20-55-19** At inception of the contract, the entity recognizes a net loss of \$45 million (\$5 million of consideration, less the in-process research and development asset of \$50 million). The entity reassesses the transaction price at each reporting period to determine whether it is probable that a significant reversal would not occur from recognizing the estimate as other income and, if so, recognizes that amount as other income in accordance with paragraphs 606-10-32-14 and 606-10-32-42 through 32-45. **[Content moved from paragraph 610-20-55-4]**

## Conforming Amendments

12. The amendments described in paragraphs 13–34 conform the guidance in other Topics throughout the Codification.

## Amendments to Subtopic 310-10

13. Amend paragraph 310-10-40-4, with a link to transition paragraph 606-10-65-1, as follows:

## Receivables—Overall

### Derecognition

#### Acquisition, Development, and Construction Arrangements

**310-10-40-4** If an acquisition, development, and construction arrangement is accounted for as an investment in real estate or joint venture and the expected residual profit is sold, the entity shall apply the guidance in Topic 860 on transfers and servicing paragraphs 360-10-40-3A through 40-3B.

### Amendments to Subtopic 323-10

14. Amend paragraph 323-10-30-2, with a link to transition paragraph 606-10-65-1, as follows:

## Investments—Equity Method and Joint Ventures—Overall

### Initial Measurement

#### > The Equity Method—Overall Guidance

**323-10-30-2** Except as provided in the following sentence, an investor shall measure an investment in the common stock of an investee (including a joint venture) initially at cost in accordance with the guidance in Section 805-50-30. An investor shall initially measure, at fair value, the following:

- a. ~~A~~ retained investment in the common stock of an investee (including a joint venture) in a deconsolidation transaction in accordance with paragraphs 810-10-40-3A through ~~40-540-5~~.
- b. An investment in the common stock of an investee (including a joint venture) recognized upon the derecognition of a distinct nonfinancial asset or distinct in substance nonfinancial asset in accordance with Subtopic 610-20.

15. Amend paragraph 323-10-35-7, with a link to transition paragraph 606-10-65-1, as follows:

### Subsequent Measurement

#### > The Equity Method—Overall Guidance

## > > Intra-Entity Gains and Losses

**323-10-35-7** Intra-entity profits and losses shall be eliminated until realized by the investor or investee as if the investee were consolidated. Specifically, intra-entity profits or losses on assets still remaining with an investor or investee shall be eliminated, giving effect to any income taxes on the intra-entity transactions, except for ~~both~~ any of the following:

- a. A transaction with an investee (including a joint venture investee) that is accounted for as a deconsolidation of a subsidiary or a derecognition of a group of assets in accordance with paragraphs 810-10-40-3A through 40-5
- b. A transaction with an investee (including a joint venture investee) that is accounted for as a change in ownership transaction in accordance with paragraphs 810-10-45-21A through 45-24.
- c. A transaction with an investee (including a joint venture investee) that is accounted for as the derecognition of an asset in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.

16. Amend paragraph 323-10-55-27, with a link to transition paragraph 606-10-65-1, as follows:

## Implementation Guidance and Illustrations

### > Illustrations

#### > > Example 3: Elimination of Intra-Entity Profit

**323-10-55-27** The following Cases illustrate how eliminations of intra-entity profits might be made in accordance with paragraph 323-10-35-7. Both Cases assume that an investor owns 30 percent of the common stock of an investee, the investment is accounted for under the equity method, ~~and~~ the income tax rate to both the investor and the investee is 40 percent, the inventory is a good that is an output of the entity's ordinary activities, and the contract is with a customer that is within the scope of Topic 606 on revenue from contracts with customers:

- a. Investor sells inventory downstream to investee (Case A)
- b. Investee sells inventory upstream to investor (Case B).

## Amendments to Subtopic 350-10

17. Amend paragraphs 350-10-40-1 through 40-2, with a link to transition paragraph 606-10-65-1, as follows:

## Intangibles—Goodwill and Other—Overall

### Derecognition

#### > Transfer or Sale of Intangible Assets

**350-10-40-1** An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. ~~the entity sells or transfers the nonfinancial asset in a contract with a customer. The~~ For example, the derecognition of a nonfinancial asset in a **{add glossary link}** contract **{add glossary link}** with a **{add glossary link}** customer **{add glossary link}** shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

**350-10-40-2** ~~Unless a subsidiary or group of assets is an in substance nonfinancial asset, an~~ An entity shall account for the derecognition of a subsidiary or a group of assets that is either a **business** or **nonprofit activity** in accordance with the derecognition guidance in Subtopic 810-10. ~~The derecognition of an in substance nonfinancial asset shall be accounted for in accordance with paragraph 350-10-40-1.~~

**350-10-40-3** If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

- a. Report the nonfinancial asset in its financial statements
- b. Recognize amortization expense as a period cost for those assets with a finite life
- c. Apply the impairment guidance in Section 350-30-35.

### Amendments to Subtopic 360-10

18. Amend paragraph 360-10-40-2 by deleting the pending content and its related heading that links to paragraph 842-10-65-1, with no link to transition, as follows:

### Property, Plant, and Equipment—Overall

## Derecognition

### Pending Content:

~~Transition Date: (P) December 16, 2018; (N) December 16, 2019 | Transition Guidance: 842-10-65-1~~

#### > ~~Sale of Leased Assets~~

~~**360-10-40-2** To determine when an asset subject to a lease shall be derecognized, an entity shall apply the following paragraphs in Topic 606 on **revenue from contracts with customers**:~~

- ~~f. Paragraphs 606-10-25-1 through 25-8 on the existence of a contract~~
- ~~b. Paragraph 606-10-25-30 on when an entity satisfies a **performance obligation** by transferring control of an asset.~~

19. Amend paragraph 360-10-40-3A, with a link to transition paragraph 842-10-65-1, as follows:

#### > Transfer or Sale of Property, Plant, and Equipment

**360-10-40-3A** An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies.~~the entity sells or transfers the nonfinancial asset in a contract with a customer.~~ For example, the derecognition of a nonfinancial asset in a **{add glossary link}**contract**{add glossary link}** with a **{add glossary link}**customer**{add glossary link}** shall be accounted for in accordance with Topic 606 on **{add glossary link}**revenue**{add glossary link}** from contracts with customers.

20. Amend paragraphs 360-10-40-3B and 360-10-40-5, with a link to transition paragraph 606-10-65-1, as follows:

### General

#### > Transfer or Sale of Property, Plant, and Equipment

~~**360-10-40-3B** Unless a subsidiary or group of assets is an in substance nonfinancial asset, an~~ entity shall account for the derecognition of a subsidiary or group of assets that is either a **business** or **nonprofit activity** in accordance with the derecognition guidance in Subtopic 810-10.~~The derecognition of an in~~

~~substance nonfinancial asset shall be accounted for in accordance with paragraph 360-10-40-3A.~~

**360-10-40-3C** If an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

- a. Report the nonfinancial asset in its financial statements
- b. Recognize depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10
- c. Apply the impairment guidance in Section 360-10-35.

## **Impairment or Disposal of Long-Lived Assets**

### **> Recognition of Gain or Loss from Sale**

**360-10-40-5** A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized when the long-lived asset (disposal group) is derecognized in accordance with applicable Topics (for example, Topic 610 on other income, Topic 810 on consolidation, or Topic 860 on transfers and servicing) at the date of sale.

## **Amendments to Subtopic 805-50**

21. Amend paragraphs 805-50-25-1 and 805-50-30-1 through 30-2, with a link to transition paragraph 606-10-65-1, as follows:

## **Business Combinations—Related Issues**

### **Recognition**

#### **Acquisition of Assets Rather than a Business**

##### **> Acquisition Date Recognition of Consideration Exchanged**

**805-50-25-1** Assets commonly are acquired in exchange transactions that trigger the initial recognition of the assets acquired and any liabilities assumed. If the

consideration given in exchange for the assets (or net assets) acquired is in the form of assets surrendered (such as cash), the assets surrendered shall be derecognized at the date of acquisition. If the consideration given is in the form of liabilities incurred or **equity interests** issued, the liabilities incurred and equity interests issued shall be initially recognized at the **date of acquisition**. However, if the assets surrendered are nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, the assets surrendered shall be derecognized in accordance with the guidance in Subtopic 610-20 and the assets acquired shall be treated as noncash consideration in accordance with Subtopic 610-20.

## Initial Measurement

### Acquisition of Assets Rather than a Business

#### > Determining Cost

**805-50-30-1** Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the **fair value** of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, the assets acquired shall be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

**805-50-30-2** Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or **equity interests** issued) and no other generally accepted accounting principles (GAAP) apply (for example, Topic 845 on nonmonetary transactions or Subtopic 610-20), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20, the assets acquired shall

be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

## Amendments to Subtopic 810-10

22. Amend paragraph 810-10-40-3A and supersede paragraph 810-10-40-3B, with a link to transition paragraph 606-10-65-1, as follows:

### Consolidation—Overall

#### Derecognition

##### > Deconsolidation of a Subsidiary or Derecognition of a Group of Assets

**810-10-40-3A** The deconsolidation and derecognition guidance in this Section applies to the following:

- a. A subsidiary that is a **nonprofit activity** or a business, except for either of the following:
  1. Subparagraph superseded by Accounting Standards Update No. 2017-05. A transfer of in substance nonfinancial assets (for guidance on transfers of in substance nonfinancial assets, see Subtopic 610-20)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360)
  3. A transfer of a good or service in a **contract** with a **customer** within the scope of Topic 606.
- b. A group of assets that is a nonprofit activity or a business, except for either of the following:
  1. Subparagraph superseded by Accounting Standards Update No. 2017-05. A transfer of in substance nonfinancial assets (for guidance on transfers of in substance nonfinancial assets, see Subtopic 610-20)
  2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360)
  3. A transfer of a good or service in a contract with a customer within the scope of Topic 606.
- c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
  1. Topic 606 on **revenue** from contracts with customers
  2. Topic 845 on exchanges of nonmonetary assets
  3. Topic 860 on transferring and servicing financial assets

4. Topic 932 on conveyances of mineral rights and related transactions
5. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets ~~within the scope of Topic 350 on intangibles or Topic 360 on property, plant, and equipment.~~

**810-10-40-3B** ~~Paragraph superseded by Accounting Standards Update No. 2017-05. The deconsolidation and derecognition guidance in this Section does not apply to a parent that ceases to have a controlling financial interest (as described in this Subtopic) in a subsidiary that is an in-substance nonfinancial asset (for example, in-substance real estate) as a result of default on the subsidiary's nonrecourse debt. See also paragraph 610-20-15-2(b).~~

23. Amend paragraph 810-10-45-21A, with a link to transition paragraph 606-10-65-1, as follows:

## Other Presentation Matters

### > Changes in a Parent's Ownership Interest in a Subsidiary

**810-10-45-21A** The guidance in paragraphs 810-10-45-22 through 45-24 applies to the following:

- a. Transactions that result in an increase in ownership of a subsidiary
- b. Transactions that result in a decrease in ownership of either of the following while the parent retains a controlling financial interest in the subsidiary:
  1. A subsidiary that is a business or a **nonprofit activity**, except for either of the following:
    - i. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. A transfer of in-substance nonfinancial assets (for guidance on transfers of in-substance nonfinancial assets, see Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets)~~
    - ii. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).
    - iii. A transfer of a good or service in a contract with a customer within the scope of Topic 606.
  2. A subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
    - i. Topic 606 on revenue from contracts with customers
    - ii. Topic 845 on exchanges of nonmonetary assets
    - iii. Topic 860 on transferring and servicing financial assets
    - iv. Topic 932 on conveyances of mineral rights and related transactions

- v. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets ~~within the scope of Topic 350 on intangibles or Topic 360 on property, plant, and equipment.~~

## Amendments to Subtopic 845-10

24. Amend paragraphs 845-10-05-1 and 845-10-05-11 and supersede paragraph 845-10-05-12, with a link to transition paragraph 606-10-65-1, as follows:

### Nonmonetary Transactions—Overall

#### Overview and Background

##### General

**845-10-05-1** The Nonmonetary Transactions Topic contains only the Overall Subtopic. This Subtopic includes the following ~~four~~**five** Subsections:

- a. General
- b. Purchases and sales of inventory with the same counterparty
- c. Barter transactions
- d. Exchanges involving monetary considerations
- e. Subparagraph superseded by Accounting Standards Update No. 2017-05.~~Exchanges of a nonfinancial asset for a noncontrolling ownership interest.~~

##### Exchanges Involving Monetary Consideration

**845-10-05-11** The Exchanges Involving Monetary Consideration Subsections provide guidance on the level of monetary consideration in a nonmonetary exchange that causes the transaction to be considered monetary in its entirety and, therefore, outside the scope of this Subtopic.~~all of the following:~~

- a. Subparagraph superseded by Accounting Standards Update No. 2017-05.~~The level of monetary consideration in a nonmonetary **exchange** that causes the transaction to be considered monetary in its entirety and, therefore, outside the scope of this Subtopic~~
- b. Subparagraph superseded by Accounting Standards Update No. 2017-05.~~Whether full or partial gain recognition is appropriate in a monetary exchange (required to be accounted for at fair value), if an entity transfers a nonfinancial asset (or assets) to another entity in exchange for a noncontrolling ownership interest in the other entity~~
- c. Subparagraph superseded by Accounting Standards Update No. 2014-09.

## Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest

~~845-10-05-12 Paragraph superseded by Accounting Standards Update No. 2017-05. The Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsections provide guidance for certain nonmonetary exchanges in which one entity transfers a nonfinancial asset (or assets) to a second entity in exchange for a noncontrolling ownership interest in that second entity.~~

25. Amend paragraph 845-10-15-4 and supersede paragraphs 845-10-15-18 through 15-20 and their related headings, with a link to transition paragraph 606-10-65-1, as follows:

### Scope and Scope Exceptions

#### General

##### > Transactions

**845-10-15-4** The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

- a. A business combination accounted for by an entity according to the provisions of Topic 805 or a combination accounted for by a **not-for-profit entity** according to the provisions of Subtopic 958-805
- b. A transfer of nonmonetary assets solely between entities or persons under common control, such as between a parent and its **subsidiaries** or between two subsidiaries of the same parent, or between a corporate **joint venture** and its **owners**
- c. Acquisition of nonmonetary assets or services on issuance of the capital stock of an entity under Subtopics 718-10 and 505-50
- d. Stock issued or received in stock dividends and stock splits that are accounted for in accordance with Subtopic 505-20
- e. ~~Subparagraph superseded by Accounting Standards Update No. 2017-05. A transfer of assets to an entity in exchange for an equity interest in that entity (except for certain exchanges of a nonfinancial asset for a noncontrolling ownership interest, see paragraph 845-10-15-18)~~
- f. A pooling of assets in a joint undertaking intended to find, develop, or produce oil or gas from a particular property or group of properties, as described in paragraph 932-360-40-7
- g. The exchange of a part of an operating interest owned for a part of an operating interest owned by another party that is subject to paragraph 932-360-55-6
- h. The transfer of a financial asset within the scope of Section 860-10-15
- i. Involuntary conversions specified in paragraph 610-30-15-2

- j. The transfer of goods or services in a **contract** with a **customer** within the scope of Topic 606 on **revenue** from contracts with customers in exchange for noncash consideration (see paragraphs 606-10-32-21 through 32-24)
- k. The transfer of a nonfinancial asset within the scope of Subtopic 610-20 in exchange for noncash consideration (see ~~paragraph 610-20-32-4~~ paragraphs 610-20-32-2 through 32-3, which ~~requires~~ require measurement consistent with paragraphs 606-10-32-21 through 32-24). However, if the noncash consideration promised in exchange for the nonfinancial asset is a noncontrolling ownership interest, that transaction is within the scope of this Topic.

## Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest

### > Overall Guidance

~~845-10-15-18 Paragraph superseded by Accounting Standards Update No. 2017-05. The Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see paragraph 845-10-15-1, with specific transaction exceptions noted below.~~

### > Transactions

~~845-10-15-19 Paragraph superseded by Accounting Standards Update No. 2017-05. The guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsections applies to nonmonetary transfers of a nonfinancial asset (or assets) for a noncontrolling ownership interest.~~

~~845-10-15-20 Paragraph superseded by Accounting Standards Update No. 2017-05. The guidance in these Subsections does not apply to the following types of transfers:~~

- ~~a. Transfers between a **joint venture** and its **owners**~~
- ~~b. Capital contributions of real estate in return for an unconsolidated real estate investment (for guidance, see Section 970-323)~~
- ~~c. Subparagraph superseded by Accounting Standards Update No. 2014-09~~
- ~~d. Subparagraph superseded by Accounting Standards Update No. 2010-08~~
- ~~e. A deconsolidation of a **subsidiary** that is a business or **nonprofit activity** that is within the scope of Subtopic 810-10 (see paragraph 810-10-40-3A)~~
- ~~f. A derecognition of a group of assets that constitutes a business or nonprofit activity that is within the scope of Subtopic 810-10 (see paragraph 810-10-40-3A).~~

26. Supersede paragraphs 845-10-25-9 through 25-12 and their related heading, with a link to transition paragraph 606-10-65-1, as follows:

## Recognition

### Exchanges Involving Monetary Consideration

#### ~~> Monetary Exchange of a Nonfinancial Asset for a Noncontrolling Ownership Interest~~

~~845-10-25-9 Paragraph superseded by Accounting Standards Update No. 2017-05. In a monetary exchange (required to be accounted for at fair value) in which an entity (Entity A) transfers a nonfinancial asset (or assets) to another entity (Entity B) in exchange for a noncontrolling ownership interest in the other entity (Entity B), full or partial gain recognition is required.~~

~~845-10-25-10 Paragraph superseded by Accounting Standards Update No. 2017-05. If Entity A has no actual or implied commitment, financial or otherwise, to support the operations of the new Entity B in any manner, the amount of gain recognized, if applicable, may exceed the amount that would be computed pursuant to the guidance for the preceding paragraph.~~

~~845-10-25-11 Paragraph superseded by Accounting Standards Update No. 2017-05. A transaction is committed to if the parties to the transaction have signed a binding, written agreement that specifically sets forth the principal provisions of the transaction. If any of the principal provisions are yet to be negotiated, or are subsequently changed, such a preliminary agreement does not qualify as a commitment for purposes of this guidance.~~

~~845-10-25-12 Paragraph superseded by Accounting Standards Update No. 2017-05. See Example 1 (paragraph 845-10-55-27) for illustration of the application of the gain recognition guidance discussed in this Subsection.~~

27. Supersede paragraphs 845-10-30-22 and its related heading, 845-10-30-24 through 30-25, and 845-10-30-25B through 30-27, with a link to transition paragraph 606-10-65-1, as follows:

## Initial Measurement

### Exchanges Involving Monetary Consideration

#### ~~> Monetary Exchange of a Nonfinancial Asset for a Noncontrolled Ownership Interest~~

~~845-10-30-22 Paragraph superseded by Accounting Standards Update No. 2017-05. In a monetary exchange (required to be accounted for at fair value), the gain recognized on a monetary exchange under paragraph 845-10-25-9 shall be~~

computed in a manner consistent with the guidance in paragraphs 845-10-30-26 through 30-27.

## **Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest**

~~845-10-30-24 Paragraph superseded by Accounting Standards Update No. 2017-05. An entity (Entity A) transfers a nonfinancial asset (or assets) to another entity (Entity B) in exchange for a noncontrolling ownership interest in that entity (Entity B).~~

~~845-10-30-25 Paragraph superseded by Accounting Standards Update No. 2017-05. Except for the transactions identified in paragraph 845-10-30-25B, the following transactions shall be accounted for as a deconsolidation in accordance with paragraphs 840-10-40-3A through 40-5:~~

- ~~a. An entity transfers a subsidiary that is a **business** or **nonprofit activity** (excluding an in substance nonfinancial asset) to a second entity in exchange for a **noncontrolling interest** in that second entity.~~
- ~~b. An entity transfers a group of assets that constitute a business or nonprofit activity (excluding an in substance nonfinancial asset) to a second entity in exchange for a noncontrolling interest in that second entity.~~

~~845-10-30-25B Paragraph superseded by Accounting Standards Update No. 2017-05. The following transactions shall be accounted for in accordance with the following Subtopics:~~

- ~~a. The transfer of a nonfinancial asset, including an in substance nonfinancial asset (see Subtopic 610-20). However, if the noncash consideration promised in exchange for the nonfinancial asset (or in substance nonfinancial asset) to a second entity is a noncontrolling ownership interest in that second entity, see paragraphs 845-10-30-25C through 30-27.~~
- ~~b. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights, see Subtopic 932-360).~~

~~845-10-30-25C Paragraph superseded by Accounting Standards Update No. 2017-05. Except for exchanges or transactions described in paragraphs 845-10-30-25 and 845-10-30-25B, if an exchange of a nonmonetary asset for a noncontrolling ownership interest in a second entity is accounted for at fair value, full or partial gain recognition is required. Paragraphs 845-10-30-26 through 30-27 provide guidance on how the gain or loss is to be determined.~~

~~845-10-30-26 Paragraph superseded by Accounting Standards Update No. 2017-05. If the fair value of the asset or assets given up (or of the ownership interest received if that asset's fair value is more readily determinable) is greater than their carrying value, then either of the following should take place:~~

- a. ~~A gain in the amount of that difference shall be recognized if the entity accounts for the ownership interest received using Topic 321.~~
- b. ~~A partial gain shall be recognized if the entity accounts for the ownership interest received using the equity method in Topic 323.~~

~~The partial gain shall be calculated as the amount described in (a) less the portion of that gain represented by the economic interest (which may be different from the voting interest) retained. For example, if Entity A exchanges an asset with a carrying value of \$1,000 and a fair value of \$2,000 for a 30 percent economic interest in Entity B, Entity A shall recognize a gain of \$700  $[(\$2,000 - \$1,000) \times 70\%]$ . Thus, the amount recorded for the ownership interest received is partially based on its fair value at the exchange date and partially based on the carryover amount of the asset(s) surrendered.~~

~~**845-10-30-27** Paragraph superseded by Accounting Standards Update No. 2017-05. If the fair value of the nonfinancial asset or assets given up (or of the ownership interest received if the fair value of that asset is more readily determinable) is less than their carrying value, that difference shall be recognized as a loss.~~

28. Amend paragraph 845-10-55-2 and supersede paragraphs 845-10-55-27 through 55-28 and their related heading, with a link to transition paragraph 606-10-65-1, as follows:

## **Implementation Guidance and Illustrations**

### **General**

#### **> Implementation Guidance**

#### **> > Summary of Guidance**

**845-10-55-2** The following table summarizes the guidance contained in this Subtopic.

		ASSET RECEIVED		
		Investment accounted for by the equity method	Controlled asset or group of assets that does not meet the definition of a business	Controlled group of assets that meets the definition of a business
A S S E T	Investment accounted for by the equity method	A transfer of an equity method investment should be accounted for under the provisions of Topic 860.	A transfer of an equity method investment should be accounted for under the provisions of Topic 860.	Fair value (Topic 805)
	Controlled		If the contract is with a customer and within the scope of Topic 606, apply Topic 606.	
G I V E N U P	asset or group of assets that does not meet the definition of a business	If the transfer is accounted for at fair value, see paragraph 845-10-30-25A	If the contract is not within the scope of Topic 606, evaluate if the transaction is within the scope of Subtopic 610-20. If so, apply Subtopic 610-20.  If the contract is not within the scope of Subtopic 610-20 and is within the scope of Topic 845, apply Topic 845.  Otherwise, apply other GAAP.	Fair value (Topic 805)
	Controlled group of assets that meets the definition of a business	If the controlled group of assets that meets the definition of a business is (1) a conveyance of oil and gas mineral rights, apply Subtopic 932-360, or (2) an in substance nonfinancial asset, apply Subtopic 610-20. Otherwise, apply Subtopic 810-10.		Fair value (Topic 805)

[For ease of readability, the new table is not underlined.]

		ASSET RECEIVED		
		Investment accounted for by the equity method	Controlled asset or group of assets that does not meet the definition of a business	Controlled group of assets that meets the definition of a business
A S S E T  G I V E N  U P	Investment accounted for by the equity method	A transfer of an equity method investment should be accounted for under the provisions of Topic 860.		Fair value (Topic 805)
	Controlled asset or group of assets that does not meet the definition of a business	If the contract is with a customer and within the scope of Topic 606, apply Topic 606.  If the contract is not within the scope of Topic 606, evaluate if the transaction is within the scope of Subtopic 610-20. If so, apply Subtopic 610-20.  If the contract is not within the scope of Subtopic 610-20 and is within the scope of Topic 845, apply Topic 845.  Otherwise, apply other GAAP.		Fair value (Topic 805)
	Controlled group of assets that meets the definition of a business	If the controlled group of assets that meets the definition of a business is a conveyance of oil and gas mineral rights, apply Subtopic 932-360. Otherwise, apply Subtopic 810-10.		Fair value (Topic 805)

## Exchanges Involving Monetary Consideration

### > Illustrations

#### >> Example 1: Monetary Exchange of Nonfinancial Asset for a Noncontrolled Ownership Interest

**845-10-55-27** Paragraph superseded by Accounting Standards Update No. 2017-05. This Example illustrates the guidance in paragraph 845-10-25-9.

**845-10-55-28** Paragraph superseded by Accounting Standards Update No. 2017-05. Entity A transfers its ownership of an individual nonfinancial asset (or assets) to a newly created entity (Entity B) in exchange for an ownership interest in Entity B that will be accounted for by the equity method and monetary consideration. The monetary consideration received exceeds the fair value of the portion of the surrendered nonfinancial asset that has been sold in the exchange. The excess monetary consideration is funded by proceeds from nonrecourse financing within

~~the newly created entity. Subsequent to the transfer, Entity A does not control Entity B. The specifics of the transaction are as follows:~~

- ~~a. Entity A owns equipment with a book basis of \$100 and an appraised value of \$400.~~
- ~~b. Entity B, previously unrelated to Entity A, creates a new subsidiary, Entity X, and transfers cash of \$60 to Entity X.~~
- ~~c. Entity A transfers the equipment to Entity X in exchange for shares of Entity X stock that represent a 40 percent ownership interest in Entity X. Simultaneously, Entity X borrows \$300 with recourse to only the equipment and pays Entity A \$360 cash.~~

~~Paragraph 845-10-25-10 requires that if Entity A has no actual or implied commitment, financial or otherwise, to support the operations of Entity B in any manner, a gain of \$260 shall be recognized. The investor's basis in the new entity shall be no less than zero. The gain calculation is illustrated as follows.~~

Fair value of interest in equipment sold ( $\$400 \times 60\%$ )	\$ 240
Less: Cost of interest in equipment sold ( $\$100 \times 60\%$ )	<u>    (60)</u>
Plus: Additional gain to the extent of the negative investment	<u>    80</u> <sup>(a)</sup>
Total gain recognized	<u><u>    \$ 260</u></u>

(a) The additional gain is calculated as follows:

Cost of equipment	\$ 100
Less: Cost of interest in equipment sold	<u>    (60)</u>
Remaining cost	<u>    40</u>
Less: Cash received in excess of 60% of the equipment's fair value ( $\$360 - \$240$ )	<u>   (120)</u>
Negative investment	<u><u>    \$ (80)</u></u>

~~Specific facts and circumstances may affect gain recognition and that it would be impractical to consider all possible variations of the basic transaction described above.~~

## Amendments to Subtopic 860-10

29. Amend paragraph 860-10-15-4, with a link to transition paragraph 606-10-65-1, as follows:

### Transfers and Servicing—Overall

## Scope and Scope Exceptions

### > Transactions

**860-10-15-4** The guidance in this Topic does not apply to the following transactions and activities:

- a. Except for transfers of servicing assets (see Section 860-50-40) and for the transfers noted in the following paragraph, transfers of nonfinancial assets
- b. Transfers of unrecognized financial assets, for example, minimum lease payments to be received under operating leases
- c. Transfers of custody of financial assets for safekeeping
- d. Contributions (for guidance on accounting for contributions, see Subtopic 958-605)
- e. Transfers of **in substance nonfinancial assets**, see Subtopic 610-20 ~~ownership interests that are in substance sales of nonfinancial assets (For guidance related to transfers of investments that are in substance a sale of a nonfinancial asset, see Subtopic 610-20. For guidance related to sale leaseback transactions involving real estate, including real estate with equipment, such as manufacturing facilities, power plants, and office buildings with furniture and fixtures, see Subtopic 840-40.)~~
- f. Investments by owners or distributions to owners of a business entity
- g. Employee benefits subject to the provisions of Topic 712
- h. Leveraged leases subject to Topic 840
- i. **Money-over-money** and wrap lease transactions involving nonrecourse debt subject to Topic 840.

**In addition, amend the following pending content for paragraph 860-10-15-4, with no additional link to transition:**

#### **Pending Content:**

**Transition Date:** (P) December 16, 2018; (N) December 16, 2019 | **Transition Guidance:** 842-10-65-1

**860-10-15-4** The guidance in this Topic does not apply to the following transactions and activities:

- a. Except for transfers of servicing assets (see Section 860-50-40) and for the transfers noted in the following paragraph, transfers of nonfinancial assets
- b. Transfers of unrecognized financial assets, for example, lease payments to be received under operating leases
- c. Transfers of custody of financial assets for safekeeping

- d. Contributions (for guidance on accounting for contributions, see Subtopic 958-605)
- e. Transfers of **in substance nonfinancial assets**, see Subtopic 610-20 ownership interests that are in substance sales of nonfinancial assets (For guidance related to transfers of investments that are in substance a sale of a nonfinancial asset, see Subtopic 610-20. For guidance related to sale and leaseback transactions involving real estate, including real estate with equipment, such as manufacturing facilities, power plants, and office buildings with furniture and fixtures, see Subtopic 842-40 on sale and leaseback transactions.)
- f. Investments by owners or distributions to owners of a business entity
- g. Employee benefits subject to the provisions of Topic 712
- h. Leveraged leases subject to Topic 842
- i. **Money-over-money** and wrap lease transactions involving nonrecourse debt subject to Topic 842.

30. Amend paragraph 860-10-55-3, with a link to transition paragraph 606-10-65-1, as follows:

## Implementation Guidance and Illustrations

### > Implementation Guidance

#### > > Scope

#### > > > Examples of Transactions and Activities That Are Included in the Scope

**860-10-55-3** The guidance in this Topic applies to the following transactions and activities, among others:

- a. All **loan participations**
- b. Transfers of equity method investments, ~~unless the transfer is of an in substance nonfinancial asset (see Subtopic 610-20)~~
- c. Transfers of cost-method investments
- d. With respect to the guidance in paragraph 860-10-40-5 only, transfers of financial assets in securitization transactions.

## Amendments to Subtopic 970-323

31. Amend paragraphs 970-323-30-3 and 970-323-30-6 and supersede paragraphs 970-323-30-4 through 30-5, with a link to transition paragraph 606-10-65-1, as follows:

### **Real Estate—General—Investments—Equity Method and Joint Ventures**

#### **Initial Measurement**

##### **> > Contribution of Real Estate**

**970-323-30-3** An investor that contributes real estate to the capital of a real estate venture generally should record its investment in the venture at the investor's cost (less related depreciation and valuation allowances) of the real estate contributed, fair value when the real estate is derecognized, regardless of whether the other investors contribute cash, property, or services. The transaction shall be accounted for in accordance with the guidance in paragraphs 360-10-40-3A through 40-3C. An investor shall not recognize profit on a transaction that in economic substance is a contribution to the capital of an entity. Some transactions, structured in the form of capital contributions, may in economic substance be are sales of an ownership interest that result in an entity being an investor in a real estate venture. Those in substance sales of real estate shall be accounted for in accordance with the guidance in paragraphs 360-10-40-3A through 40-3C on derecognition of nonfinancial assets within the scope of Topic 360 on property, plant, and equipment. An example of such a transaction is includes one in which investor A contributes to a venture real estate with a fair value of \$2,000 to a venture and investor B contributes cash in the amount of \$1,000. \$1,000 which is immediately withdrawn by investor A. The real estate is not considered a business or nonprofit activity and, therefore, is within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets. Investor A immediately withdraws the cash contributed by investor B and, following such contributions and withdrawals, each investor has a 50 percent interest in the venture (the only asset of which is the real estate). Assuming investor A does not have a controlling financial interest in the venture, investor A applies the guidance in paragraphs 610-20-25-5 and 610-20-25-7. When investor A meets the criteria to derecognize the property, investor A measures its retained ownership interest at fair value consistent with the guidance in paragraph 610-20-32-4 and includes that amount in the consideration used in calculating the gain or loss on derecognition of the property is not committed to reinvest the \$1,000 in the venture, the substance of this transaction is a sale by investor A of a one-half interest in the real estate in exchange for cash.

~~970-323-30-4 Paragraph superseded by Accounting Standards Update No. 2017-05. However, that transaction is not a derecognition of a nonfinancial asset (that is, the sale of real estate) unless the investor that contributes real estate to the venture withdraws cash (or other hard assets) and has no commitment to reinvest in the venture.~~

~~970-323-30-5 Paragraph superseded by Accounting Standards Update No. 2017-05. An investor contributing property to a venture may obtain a disproportionately small interest in the venture based on a comparison of the carrying amount of the property with the cash contributed by the other investors. That situation might indicate that the investor contributing the property has suffered a loss that should be recognized.~~

## > > Contribution of Services or Intangibles

~~970-323-30-6 The contribution of accounting considerations that apply to real property or an intangible contributed to a partnership or joint venture shall be accounted for in accordance with Subtopic 610-20, also apply to contributions of services or intangibles. The investor's cost of such services or intangibles to be allocated to the cost of the investment shall be determined by the investor in the same manner as for an investment in a wholly owned real estate project. The contribution of services or provisions of this Section do not apply to real estate **syndication activities** in which the syndicators receive or retain partnership interests. Such activities are accounted for in accordance with the guidance in Topic 606 on revenue from contracts with customers.~~

32. Amend paragraphs 970-323-35-14 through 35-15, with a link to transition paragraph 606-10-65-1, as follows:

## Subsequent Measurement

### > > Intra-Entity Profit and Losses

~~970-323-35-14 Intra-entity profit shall be eliminated by the investor in relation to the investor's **noncontrolling interest** ownership interest in the investee unless one of the exceptions in paragraph 323-10-35-7 applies, except that an An investor that controls the investee and enters into a transaction with the investee shall eliminate all of the interentity profit on assets remaining within the group. (See Subsection 323-30-35 for accounting guidance concerning partnership ownership interest.)~~

~~970-323-35-15 A sale of property in which the seller holds or acquires a noncontrolling interest an equity interest in the buyer shall be evaluated in accordance with the guidance in paragraphs 360-10-40-3A through 40-3B result in recognizing only the part of the profit proportionate to the outside interest in the~~

~~buyer. No profit shall be recognized if the seller controls the buyer until realized from transactions with outside parties through sale or operations of the property.~~

33. Amend paragraph 970-323-40-1, with a link to transition paragraph 606-10-65-1, as follows:

## **Derecognition**

### **> Sale of an Investment in a Real Estate Venture**

**970-323-40-1** A sale of an investment in a consolidated real estate venture (including the sale of stock in a corporate real estate venture) ~~is the equivalent of a sale of an interest in the underlying real estate and shall be evaluated under the guidelines set forth in paragraphs 360-10-40-3A through 40-3B. The sale of a noncontrolling investment in a real estate venture that is being accounted for in accordance with Topic 320 on investments—debt and equity securities; Topic 323 on investments—equity method and joint ventures; or Topic 325 on investments—other, shall be accounted for in accordance with the guidance in Topic 860 on transfers and servicing.~~

**In addition, add the following pending content for paragraph 970-323-40-1, with a link to transition paragraph 825-10-65-2:**

#### **Pending Content:**

**Transition Date:** *(P) December 16, 2017; (N) December 16, 2018* | **Transition Guidance:** 825-10-65-2

**970-323-40-1** A sale of an investment in a consolidated real estate venture (including the sale of stock in a corporate real estate venture) shall be evaluated under the guidelines set forth in paragraphs 360-10-40-3A through 40-3B. The sale of a noncontrolling investment in a real estate venture that is being accounted for in accordance with Topic 320 on investments—debt securities; Topic 321 on investments—equity securities; Topic 323 on investments—equity method and joint ventures; or Topic 325 on investments—other, shall be accounted for in accordance with the guidance in Topic 860 on transfers and servicing.

34. Amend paragraph 606-10-65-1 and its related heading as follows:

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

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

**> Transition Related to Accounting Standards Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606), No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, and No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, and No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets:**

**606-10-65-1** The following represents the transition and effective date information related to Accounting Standards Updates No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, and No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, and No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*:

- a. A **public business entity**, a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.
- b. All other entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. However, all other entities may elect to apply the pending content that links to this paragraph earlier only as of either:
  1. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period.

2. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the pending content that links to this paragraph.
  3. Subparagraph superseded by Accounting Standards Update No. 2015-14.
- c. For the purposes of the transition guidance in (d) through (i):
1. The date of initial application is the start of the reporting period in which an entity first applies the pending content that links to this paragraph.
  2. A completed contract is a **contract** for which all (or substantially all) of the **revenue** was recognized in accordance with revenue guidance that is in effect before the date of initial application.
- d. An entity shall apply the pending content that links to this paragraph using one of the following two methods:
1. Retrospectively to each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 subject to the expedients in (f).
  2. Retrospectively with the cumulative effect of initially applying the pending content that links to this paragraph recognized at the date of initial application in accordance with (h) through (i).
- e. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1), the entity shall provide the disclosures required in paragraphs 250-10-50-1 through 50-2 in the period of adoption, except as follows. An entity need not disclose the effect of the changes on the current period, which otherwise is required by paragraph 250-10-50-1(b)(2). However, an entity shall disclose the effect of the changes on any prior periods that have been retrospectively adjusted.
- f. An entity may use one or more of the following practical expedients when applying the pending content that links to this paragraph retrospectively in accordance with (d)(1):
1. An entity need not restate contracts that begin and are completed within the same annual reporting period.
  2. For completed contracts that have variable consideration, an entity may use the **transaction price** at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
  3. For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining **performance obligations** and an explanation of when the entity expects to recognize that amount as revenue (see paragraph 606-10-50-13).
  4. For contracts that were modified before the beginning of the earliest reporting period presented in accordance with the pending content that links to this paragraph, an entity need not retrospectively restate

the contract for those contract modifications in accordance with paragraphs 606-10-25-12 through 25-13. Instead, an entity shall reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented in accordance with the pending content that links to this paragraph when:

- i. Identifying the satisfied and unsatisfied performance obligations
  - ii. Determining the transaction price
  - iii. Allocating the transaction price to the satisfied and unsatisfied performance obligations.
- g. For any of the practical expedients in (f) that an entity uses, the entity shall apply that expedient consistently to all contracts within all reporting periods presented. In addition, the entity shall disclose all of the following information:
1. The expedients that have been used
  2. To the extent reasonably possible, a qualitative assessment of the estimated effect of applying each of those expedients.
- h. If an entity elects to apply the pending content that links to this paragraph retrospectively in accordance with (d)(2), the 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 (or other appropriate components of equity or net assets in the statement of financial position) of the annual reporting period that includes the date of initial application. Under this transition method, an entity may elect to apply this guidance retrospectively either to all contracts at the date of initial application or only to contracts that are not completed contracts at the date of initial application (for example, January 1, 2018, for an entity with a December 31 year-end). An entity shall disclose whether it has applied this guidance to all contracts at the date of initial application or only to contracts that are not completed at the date of initial application. Under this transition method, an entity may apply the practical expedient for contract modifications in (f)(4). If an entity applies the practical expedient for contract modifications in (f)(4), it shall comply with the guidance in (g).
- i. For reporting periods that include the date of initial application, an entity shall disclose the nature of and reason for the change in accounting principle and provide both of the following disclosures if the pending content that links to this paragraph is applied retrospectively in accordance with (d)(2):
1. The amount by which each financial statement line item is affected in the current reporting period by the application of the pending content that links to this paragraph as compared with the guidance that was in effect before the change
  2. An explanation of the reasons for significant changes identified in (i)(1).

- j. An entity may elect to apply all of the pending content that links to this paragraph using the same transition method. Alternatively, an entity may elect to apply a different transition method to contracts with **customers** than to contracts with noncustomers. For example, an entity could elect to apply the pending content that links to this paragraph retrospectively in accordance with (d)(1) to contracts with customers (such as contracts within the scopes of this Topic and Subtopic 340-40 on other assets and deferred costs—contracts with customers) and retrospectively in accordance with (d)(2) to contracts with noncustomers (such as contracts within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets). If an entity elects to apply a different transition method to contracts with customers than to contracts with noncustomers, it shall disclose that election and provide the appropriate disclosures associated with each transition method. An entity also may elect to apply different practical expedients to contracts with customers than to contracts with noncustomers.
- k. At the same time that an entity applies the pending content that links to this paragraph to contracts with noncustomers, it also shall apply the pending content that links to paragraph 805-10-65-4 to those contracts. If an entity concludes that a transaction previously recorded as the disposal of a business is no longer a business, the entity shall not reinstate amounts previously allocated to goodwill associated with that disposal.

## Amendments to Status Sections

35. Amend paragraph 310-10-00-1, by adding the following item to the table, as follows:

**310-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
310-10-40-4	Amended	2017-05	02/22/2017

36. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

**323-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
323-10-30-2	Amended	2017-05	02/22/2017
323-10-35-7	Amended	2017-05	02/22/2017
323-10-55-27	Amended	2017-05	02/22/2017

37. Amend paragraph 350-10-00-1, by adding the following items to the table, as follows:

**350-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
350-10-40-1	Amended	2017-05	02/22/2017
350-10-40-2	Amended	2017-05	02/22/2017

38. Amend paragraph 360-10-00-1, by adding the following items to the table, as follows:

**360-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
360-10-40-2	Amended	2017-05	02/22/2017
360-10-40-3A	Amended	2017-05	02/22/2017
360-10-40-3B	Amended	2017-05	02/22/2017
360-10-40-5	Amended	2017-05	02/22/2017

39. 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>
606-10-65-1	Amended	2017-05	02/22/2017

40. Amend paragraph 610-20-00-1, by adding the following items to the table, as follows:

**610-20-00-1** 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>Cash</b>	Added	2017-05	02/22/2017
<b>Cash Equivalents</b>	Added	2017-05	02/22/2017
<b>Contract Asset</b>	Added	2017-05	02/22/2017
<b>Contract Liability</b>	Added	2017-05	02/22/2017
<b>In Substance Nonfinancial Asset</b>	Added	2017-05	02/22/2017
<b>Intangible Assets</b>	Added	2017-05	02/22/2017
<b>Joint Venture</b>	Added	2017-05	02/22/2017
<b>Legal Entity</b>	Added	2017-05	02/22/2017
<b>Noncontrolling Interest</b>	Added	2017-05	02/22/2017
<b>Parent</b>	Added	2017-05	02/22/2017
<b>Subsidiary</b>	Added	2017-05	02/22/2017
<b>Variable Interests</b>	Added	2017-05	02/22/2017
610-20-05-1	Amended	2017-05	02/22/2017
610-20-05-2	Added	2017-05	02/22/2017
610-20-15-2	Amended	2017-05	02/22/2017
610-20-15-3	Amended	2017-05	02/22/2017
610-20-15-4 through 15-10	Added	2017-05	02/22/2017
610-20-25-1	Amended	2017-05	02/22/2017
610-20-25-2 through 25-7	Added	2017-05	02/22/2017
610-20-32-1	Superseded	2017-05	02/22/2017
610-20-32-2 through 32-6	Added	2017-05	02/22/2017
610-20-40-1	Superseded	2017-05	02/22/2017
610-20-40-2	Superseded	2017-05	02/22/2017
610-20-45-2	Added	2017-05	02/22/2017
610-20-45-3	Added	2017-05	02/22/2017
610-20-50-1	Added	2017-05	02/22/2017
610-20-55-1 through 55-4	Amended	2017-05	02/22/2017

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
610-20-55-5 through 55-19	Added	2017-05	02/22/2017

41. Amend paragraph 805-50-00-1, by adding the following items to the table, as follows:

**805-50-00-1** 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>In Substance Nonfinancial Asset</b>	Added	2017-05	02/22/2017
805-50-25-1	Amended	2017-05	02/22/2017
805-50-30-1	Amended	2017-05	02/22/2017
805-50-30-2	Amended	2017-05	02/22/2017

42. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

**810-10-00-1** The following table identifies the changes made to this Subtopic.

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
810-10-40-3A	Amended	2017-05	02/22/2017
810-10-40-3B	Superseded	2017-05	02/22/2017
810-10-45-21A	Amended	2017-05	02/22/2017

43. Amend paragraph 845-10-00-1, by adding the following items to the table, as follows:

**845-10-00-1** 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>Noncontrolling Interest</b>	Superseded	2017-05	02/22/2017
845-10-05-1	Amended	2017-05	02/22/2017
845-10-05-11	Amended	2017-05	02/22/2017

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
845-10-05-12	Superseded	2017-05	02/22/2017
845-10-15-4	Amended	2017-05	02/22/2017
845-10-15-18 through 15-20	Superseded	2017-05	02/22/2017
845-10-25-9 through 25-12	Superseded	2017-05	02/22/2017
845-10-30-22	Superseded	2017-05	02/22/2017
845-10-30-24	Superseded	2017-05	02/22/2017
845-10-30-25	Superseded	2017-05	02/22/2017
845-10-30-25B through 30-27	Superseded	2017-05	02/22/2017
845-10-55-2	Amended	2017-05	02/22/2017
845-10-55-27	Superseded	2017-05	02/22/2017
845-10-55-28	Superseded	2017-05	02/22/2017

44. Amend paragraph 860-10-00-1, by adding the following items to the table, as follows:

**860-10-00-1** 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>In Substance Nonfinancial Asset</b>	Added	2017-05	02/22/2017
860-10-15-4	Amended	2017-05	02/22/2017
860-10-55-3	Amended	2017-05	02/22/2017

45. Amend paragraph 970-323-00-1, by adding the following items to the table, as follows:

**970-323-00-1** 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>Noncontrolling Interest</b>	Added	2017-05	02/22/2017
970-323-30-3	Amended	2017-05	02/22/2017

<b>Paragraph</b>	<b>Action</b>	<b>Accounting Standards Update</b>	<b>Date</b>
970-323-30-4	Superseded	2017-05	02/22/2017
970-323-30-5	Superseded	2017-05	02/22/2017
970-323-30-6	Amended	2017-05	02/22/2017
970-323-35-14	Amended	2017-05	02/22/2017
970-323-35-15	Amended	2017-05	02/22/2017
970-323-40-1	Amended	2017-05	02/22/2017

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

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Daryl E. Buck  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# 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 Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014. Although the primary reason for issuing the amendments in that Update was to clarify the principles for recognizing revenue from the transfer of goods or services in contracts with customers, the Board also decided to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. That new guidance was included in Subtopic 610-20.

BC3. The Board created Subtopic 610-20 because while deliberating the new revenue recognition guidance, the Board acknowledged the lack of clear guidance in GAAP on accounting for the transfer of nonfinancial assets when those assets are not an output of an entity's ordinary activities (that is, not with a customer) and do not constitute a business or nonprofit activity. Other than for transfers of real estate, there was no specific guidance for transfers of nonfinancial assets within the scope of Topic 360, Property, Plant, and Equipment or Topic 350, Intangibles—Goodwill and Other.

BC4. The Board also wanted to avoid having two sets of recognition and measurement guidance for transfers of real estate depending on whether the transfer was with a customer. At the time the Board was deliberating the revenue recognition guidance, it noted that the guidance for all real estate sales was in Subtopic 360-20, Property, Plant, and Equipment—Real Estate Sales. However, upon the effective date of the amendments in Update 2014-09, a contract for the sale of real estate to a customer would be within the scope of Topic 606. The Board considered the implications of retaining the guidance in Subtopic 360-20 for a contract for the sale of real estate to a noncustomer and noted that retaining that guidance could result in an entity recognizing the profit or loss on a real estate sale differently depending on whether the transaction is with a customer. The Board decided that because there is little economic difference between the sale of real estate to a customer and the sale of real estate to a noncustomer, the recognition and measurement guidance should be the same and the only difference should

relate to the presentation of the profit or loss in the statement of comprehensive income. That is, the profit (loss) on the sale of real estate to a customer should be presented as revenue (expense), whereas the profit (loss) on the sale of real estate to a noncustomer should be presented as a gain (loss). Therefore, once the amendments in Update 2014-09 are effective, sales of real estate to noncustomers generally will be within the scope of Subtopic 610-20 instead of Subtopic 360-20.<sup>1</sup>

BC5. The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) applied to a transfer or sale of nonfinancial assets within the scope of Topic 350 or Topic 360. The guidance also applied to a transfer or sale of financial assets that were in substance nonfinancial assets within the scope of Topic 350 or Topic 360 (for example, a sale of a subsidiary that consists of only an asset such as a machine or piece of equipment). Subtopic 610-20 did not apply to (a) a contract with a customer or (b) a transfer or sale of a subsidiary (or group of assets) that constitutes a business or nonprofit activity unless that business or nonprofit activity was an in substance nonfinancial asset. Certain other transactions also were excluded from the scope of Subtopic 610-20.

BC6. At the time Update 2014-09 was issued, the Board received feedback from stakeholders that they were uncertain about what types of transactions should be within the scope of Subtopic 610-20 because the term *in substance nonfinancial asset* was not defined. Stakeholders also noted that other aspects of the scope of Subtopic 610-20 were confusing and complex. For example, because the scope of the guidance specifically referred to assets within the scope of Topics 350 and 360, stakeholders were unclear about whether the guidance applied to a transaction if it included assets within the scope of other Topics, such as inventory or financial assets. Similarly, because the guidance specifically referred to *assets*, stakeholders were unclear about how a *liability* assumed by a counterparty would affect a transaction. In addition, stakeholders were unclear about why a transfer of a nonfinancial asset to another entity in exchange for a noncontrolling interest in that entity was excluded from the scope of Subtopic 610-20 (and was within the scope of Topic 845) while a transfer of a nonfinancial asset for any other form of noncash consideration was within the scope of Subtopic 610-20.

BC7. Stakeholders also indicated that they were uncertain about how an entity should account for partial sales of nonfinancial assets once the amendments in Update 2014-09 become effective. Partial sales are common in the real estate industry and include transactions in which the seller retains an equity interest in the entity that owns the assets or has an equity interest in the buyer. The real-estate-specific guidance in Subtopic 360-20 included detailed guidance on partial sales transactions but was superseded by the amendments in Update 2014-09. The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) did not address partial sales transactions.

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<sup>1</sup>Subtopic 360-20 was not superseded in its entirety because it continues to apply to sale-leaseback transactions involving real estate assets until the amendments in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, become effective.

BC8. Stakeholders also informed the Board that there is a lack of clear guidance on how to account for contributions of nonfinancial assets to form joint ventures. They also noted that differences in accounting for transfers of assets and businesses to equity method investees, including joint ventures, create additional complexity.

BC9. To address stakeholder concerns, the Board decided in October 2014 to split a project that was already on its agenda into three phases. The Board had added a project to its agenda in 2013 to clarify the definition of a business in Topic 805, Business Combinations, with the objective of providing guidance to assist entities in evaluating whether transactions should be accounted for as (a) acquisitions (or disposals) of assets or (b) acquisitions (or disposals) of businesses or nonprofit activities. The Board decided to split that project into phases because of the interdependency of the Topics. For example, the definition of a business has a direct effect on which transactions are within the scope of Subtopic 610-20. The three phases of the project are:

1. Phase 1: Clarify the definition of a business in Topic 805.
2. Phase 2: Clarify the scope of Subtopic 610-20, including the term *in substance nonfinancial asset*, and provide guidance for partial sales.
3. Phase 3: Determine whether there are differences in accounting for the acquisition and derecognition of assets and businesses that could be eliminated.

BC10. This Update includes amendments related to Phase 2. In June 2016, the Board issued proposed Accounting Standards Update, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (the proposed Update). The Board received 13 comment letters on the proposed Update. Overall, all respondents were supportive of the objective of the amendments in the proposed Update. They noted that the proposed amendments would reduce cost and complexity (a) by clarifying how to account for the derecognition of nonfinancial assets and in substance nonfinancial assets and (b) by specifying how to account for partial sales transactions. However, some stakeholders requested that the Board clarify other aspects of the guidance, which are described below.

## Nonfinancial Assets

BC11. During initial deliberations, the Board decided that accounting for the derecognition of nonfinancial assets generally should be the same regardless of whether the assets are transferred in the form of assets or a legal entity. For example, a parent may lose control of nonfinancial assets by transferring ownership interests in a subsidiary that is not a business, and the Board concluded that such a transaction generally should be within the scope of Subtopic 610-20

because the substance of the transaction is no different than if an entity had transferred control of the same underlying assets outside of a legal entity.

## In Substance Nonfinancial Assets

BC12. Because a transaction may involve the transfer of both nonfinancial assets and financial assets (for example, cash and receivables), the Board decided that if the substance of a transaction is the transfer of nonfinancial assets, all of the assets should be within the scope of Subtopic 610-20. Determining whether the substance of a transaction is the transfer of nonfinancial assets will be a concept that is new to many entities outside the real estate industry. Under current GAAP, an entity derecognizes (or deconsolidates) a business or nonprofit activity in accordance with Topic 810, Consolidation, unless the business or nonprofit activity is considered in substance real estate. Sales of in substance real estate currently are within the scope of Subtopic 360-20 or Subtopic 976-605, Real Estate—Retail Land—Revenue Recognition.

BC13. When the Board issued the amendments in Update 2014-09, it replaced the term *in substance real estate* in Topic 810 with the term *in substance nonfinancial asset* because the amendments in that Update supersede most of the industry-specific guidance for real estate. After making that change, the Board received feedback from stakeholders that they were uncertain about the meaning of the term *in substance nonfinancial asset* and whether that term was meant to apply to transactions outside the real estate industry because the term was not defined. Those stakeholders observed that applying approaches historically used by the real estate industry to non-real-estate transactions could lead to many more transactions that currently are businesses within the scope of Topic 810 being considered in substance nonfinancial assets within the scope of Subtopic 610-20. Furthermore, there is diversity in how the real estate industry determines if a transaction includes in substance real estate. Some entities consider quantitative factors such as whether substantially all of the assets transferred are real estate, while others perform a qualitative analysis. Also, even when considering quantitative factors, some entities base the evaluation on the fair value of the assets transferred, while others consider only the carrying amount of the assets transferred.

BC14. The Board decided to define an *in substance nonfinancial asset*, in part, as a “financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets.” The financial assets and nonfinancial assets promised to a counterparty in a contract may be held in one or more consolidated subsidiaries because, as previously mentioned, the Board noted that the accounting generally should be the same regardless of whether the assets are transferred in the form of assets or a legal entity. If all of the assets promised to a counterparty in a contract are determined to be nonfinancial assets (or nonfinancial assets and in substance nonfinancial assets),

each asset would be within the scope of Subtopic 610-20. Under this approach, an entity is not required to separately account for financial assets in accordance with Topic 860, Transfers and Servicing, if substantially all the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets.

BC15. In some cases, an entity may be able to qualitatively determine whether substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets. That is because an entity only needs to evaluate a transaction that is not a business or nonprofit activity, and, typically, such a transaction does not include a significant amount of financial assets. Although there may be some complexity in determining when a contract includes in substance nonfinancial assets, the Board noted that the complexity in scope is offset by the practicality of applying the same derecognition guidance to a group of nonfinancial assets and financial assets on the basis of the substance of the transaction.

BC16. The Board decided that an in substance nonfinancial asset also is a financial asset that is held in an individual consolidated subsidiary within a contract if substantially all the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in that subsidiary is concentrated in nonfinancial assets (see paragraph 610-20-15-6). The Board wanted to address situations in which an entity transfers ownership interests in one or more subsidiaries in a contract and substantially all of the fair value of the assets promised in the contract is not concentrated in nonfinancial assets, but substantially all of the fair value of the assets promised in an individual subsidiary within the contract is concentrated in nonfinancial assets. That could be the case, for example, when an entity transfers ownership interests in two subsidiaries (that do not constitute a business) in a single contract and one of the subsidiaries holds entirely nonfinancial assets and the other holds entirely financial assets. As a result, the Board decided that if part of a contract includes the transfer of an ownership interest in a consolidated subsidiary and substantially all of the fair value of the assets in the subsidiary is concentrated in nonfinancial assets, that subsidiary should be within the scope of Subtopic 610-20. (See paragraphs BC25–BC29 for the Board’s decision related to the transfer of an ownership interest in a consolidated subsidiary if all the assets promised to a counterparty in an individual consolidated subsidiary within a contract are not nonfinancial assets and/or in substance nonfinancial assets.)

BC17. For purposes of determining whether substantially all of the fair value of the assets promised to a counterparty in a contract (or an individual consolidated subsidiary within a contract) is concentrated in nonfinancial assets, the Board clarified that cash or cash equivalents promised to the counterparty should be excluded from the analysis. The Board did not want an entity to be able to achieve a particular accounting outcome simply by contributing cash to a counterparty and increasing the consideration it receives by the same amount. Also, consistent with the guidance in Topic 606, an entity should account for any cash paid to a counterparty as a reduction of the transaction price, which affects the

corresponding gain or loss. Under Topic 606, cash paid to a customer is typically a reduction of the transaction price unless it is in exchange for goods or services.

BC18. The Board considered requiring an entity to exclude other financial assets when determining whether substantially all of the fair value of the assets promised to a counterparty in a contract (or an individual consolidated subsidiary within a contract) is concentrated in nonfinancial assets. For example, the Board considered requiring an entity to exclude financial assets directly related to the operation of a nonfinancial asset (such as accounts receivable and leases related to the operation of a building) regardless of the magnitude of those financial assets. However, the Board rejected that approach because it was concerned that stakeholders would interpret other exclusions too broadly, resulting in a transaction being accounted for in accordance with Subtopic 610-20 when the nonfinancial assets were minor in comparison with the financial assets.

BC19. The Board also considered other alternatives to assess whether the substance of a transaction is the transfer of nonfinancial assets. For example, the Board considered using the term *predominantly* instead of the term *substantially all*. Under that alternative, if the assets promised to a counterparty in a contract were predominantly nonfinancial assets, the assets would be subject to Subtopic 610-20. However, the Board rejected that approach in favor of *substantially all* because *substantially all* is a higher threshold and it is more likely to result in an appropriate assessment of the substance of a transaction. Furthermore, the term *substantially all* is well understood because it is used frequently throughout the Codification.

## Businesses and Nonprofit Activities

BC20. Current GAAP requires an entity to derecognize (or deconsolidate) a business or nonprofit activity in accordance with Topic 810 unless the business or nonprofit activity is considered in substance real estate. In many cases, income-producing real estate that meets the current definition of a business is considered in substance real estate and, therefore, is derecognized in accordance with the real estate guidance in Subtopic 360-20 rather than Topic 810. As mentioned previously, the amendments in Update 2014-09 replaced the term *in substance real estate* in Topic 810 with the term *in substance nonfinancial asset*. Therefore, without the amendments in this Update, an entity would be required to derecognize (or deconsolidate) a business or nonprofit activity that is considered an in substance nonfinancial asset in accordance with Subtopic 610-20 once the amendments in Update 2014-09 become effective.

BC21. The Board decided that all businesses and nonprofit activities should be excluded from the scope of Subtopic 610-20. The Board explained that this decision simplifies the guidance because an entity does not have to consider whether a business or nonprofit activity is also an in substance nonfinancial asset.

BC22. During the initial deliberations of the proposed Update, the Board considered whether all businesses and nonprofit activities should be excluded from the scope of Subtopic 610-20 or whether, in some circumstances, a business should be considered an in substance nonfinancial asset and, therefore, derecognized in accordance with Subtopic 610-20. The Board concluded, and stakeholders agreed, that the revised definition of a business in Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, more appropriately distinguishes the types of transactions that involve transfers of businesses. Therefore, requiring an entity to consider whether a business or nonprofit activity also is an in substance nonfinancial asset is less relevant.

BC23. The amendments in Update 2017-01 are intended to narrow the definition of a business such that fewer real estate transactions should be considered businesses within the scope of Topic 810 and, instead, should be considered nonfinancial assets within the scope of Subtopic 610-20. Although the amendments in Update 2017-01 do not result in all real estate transactions being accounted for under Subtopic 610-20, the Board observed that this outcome is no different from any other industry.

BC24. Currently, income-producing real estate often is considered a business for acquisition purposes and an asset for derecognition purposes because the concept of in substance real estate (or an in substance nonfinancial asset) does not exist in the guidance on business combinations. The Board received feedback from stakeholders that excluding all businesses and nonprofit activities from the scope of Subtopic 610-20 simplifies the guidance because an integrated set of activities and assets deemed to be a business for acquisition purposes also will be deemed a business for derecognition purposes.

## Contracts Partially within the Scope of Other Guidance

BC25. A contract may be partially within the scope of Subtopic 610-20 and partially within the scope of other Topics. For example, in addition to transferring nonfinancial assets and in substance nonfinancial assets that are within the scope of Subtopic 610-20 to a counterparty, an entity may issue a guarantee to a counterparty that is within the scope of Topic 460, Guarantees (note that the guarantee is a liability and not an asset of the seller). The Board decided that an entity should apply the separation and allocation guidance included in paragraph 606-10-15-4 to determine how to separate and measure one or more parts of a contract that are within the scope of other Topics. However, the Board does not intend for the amendments in this Update to change how an entity has historically determined whether a transaction is entirely accounted for in accordance with other guidance such as Topic 860 on transfers and servicing.

BC26. Although a contract may be partially within the scope of Subtopic 610-20 and partially within the scope of other Topics, the Board decided that an entity should not separate the assets transferred in an individual consolidated subsidiary

within a contract. Therefore, if all of the assets promised to a counterparty in an individual consolidated subsidiary within a contract are nonfinancial assets and/or in substance nonfinancial assets, then all of the assets in the subsidiary should be derecognized in accordance with the guidance in Subtopic 610-20. However, if all of the assets promised to a counterparty in an individual consolidated subsidiary within a contract are not nonfinancial assets and/or in substance nonfinancial assets, then none of the assets in that subsidiary should be derecognized in accordance with the guidance in Subtopic 610-20. Instead, an entity should consider whether another Topic directly addresses the derecognition of those assets (for example, Topic 606 or Topic 860). If no other Topic directly addresses the derecognition of the assets, the entity should deconsolidate the subsidiary in accordance with Topic 810.

BC27. During initial deliberations, the Board considered requiring an entity to separate assets transferred in an individual consolidated subsidiary within a contract. However, the Board received mixed feedback from stakeholders. Some stakeholders stated that separating the nonfinancial assets from the financial assets in all transactions would be appropriate because it ignores legal form. Others were concerned about being able to practically apply different accounting models (for example, Topic 860 or Subtopic 610-20) to assets transferred in the same legal entity, particularly for partial sales in which the seller retains an interest in the legal entity.

BC28. In comment letter feedback, most stakeholders said that separating the nonfinancial assets from the financial assets in all transactions regardless of whether those assets are transferred in the same legal entity would not be operable or, if operable, would add additional cost and complexity. However, some stakeholders supported that approach, noting that by excluding subsidiaries that do not have in substance nonfinancial assets from the scope of Subtopic 610-20, economically similar transactions would be accounted for differently. They also observed that a subsidiary that holds nonfinancial assets and in substance nonfinancial assets would be within the scope of Subtopic 610-20, while a subsidiary that holds nonfinancial assets and financial assets (that do not meet the definition of *in substance nonfinancial assets*) generally would be within the scope of Subtopic 810-10. Therefore, those stakeholders were concerned that an entity could shift assets between entities to achieve a particular accounting outcome because the guidance in Subtopic 810-10 for determining when an entity ceases to have a controlling financial interest in a legal entity differs from the loss of control guidance in Topic 606 and Topic 860.

BC29. The Board decided that the benefits of separating nonfinancial assets from financial assets transferred in the same legal entity did not justify the cost and complexity of that approach. Also, the Board heard from stakeholders that a transaction to transfer nonfinancial assets and financial assets (that do not meet the definition of *in substance nonfinancial assets*) typically would meet the definition of a *business* or *nonprofit activity*, which are derecognized within the scope of Subtopic 810-10.

## Transfers of Investments

BC30. Under current GAAP, an entity is required to apply the guidance in Topic 860 to a transfer of an equity method investment unless the equity method investment is considered in substance real estate (see paragraph 860-10-55-3). If an equity method investment is considered in substance real estate, an entity applies the guidance in Subtopic 360-20 to that investment. To determine if an equity method investment is considered in substance real estate, historically an entity has evaluated the *underlying* assets and liabilities of that investment. Therefore, under current GAAP, a contract to transfer a single equity method investment may be considered the transfer of in substance real estate within the scope of Subtopic 360-20. The amendments in Update 2014-09 replaced the term *in substance real estate* in paragraph 860-10-55-3 with the term *in substance nonfinancial asset*.

BC31. During initial deliberations of this project, the Board decided to exclude all businesses and nonprofit activities from the scope of Subtopic 610-20 for the reasons described in paragraphs BC20–BC24. After making that decision, the Board observed that if it did not make amendments to paragraph 860-10-55-3, an entity would be required to determine whether an equity method investment is in a business or nonprofit activity and, if not, whether substantially all of the fair value of the underlying assets is concentrated in nonfinancial assets. To simplify the analysis, the Board decided to remove the scope exception in Topic 860 for in substance nonfinancial assets. The Board also made similar amendments to the guidance in Subtopic 310-10, Receivables—Overall, for acquisition, development, and construction arrangements that are accounted for as investments in real estate. Therefore, once the amendments in this Update are effective, an entity will no longer evaluate the underlying assets and liabilities of equity method investments to determine which derecognition guidance to apply to those investments. Instead, transfers of equity method investments should be accounted for in accordance with Topic 860 unless the investments are promised to a counterparty in a contract along with other nonfinancial assets. In that case, an equity method investment may be within the scope of Subtopic 610-20.

## Nonfinancial Assets Not within the Scope of Topic 350 or Topic 360

BC32. Because the scope of Subtopic 610-20 (as originally issued in Update 2014-09) specifically referred to assets within the scope of Topics 350 and 360, stakeholders were unclear about whether the guidance applied to a transaction if it included assets within the scope of other Topics such as inventory. The Board decided that an entity should derecognize nonfinancial assets in accordance with Subtopic 610-20 when no other guidance applies. As a result, the amendments in this Update supersede the reference to Topics 350 and 360 in paragraph 610-20-

15-2 because that reference would have limited the types of nonfinancial assets that are included within the scope of Subtopic 610-20.

## Liabilities

BC33. An entity may enter into a contract to transfer a nonfinancial asset to a counterparty and in exchange the counterparty agrees to assume or relieve a liability of the seller. For example, in exchange for a building, a counterparty may agree to assume an entity's mortgage loan on the building. Because the guidance in Subtopic 610-20 specifically refers to *assets*, stakeholders were unclear about how a buyer's promise to assume or relieve a liability of the seller would affect a transaction.

BC34. The Board decided that a buyer's promise to assume or relieve a liability of the seller does not affect whether an asset is within the scope of Subtopic 610-20. The Board also decided that if a counterparty promises to assume or relieve a liability, the seller should include that liability as consideration received when calculating its gain or loss. In the Board's view, characterizing a counterparty's assumption or relief of a liability as consideration received reflects the substance of the transaction because if the counterparty did not assume the liability, the counterparty would have to provide additional consideration to acquire the asset.

BC35. The Board considered whether the transfer of an asset and liability should be accounted for together or separately. Recognizing them separately would require an entity to allocate the gain or loss on the entire transaction between the asset and liability derecognized. While the total gain or loss would be the same under either approach, the Board observed that the timing and classification of the gain or loss in the income statement could be different if the asset and liability are accounted for separately. The Board concluded that accounting for an asset and liability together by characterizing the counterparty's assumption or relief of a liability as consideration more appropriately reflects the substance of the transaction because the gain or loss on the asset is recognized at the same time and in the same line item as the gain or loss on the liability. Additionally, in the Board's view, because the amount of cash a counterparty pays for an asset is correlated to the value of a liability assumed, the benefits of allocating the net gain to its component parts and reporting them separately do not justify the costs.

BC36. The Board concluded that the amount included in the calculation of the gain or loss is the carrying amount of the liability assumed. The Board observed that adjusting the consideration to equal the fair value of the liability assumed would not change the total net gain or loss recognized because any difference between the fair value of the liability and its carrying amount would offset each other when the liability is derecognized. Therefore, the Board noted that there is no need to consider the fair value of a liability being assumed.

BC37. Subtopic 405-20, *Liabilities—Extinguishments of Liabilities*, provides guidance on when an entity can derecognize a liability. The amendments in this

Update do not change when an entity can derecognize a liability. The guidance in Subtopic 610-20 addresses the timing of when only a distinct nonfinancial asset is derecognized and the amount of gain or loss that is recognized. The Board included guidance in paragraph 610-20-45-3 that describes how an entity should present a liability assumed or relieved by a counterparty if the criteria in Subtopic 405-20 are met before or after an entity transfers control of a distinct nonfinancial asset. This could occur, for example, if a seller is legally released from its obligation before transferring control of a distinct nonfinancial asset. Paragraph 610-20-45-3 states that if an entity meets the criteria in Subtopic 405-20 to derecognize a liability assumed before transferring control of a distinct nonfinancial asset, it should derecognize the liability but not record a gain or loss. Instead, the entity should record a contract liability, which represents consideration received before transferring control of the asset. The Board decided that reclassifying the existing liability to a contract liability better reflects the entity's remaining obligation, which is to transfer control of a distinct nonfinancial asset. If an entity transfers control of a distinct nonfinancial asset before meeting the criteria to derecognize a liability assumed by a counterparty, it should recognize a contract asset to the extent the carrying amount of the liability is included in the calculation of the gain or loss.

## Other Scope Clarifications

BC38. The Board added paragraph 610-20-15-4 in this Update to clarify additional transactions that are excluded from the scope of Subtopic 610-20. For example, in comment letter feedback, some stakeholders stated that the guidance is unclear about whether Subtopic 610-20 applies to transactions between entities under common control. The Board clarified that transactions between entities under common control are excluded from the scope of Subtopic 610-20 but did not provide additional guidance on how to account for those transactions. The Board observed that some guidance, although limited, already exists and that creating comprehensive guidance for common control transactions was outside the scope of this project.

BC39. The Board also made clarifying amendments to Subtopic 805-50, Business Combinations—Related Issues. In comment letter feedback, stakeholders stated that they were unsure about whether to apply the guidance in Subtopic 610-20 or Subtopic 805-50 to transactions in which an entity sells a nonfinancial asset and in exchange receives a nonfinancial asset. That is, they were unsure about whether to focus on the assets given up in the exchange and apply Subtopic 610-20 or to focus on the assets acquired and apply Subtopic 805-50 on asset acquisitions. In accordance with paragraph 805-50-25-1, if an entity transfers assets to receive assets, the assets surrendered should be derecognized at the date of acquisition. Stakeholders observed that the timing for derecognition of assets transferred in an exchange under that paragraph is based on when the entity acquires assets, which is different from the timing for derecognition in Subtopic 610-20. The Board clarified that if an entity acquires assets by

transferring nonfinancial assets, it should apply the guidance in Subtopic 610-20 and not the guidance in Subtopic 805-50.

## Distinct Nonfinancial Assets

BC40. The guidance in Subtopic 610-20 requires an entity to apply certain guidance in Topic 606 to determine when control of nonfinancial assets (or in substance nonfinancial assets) has been transferred. However, the guidance in Subtopic 610-20 (as originally issued in Update 2014-09) did not specify whether an entity should apply the guidance in Topic 606 to identify each performance obligation and allocate the transaction price to each of those performance obligations.

BC41. The Board decided that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and allocate the consideration to each distinct asset by applying certain guidance in Topic 606. The Board observed that when an entity derecognizes nonfinancial assets or in substance nonfinancial assets in a subsidiary, control of each underlying asset typically will transfer at the same time. Therefore, in practice, an entity often may not need to separate and allocate consideration to each distinct nonfinancial asset or in substance nonfinancial asset. However, in situations in which distinct nonfinancial assets or in substance nonfinancial assets are transferred at different points in time (for example, because of repurchase agreements), the Board noted that the guidance on distinct nonfinancial assets provides additional clarity.

BC42. In comment letter feedback, most respondents agreed that the unit of account should be each distinct nonfinancial asset (or in substance nonfinancial asset), including situations in which the assets are transferred in a subsidiary. Several respondents acknowledged the Board's observation that when an entity derecognizes nonfinancial assets or in substance nonfinancial assets in a subsidiary, control of each underlying asset typically will transfer at the same time.

## Partial Sales

BC43. Partial sales are common in the real estate industry and include transactions in which the seller retains an interest in the property or has an interest in the buyer. The following examples are considered a partial sale of real estate:

- a. Transaction 1: Entity A owns a single real estate asset and enters into a transaction with Entity B. Entity B forms a new entity, Entity X, and contributes \$1,000 in cash to that entity. Entity A agrees to transfer the entire real estate asset directly to Entity X in exchange for \$1,000 and a 50 percent ownership interest in the new entity. Assume Entity A does not control Entity X after the transfer.

- b. Transaction 2: Entity A sells 50 percent of Entity X, a wholly owned subsidiary that consists of a single real estate asset, to Entity B in exchange for cash consideration of \$1,000. Assume Entity A does not control Entity X after the sale.

BC44. Although the form of Transaction 1 is different from the form of Transaction 2 (Transaction 1 is structured as a sale of a nonfinancial asset to another entity, and Transaction 2 is structured as a sale of ownership interests in a subsidiary), in both transactions Entity A ends up with \$1,000 cash and a 50 percent noncontrolling interest in Entity X.

BC45. When the amendments in Update 2014-09 were issued, stakeholders indicated that they were uncertain about how an entity should account for partial sales of nonfinancial assets once the amendments become effective. The real-estate-specific guidance in Subtopic 360-20 included detailed guidance on partial sales transactions but that guidance was superseded by the amendments in Update 2014-09. The guidance in Subtopic 610-20 (as originally issued in Update 2014-09) did not address partial transactions.

BC46. The Board also noted that a transfer of a nonfinancial asset to another entity in exchange for a noncontrolling interest in that entity was excluded from the scope of Subtopic 610-20 (and was in the scope of Topic 845 on nonmonetary transactions) even though that transaction is similar to a partial sale of real estate. The following transactions are subject to the guidance in Section 845-10-30:

- a. Transaction 3: Entity A transfers intellectual property (that is not a business) to Entity B in exchange for a 40 percent noncontrolling interest in Entity B. Assume Entity A does not have a controlling financial interest in Entity B after the transfer and that it would account for its investment in Entity B under the equity method. This transaction also could include monetary consideration.
- b. Transaction 4: Entity A sells a machine to Entity B, a publicly traded company, in exchange for shares of Entity B. Assume Entity A accounts for its investment in Entity B under the cost method.

BC47. In Transactions 3 and 4, Entity A transfers a nonfinancial asset to another entity and retains an interest in the asset through its ownership interest in Entity B.

BC48. The Board observed that in all four transactions, Entity A retains an ownership interest in the asset transferred. Because Transactions 1–4 are similar, the Board received feedback from stakeholders that the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845 could be superseded if the Board provided guidance to address partial sales in Subtopic 610-20. Furthermore, stakeholders noted the Board would create inconsistencies in the accounting for similar transactions if it provided guidance to address partial sales but retained the guidance in Topic 845.

BC49. The Board decided to supersede the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845. Therefore, upon the effective date of the amendments in this Update, the transfer of a nonfinancial asset (including an in substance nonfinancial asset) to another entity in exchange for a noncontrolling interest in that entity should be accounted for in accordance with the guidance in Subtopic 610-20. The Board stated that superseding that guidance in Topic 845 simplifies GAAP because similar transactions will be accounted for using the same guidance. The Board also reasoned that distinguishing between transactions that should be accounted for in accordance with Topic 845 or Subtopic 610-20 could be difficult. (The Board notes that there could be different iterations of Transactions 1–4 above and that those transactions are not the only transactions that could be subject to Subtopic 610-20.)

BC50. The Board also observed that eliminating the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845 results in a transfer of a nonfinancial asset for any form of noncash consideration to be within the scope of Subtopic 610-20, which is consistent with Topic 606. Topic 606 considers a customer's promise to transfer an ownership interest similar to any other noncash consideration. The Board did not see a conceptual basis for excluding transactions from the scope of Subtopic 610-20 simply because the form of consideration was a noncontrolling interest in another entity.

BC51. An entity also may transfer control of nonfinancial assets (including in substance nonfinancial assets) by contributing those assets to a joint venture or other equity method investee. The Board observed that stakeholders find it challenging to distinguish between a joint venture and other types of equity method investments and that there is a lack of clear guidance on how an investor should account for a contribution of an asset to a joint venture. However, the Board understands that the investment typically is recorded at carryover basis and that no gain or loss is recognized unless the investor receives cash. The Board decided that the guidance in Subtopic 610-20 also should apply to transfers of nonfinancial assets (including in substance nonfinancial assets) to a joint venture or other equity method investee. The Board noted that including joint venture transactions within the scope of Subtopic 610-20 simplifies GAAP by eliminating the need to distinguish between a joint venture and other types of investees as well as by providing clarity to an area that previously was not addressed.

## Unit of Account for Partial Sales

BC52. When a partial sale is structured as the sale of an ownership interest in a consolidated subsidiary (see Transaction 2 in paragraph BC43), some stakeholders indicated that it was unclear whether the unit of account is the ownership interest transferred or the underlying distinct nonfinancial asset. That

is, stakeholders questioned whether an entity should evaluate whether it transfers control of the ownership interest or the underlying distinct asset.

BC53. The Board decided that an entity should evaluate whether it transfers control of the distinct underlying asset and not the ownership interest. Although the form of some partial sales transactions may be different (for example, see Transactions 1 and 2 in paragraph BC43), the Board observed that the substance of the transactions is the same and, therefore, should be accounted for in a similar manner. The Board viewed the substance of all partial sales transactions as the transfer of a distinct underlying asset in exchange for a noncontrolling interest in another entity.

BC54. The Board considered requiring a different unit of account for different transactions. For example, it considered an alternative in which the unit of account for Transactions 1 and 2 (in paragraph BC43) would be the partial interest transferred and the unit of account for Transactions 3 and 4 (in paragraph BC46) would be the entire asset. However, the Board concluded that having the same unit of account for all transactions within the scope of Subtopic 610-20 reduces complexity.

## Evaluating the Transfer of Control in Topic 810

BC55. To determine when to derecognize a nonfinancial asset, Subtopic 610-20 (as originally issued in Update 2014-09) would have required an entity to apply guidance in only Topic 606. The Board decided that a reporting entity should apply the guidance in Topic 810 before it applies the guidance in Topic 606 because under Topic 810, if an entity transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, it does not derecognize the assets and liabilities of the subsidiary and accounts for the transaction as an equity transaction.

BC56. The Board's decision could result in a change in accounting for some entities in the real estate industry. In accordance with the real estate guidance in Subtopic 360-20, a seller does not recognize profit or loss upon consummation of a partial sale if it is still required to consolidate a real estate entity. For example, if a parent transfers a 20 percent noncontrolling interest in a real estate subsidiary, it does not recognize a profit. However, because the guidance in Subtopic 360-20 is not explicit about how to record those transactions, the Board understands that there is diversity in how they are recorded. Some entities record the transaction as an equity transaction similar to the guidance in Topic 810, while other entities record a deferred gain. Still other entities record a deferred gain for the difference between the consideration received and the carrying amount of the interest sold. The Board considered those approaches and decided that if a parent transfers ownership interests in a consolidated subsidiary and continues to have a controlling financial interest in that subsidiary, it should apply the guidance in paragraphs 810-10-45-21A through 45-24.

BC57. The Board concluded that when a parent retains a controlling financial interest in the subsidiary, it is not obligated to transfer any distinct nonfinancial assets and, therefore, has not incurred a contract liability as defined. Therefore, the Board decided that recording a deferred gain or contract liability would be inconsistent with the overall model. While that approach may change practice for some entities in the real estate industry, the Board noted that eliminating diversity and conforming the accounting between assets and businesses justify the cost of changing practice.

BC58. When a parent no longer has a controlling financial interest in a subsidiary, it then evaluates whether control of each distinct nonfinancial asset (or in substance nonfinancial asset) has transferred in accordance with the guidance in paragraph 606-10-25-30. However, in contrast to the Board's decision in paragraph BC57, the Board decided that if an entity receives consideration before transferring control of a distinct nonfinancial asset in accordance with the guidance in paragraph 606-10-25-30, it should recognize a contract liability because in this case the entity is obligated to transfer the distinct nonfinancial asset to the counterparty (see paragraph 610-20-45-2).

## Evaluating the Transfer of Control in Topic 606

BC59. The Board observed that the guidance in paragraph 606-10-25-30 does not contemplate partial sales transactions. In accordance with paragraph 606-10-25-30, an entity evaluates the point in time at which a customer obtains control of an asset and in doing so considers whether the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Because an entity retains or receives a noncontrolling interest in a partial sale, the counterparty may not have the ability to obtain substantially all of the remaining benefits from the asset, and, therefore, the guidance is unclear about how to evaluate the transfer of control in those circumstances. For example, consider Transactions 1 and 2 in paragraph BC43 in which Entity A has a 50 percent noncontrolling interest in Entity X as a result of the transaction. When considering the indicators of the transfer of control in paragraph 606-10-25-30, one might conclude that Entity A did not transfer control because Entity B does not have the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. To address the transfer of control for partial sales transactions, the Board included guidance in paragraph 610-20-25-7 that states that if an entity has (or continues to have) a noncontrolling interest in the legal entity that holds the nonfinancial assets or in substance nonfinancial assets as a result of the transaction, it should evaluate the point in time at which the legal entity holding the assets obtains (or has) control (for example, by evaluating whether the legal entity can direct the use of, and obtain substantially all of the benefits from, the portfolio of assets within it). Therefore, in Transactions 1 and 2, Entity A would evaluate whether Entity X obtained or has control of the asset.

BC60. The Board considered amending Subtopic 610-20 such that an entity would evaluate whether it surrenders control of an asset rather than whether a counterparty obtains control of the asset. The Board acknowledged that an entity often loses control at the same time that a counterparty (or counterparties) obtains control but was concerned about creating inconsistencies in the perspective of control between Topic 606 and Subtopic 610-20 and the potential for unintended consequences.

BC61. The Board is aware that some stakeholders also interpret the concept of control in Topic 606 to mean that a single counterparty must control a legal entity and obtain substantially all of the benefits from the assets within it even when an entity does not retain or receive a noncontrolling interest in those assets. For example, consider a transaction in which a parent transfers interests in a wholly owned subsidiary by transferring 50 percent of its interests to Party A and 50 percent of its interests to Party B. Some stakeholders interpret the concept of control in Topic 606 to mean that the parent would not be able to derecognize the assets within the subsidiary because neither Party A nor Party B controls the legal entity and obtains substantially all of the benefits from the assets within it. The Board observed that this interpretation creates a higher derecognition threshold than the guidance on real estate in Subtopic 360-20 and the guidance on businesses in Topic 810. Therefore, the Board decided to clarify in paragraph 610-20-25-7 that when more than one counterparty has an ownership interest in the legal entity to which the assets were transferred (and the entity did not retain or receive a noncontrolling interest in the legal entity), the entity should evaluate the point in time at which those counterparties, collectively, obtain control.

## Measurement of a Retained Noncontrolling Interest

BC62. When a partial sale is structured as the sale of an ownership interest in a consolidated subsidiary, stakeholders noted that the Board should provide consistent and clear guidance about how an entity should measure a retained noncontrolling interest and, therefore, the ultimate gain or loss that would be recognized. Under current GAAP, the measurement of a gain in a partial sale is different based on the scope of the transaction. For example:

- a. Subtopic 360-20 requires an entity to recognize a partial gain and to record the noncontrolling interest at carryover basis.
- b. Subtopic 810-10 requires an entity to recognize a full gain upon derecognition of a business and to measure any retained interest at fair value.
- c. If fair value measurement is elected, Subtopic 845-10 requires an entity to recognize a partial gain if the noncontrolling interest is accounted for as an equity method investment and to recognize a full gain or loss if it is accounted for as a cost method investment.

BC63. The Board received mixed feedback from stakeholders on the measurement of a retained noncontrolling interest. Some stakeholders prefer fair value because they view the substance of the transaction as the transfer of a nonfinancial asset in exchange for a noncontrolling interest. In their view, the nature of the asset changes from a nonfinancial asset to a financial asset. Other stakeholders prefer carryover basis because they view the substance of the transaction as the seller retaining a smaller portion of the same asset. However, all of the stakeholders generally acknowledge the benefits of aligning the accounting between assets and businesses. The Board considered all of the approaches listed in paragraph BC62 and decided that a retained noncontrolling interest should be measured at fair value. As mentioned in paragraph BC53, the Board viewed the substance of all partial sales transactions as the transfer of a distinct underlying asset in exchange for a noncontrolling interest in another entity. As such, a retained noncontrolling interest should be accounted for as noncash consideration measured at fair value at contract inception consistent with the guidance in paragraphs 606-10-32-21 through 32-24.

BC64. The Board considered an alternative view in which the gain would be limited to the extent of the ownership interest transferred because the entity retains an interest in the asset. However, the Board concluded that recognizing a full gain is justified because, in the Board's view, the nature of the asset has changed. In contrast, the Board noted that it would be inappropriate to remeasure a retained interest if the asset continued to be consolidated or was proportionately consolidated because the nature of the asset would be the same before and after the transaction.

BC65. The Board understands that financial statement users generally disregard gains or losses on transactions that are within the scope of Subtopic 610-20, regardless of how they are measured, because those transactions generally are nonrecurring and as such do not affect core earnings. Therefore, the Board placed more emphasis on simplifying the accounting and eliminating differences between transactions involving assets and transactions involving businesses rather than the amount of the gain or loss recognized. The Board also observed that a fair value measurement is more consistent with the amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in that Update require many equity investments to be measured at fair value. Therefore, if the Board had required an entity to record a retained noncontrolling interest at its carryover basis, the interest may immediately have been remeasured to fair value under the amendments in Update 2016-01.

BC66. The Board considered whether its decision was inconsistent with the guidance on intra-entity transactions in Topic 323, *Investments—Equity Method and Joint Ventures*. Paragraph 323-10-35-7 requires an entity to eliminate the profits or losses on the sale of assets to an investee to the extent of the ownership interest in the investee if the assets still remain with an investor or investee.

However, the Board observed that if a business is transferred to an equity method investee, the profit or loss is not eliminated.

BC67. The Board decided that transactions with an investee are similar to transfers of a nonfinancial asset in exchange for a noncontrolling ownership interest in another entity (that is, the entity retains an interest in the asset through its investment). As such, this Update amends paragraph 323-10-35-7 to require that no gain or loss should be eliminated when an entity transfers an asset subject to Subtopic 610-20. The Board acknowledged that this is inconsistent with revenue transactions with equity method investees; however, the Board placed more emphasis on eliminating differences between the derecognition of assets and the derecognition of businesses or nonprofit activities.

## Comparison with International Financial Reporting Standards (IFRS)

BC68. The amendments in Update 2014-09, together with IFRS 15, *Revenue from Contracts with Customers*, were the result of a joint effort by the FASB and the International Accounting Standards Board (IASB). In the joint project on revenue recognition, the IASB also decided to amend the guidance in IAS 16, *Property, Plant and Equipment*, IAS 38, *Intangible Assets*, and IAS 40, *Investment Property*, to require that an entity apply the guidance in IFRS 15 on determining when an entity transfers control of a nonfinancial asset and how to measure the gain or loss upon derecognition. However, the IASB did not include the concept of an in substance nonfinancial asset in its guidance because the derecognition of a subsidiary, regardless of whether it is an asset or a business, is accounted for in accordance with IFRS 10, *Consolidated Financial Statements*. Because of those differences, the FASB understands that entities applying IFRS do not have similar questions about the scope of the derecognition guidance and accounting for partial sales of nonfinancial assets.

BC69. The FASB considered an alternative that would have required the derecognition of all entities, regardless of whether they were an asset or a business or nonprofit activity, to be accounted for in accordance with Topic 810, which is similar to IFRS 10. The FASB rejected that alternative because in its view the form of the transaction generally should not dictate the accounting model. However, the FASB's decisions on the measurement of a retained noncontrolling interest and on when the seller retains control of an entity is consistent with the guidance in Topic 810 and IFRS 10.

BC70. There currently are differences between IFRS and GAAP on contributions of nonfinancial assets to equity method investees and joint ventures. IAS 28, *Investments in Associates and Joint Ventures*, requires entities to recognize a partial gain or loss (to the extent of the equity interests of the other investors) on contributions to an associate in an exchange for an interest in that associate unless the transaction lacks commercial substance. Under GAAP, the investor either

records the investment at carryover basis with no gain or loss recognized or recognizes a partial gain (to the extent of the equity interests of the other investors). The FASB's decision to account for those transactions in accordance with Subtopic 610-20 and measure the investment received at fair value is different from what IFRS requires; however, the FASB observed that there already were differences between GAAP and IFRS and decided to place more emphasis on creating consistency in GAAP between assets and businesses.

BC71. The FASB also observed that the IASB issued a narrow-scope amendment to IFRS 10 and IAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, to address inconsistencies between the accounting for the contribution of a nonmonetary asset in IAS 28 and the derecognition of an entity in IFRS 10. However, the effective date of that amendment was indefinitely deferred because the IASB decided to address those issues as part of a research project on the equity method of accounting.

## Effective Date and Transition

BC72. The amendments in this Update are effective at the same time as the amendments in Update 2014-09 and link to the same transition paragraph (606-10-65-1). The amendments in this Update and Update 2014-09 state that an entity can apply the guidance that links to transition paragraph 606-10-65-1 either:

- a. Retrospectively to each period presented in the financial statements in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10 (retrospective approach)
- b. Retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption (modified retrospective approach).

BC73. In this Update, the Board decided to amend the transition guidance in Update 2014-09 so that an entity could elect to apply a transition method to transactions with customers (for example, transactions within the scope of Topic 606) that is different from the transition method for transactions with noncustomers (for example, transactions within the scope of Subtopic 610-20). For example, an entity can elect to apply the retrospective approach to transactions within the scope of Topic 606 and the modified retrospective approach to transactions within the scope of Subtopic 610-20. The Board decided to amend the transition guidance because transactions with noncustomers generally are nonrecurring; therefore, comparability across annual periods may not be as important to users of financial statements for those transactions. In addition, the Board did not want the reason that an entity chooses a modified retrospective approach for transactions with customers to be because it was too costly to apply a retrospective approach to contracts with noncustomers.

BC74. In this Update, the Board also decided that regardless of which transition method an entity elects to apply to contracts with noncustomers, it should apply

the amended definition of a business in Update 2017-01 to those contracts. Absent that change, an entity would be required to apply two different definitions of a business to similar transactions occurring in different fiscal periods, which the Board observed would be costly and complex. To further reduce cost and complexity when applying the amended definition of a business, the Board decided that if an entity concludes that a transaction previously recorded as the disposal of a business is no longer a business, the entity should not reinstate amounts previously allocated to goodwill associated with that disposal.

BC75. The Board considered allowing an entity to apply the guidance in Subtopic 610-20 on a prospective basis with additional disclosure requirements. However, the Board rejected that approach because if an entity has long-term contracts, it may have to apply two sets of accounting guidance for a significant period of time. For example, the Board understands that some real estate entities defer and amortize gains over a future period under the cost recovery or installment method in Subtopic 360-20. In addition, in the pharmaceuticals industry, an entity may sell intellectual property and recognize royalty income over a future period. Under a prospective approach, those contracts that are not complete on the initial date of application of the amendments in this Update would continue to be recognized under previous guidance, whereas contracts entered into after the date of initial application would be recognized under Subtopic 610-20. The Board also decided that the costs incurred to make additional disclosures would negate any cost savings provided by a prospective approach.

BC76. The Board also clarified that an entity may elect to apply different practical expedients to contracts with customers than to contracts with noncustomers. An example of a contract with a noncustomer that may not be complete is a contract that includes contingent consideration and all (or substantially all) of the consideration has not been recognized in accordance with the guidance that was in effect before the date of initial application of the amendments in this Update.

## Benefits and Costs

BC77. 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 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 value of improved information in financial statements.

BC78. In the Board's view, the amendments in this Update meet the objective of financial reporting by clarifying the scope of Subtopic 610-20 and providing

accounting guidance for partial sales of nonfinancial assets. Specifically, the Board noted that defining *in substance nonfinancial asset* reduces diversity in practice related to the term *in substance real estate* that currently exists and avoids the potential for further diversity. While there may be some complexity in evaluating the definition of the term *in substance nonfinancial asset*, in many cases the amendments reduce complexity by reducing the number of accounting decisions that entities need to make when evaluating the derecognition of nonfinancial assets. For example, the Board observed that the amendments in this Update reduce complexity by (a) superseding the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest Subsection within Topic 845, (b) clarifying the accounting for contributions of nonfinancial assets to joint ventures, and (c) eliminating the scope exception for in substance nonfinancial assets in Topic 860. The Board acknowledges that the amendments in this Update change historical accounting practices for some entities, particularly those in the real estate industry. However, in the Board's view, the benefits of streamlining GAAP and eliminating several accounting differences between transactions involving assets and transactions involving businesses justify the costs of implementing the guidance.

## 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 changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2018 Taxonomy, are available for public comment through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org), and finalized as part of the annual release process.