In depth

A look at current financial reporting issues

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Revenue from contracts with customers

The standard is final – A comprehensive look at the new revenue model

Transportation and Logistics industry supplement

What's inside:

At a glance

On 28 May 2014, the FASB and IASB issued their long-awaited converged standard on revenue recognition. Almost all entities will be affected to some extent by the significant increase in required disclosures. But the changes extend beyond disclosures, and the effect on entities will vary depending on industry and current accounting practices.

This supplement highlights some of the areas that could create the most significant challenges for entities in the transport and logistics industry as they transition to the new standard.

Overview

The transportation and logistics industry includes entities associated with shipping, railways, airlines, trucking and logistics, and cruise lines. Customers generally pay a fee for the movement of cargo or passengers between two or more specified points. Customer incentives are limited and primarily arise from volume discounts, or airlines' customer loyalty programmes, where awards are earned based on mileage flown and can be redeemed for a variety of products or services.

This industry supplement discusses the areas in which the final revenue standard is expected to have the greatest impact for entities in the transportation and logistics industry. The examples and related discussions are intended to provide areas of focus to assist entities in evaluating the implications of the new standard.

Scope

The new standard applies to all contracts with customers except for:

- Lease contracts
- Insurance contracts

- Certain contractual rights or obligations within the scope of other standards, including financial instrument contracts
- Certain guarantees (other than product warranties) within the scope of other standards
- Non-monetary exchanges (between entities in the same line of business) to facilitate a sale to another party

Some contracts within the transportation industry may include components that are in the scope of the revenue standard and components that are in the scope of other standards (for example, a lease contract that also includes maintenance or other services). The new standard states that if a contract is partially within the scope of another standard, an entity should apply any separation and/or measurement guidance in the other standard first. Otherwise, the principles in the revenue standard should be applied to separate and/or initially measure the component(s) of the contract.

The determination of whether an arrangement contains a lease might have significant accounting implications. Careful consideration of the relevant standard is required before applying the revenue standard to a contract. Contracts that involve providing or using fixed assets (for example, vessel time charters) might contain a lease. The boards recently issued new leasing standards that amend the guidance about what constitutes a lease. Management will need to carefully assess which arrangements or components of arrangements fall outside the scope of lease accounting and should be treated as revenue contracts.

The following discussion relates only to contracts and or components of contracts that are within the scope of the revenue standard.

Transportation revenue and costs

Transportation or freight services are generally provided over a period of time ranging from a day to multiple years. The new standard requires that revenue is recognised based on the transfer of control. Revenue is recognised as an entity satisfies a performance obligation by transferring control of a good or service. A performance obligation might be satisfied over time or at a point in time.

<table>
<tr><th>New standard</th><th>Current US GAAP</th><th>Current IFRS</th></tr>
<tr><td rowspan="2">Transportation revenue

A performance obligation is satisfied over time if any one of the following criteria is met:

• The customer simultaneously receives and consumes the benefits of the entity’s performance as the entity performs.
• The entity's performance creates or enhances an asset (work-inprogress) that the customer controls as the asset is created or enhanced.
The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to</td><td>There are two predominant methods for recognising revenue and costs for freight services:

(1) recognise both revenue and direct costs when the shipment is completed, or

(2) allocate revenue between reporting periods based on relative transit time in each period with costs recognised as incurred (the proportionate performance method).</td><td>Revenue is recognised for service transactions, such as freight services, based on the stage of completion of the transaction. Costs are recognised as incurred.</td></tr>
<tr><td colspan="2">Impact:
Transportation services will likely meet the criteria for revenue recognition over time as the customer simultaneously receives and consumes the benefit as the entity performs. The boards observed that the customer benefits from</td></tr>
</table>

New standard	Current US GAAP	Current IFRS
payment for performance completed to date. An entity should recognise revenue over time only if the entity can reasonably measure its progress toward complete satisfaction of the performance obligation.	the entity's performance as it occurs if another entity would not need to substantially re-perform the entity's performance (for example, distance already travelled) to date. An entity should disregard any contractual or practical limitations when it assesses whether the customer simultaneously receives and consumes the benefits and whether another entity would need to substantially re-perform the performance completed to date. For example, the assessment would not consider contractual provisions that restrict an entity from transferring its obligations to another entity.	
Transportation costs Costs to fulfill a contract are in the scope of the revenue guidance only if they are not addressed by other standards. Costs in the scope of other standards that are required to be expensed by those standards cannot be recognised as an asset under the revenue guidance. An entity should recognise an asset under the revenue guidance for costs to fulfill a contract only if the costs relate directly to a contract, the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, and the costs are expected to be recovered. The costs that relate directly to a contract include costs that are incurred before the contract is obtained if those costs relate to a specific anticipated contract. Capitalised costs are amortised consistently with the pattern of transfer of control of the goods or services to which the asset relates. An impairment loss is recognised to the extent that the carrying amount of the capitalised asset exceeds the net amount of consideration to which the entity expects to be entitled in exchange for the services to which the asset relates, less the remaining costs that relate directly to providing these services.	Freight fulfilment costs will continue to be expensed as incurred unless (a) they can be capitalised under another standard; or (b) they relate directly to a contract, generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, and are expected to be recovered. Where revenue is recognised over time, it is unlikely that fulfilment costs will be capitalised under the new standard.	

Example 1

Facts: A shipping entity enters into a contract with a customer to transport goods from point A to point B. The customer has an unconditional obligation to pay for the service when the service has been completed, which is when the goods reach point B. When should the entity recognise revenue from this contract?

Discussion: These types of contracts will typically meet the criteria for revenue recognition over time. If the shipping entity transports the goods halfway to the destination, another transportation entity could fulfill the remaining obligation to the customer without having to re-perform the services provided to date. The obligation to provide transportation services is therefore satisfied over time, and revenue should be recognised over the period of performance (that is, generally the period from when transport of the goods begins through delivery).

Example 2

Facts: A logistics entity enters into a contract to perform inventory management services for its customer over a twoyear period. Mobilisation costs are incurred in preparing to service the customer in accordance with the contract. These costs include employee training, leasehold improvements on warehouse space, and internally developed software related to software enhancements and customisation required to perform under the contract. How should these costs be accounted for?

Discussion: The activities giving rise to these costs do not transfer a good or service to the customer. Management will therefore need to evaluate if the costs incurred to fulfill the contract are in the scope of other standards to determine if other standards require the costs to be expensed or capitalised. The accounting for the software costs is in the scope of the guidance for internally-developed software and should be evaluated in accordance with that guidance. Leasehold improvement costs fall under PP&E guidance and should be evaluated accordingly.

Training costs are expensed under IAS 38, *Intangible assets*, for IFRS reporters. As a result, they should be expensed as costs cannot be capitalised under the revenue standard if they must be expensed under other applicable standards. US GAAP does not have a standard that specifically addresses training costs. These costs would therefore be evaluated in accordance with the guidance in the revenue standard. These costs, and any other upfront contract costs incurred that are not addressed by other standards should be assessed to determine if they: (a) relate directly to the contract; (b) generate or enhance resources that will be used to satisfy future performance obligations; and (c) are expected to be recovered.

Example 3

Facts: A shipping entity has a vessel at point A and enters into a voyage charter contract with a customer to transport goods from point B to point C. Can the shipping entity capitalise the cost to move the vessel from point A to point B?

Discussion: These costs do not fall under other guidance, so the revenue standard would be applied. Judgement would be required to determine whether or not the costs to move the vessel (1) relate directly to a contract or to an anticipated contract that the entity can specifically identify, (2) generate or enhance resources of the entity that will be used in satisfying future performance obligations, and (3) are expected to be recovered. Costs that are explicitly chargeable to the customer under the contract are typically costs that relate directly to a contract. Assuming the costs meet these criteria, the costs would be capitalised.

Example 4

Facts: A container shipping entity transports various customers' containers along a predetermined shipping route of around Port A, Port B, Port C, and back to Port A. Different containers are loaded and unloaded at different ports. For example, one container is loaded at Port A and unloaded at Port C, another container is loaded at Port B and unloaded at Port C, and a third container is loaded at Port B and unloaded at Port A. Could the container shipping entity recognise its transportation revenue from these three orders using a portfolio approach over the duration of the roundtrip voyage or should it recognise revenue based on each individual voyage?

Discussion: The container shipping entity should account for its revenue based on the individual contracts with its customers. An entity may account for revenue from a portfolio of contracts (or performance obligations) with similar characteristics only if the entity reasonably expects that the effects of applying the portfolio approach would not differ materially from applying the new standard to the individual contracts.

Customer loyalty programmes — frequent flyer programmes

Transportation and logistics entities often grant award credits (often called "points" or "miles") as part of sales transactions that can be redeemed for goods and services supplied either by the entity itself or by other entities. The most common customer loyalty programmes in the industry are the frequent flyer programmes offered by airlines.

New standard	Current US GAAP	Current IFRS
Credits issued under customer loyalty programmes are separate performance obligations if they provide the customer with a material right that the customer would not receive without buying the initial product or service (for example, the original flight). The transaction price is allocated between the initial purchase and the award credits based on the actual or estimated stand-alone selling price of each obligation. The portion of the transaction price allocated to the award credits is not recognised as revenue until the credits are redeemed or expire. The stand-alone selling price of the award credits is not usually directly observable and may be estimated. The estimate should reflect the discount achieved by customers when spending award credits, adjusted for the likelihood that the credits will be forfeited (breakage). The airline recognises revenue from the award credits on a gross basis when the customer redeems the award credits for goods or services that the airline provides. An airline that operates a programme where points can be redeemed with a third party needs to consider whether it is the principal or an agent in the arrangement as it relates to the customer loyalty points redeemed by others. This requires management to first consider the nature of the entity's performance obligation. The entity should recognise revenue for the net fee or commission retained in the exchange if it is an agent in the arrangement.	Two models are commonly followed to account for loyalty programmes: the incremental cost model and the multiple-element model. Certain entities use the incremental cost model, whereby revenue is recognised for the initial purchase (for example, the original flight) when it occurs. The cost of fulfilling award credits is treated as a future obligation and the related expense is accrued. Other entities use the multipleelement model and allocate revenue between the initial purchase and the award credits based on their relative fair values. Revenue allocated to the award credits is deferred and recognised when the award credits are redeemed or expire. The fair value of the award credits is not reduced for expected forfeitures (breakage). An entity needs to determine whether it is acting as a principal or an agent in the arrangement based on certain indicators. Currently, three accounting models are generally accepted for the recognition of breakage. Breakage related to award credits expected to be forfeited is accounted for either proportionally as the awards are redeemed, when the awards expire, or when it becomes remote that the holder will demand performance.	Customer loyalty programmes are accounted for as multiple-element arrangements. Consideration is allocated to the award credits based on their fair value, typically using the residual method, although the guidance also permits relative fair value. This amount is deferred and recognised as revenue when the award credits are redeemed or expire. The fair value of the award credits is adjusted for discounts available to other buyers absent entering into the initial purchase transaction and for expected forfeitures (breakage). Management needs to determine whether the entity is acting as a principal or an agent in the arrangement. An entity may be acting as an agent if it issues award credits that are transferred to and redeemed by other entities. Revenue is recognised net of payments made to others to redeem award credits if the entity is acting as an agent.
	Impact: Award credits issued under customer loyalty programs will be accounted for as separate performance obligations to the extent they provide a material right to the customer. The incremental cost model will no longer be acceptable.	*Impact:* The new standard will require consideration to be allocated on a relative stand-alone selling price basis, which could have a different result than the residual approach applied today. Some entities might allocate less consideration to the award credits under the new guidance as a result.

New standard	Current US GAAP	Current IFRS
	Adjustments for expected forfeitures (breakage) will affect the timing of revenue recognition. The stand-alone selling price of award credits will be reduced to reflect the award credits not expected to be redeemed. This requirement could result in less revenue allocated to award credits (and therefore earlier revenue recognition) as compared to today's multiple-element model.	Revenue allocated to award credits is recognised when the credits are redeemed, or expire; however, management will update its expectation of credits that will be redeemed each period to determine recognition of deferred amounts. Entities that currently only recognise revenue from points when they expire will likely recognise revenue earlier (based on estimated redemptions) under the new standard.

Example 5

Facts: Airline A has a frequent flyer customer loyalty programme that rewards customers with one award credit for each mile flown. A customer purchases a ticket for $500 (the stand-alone selling price) and earns 2,500 award credits based on mileage flown. Award credits are redeemable at a rate of 50 award credits for $1 ($0.02 per credit). The award credits may only be redeemed for flights with Airline A. How should the consideration be allocated between the award credits and the ticket (ignoring breakage)?

Discussion: The transaction price of $500 should be allocated between the ticket and award credits based on the relative stand-alone selling prices of $500 for the ticket and $50 (2,500 points x $0.02) for the award credits as follows:

Ticket:	$455 ($500 x $500/$550)
Award credits:	$ 45 ($500 x $50/$550)

Revenue of $455 would be recognised when the flight occurs. Revenue of $45 would be deferred and recognised on redemption or expiration of the award credits.

Example 6

Facts: Assume the same facts as in Example 5 above, except that the airline expects redemption of 80% of award credits earned (that is, 20% breakage) based on the history of redemptions. The airline estimates a stand-alone selling price for the credits of $0.016 ($0.02 x 80%) based on the likelihood of redemption. How should the consideration be allocated between the award credits and the ticket?

Discussion: The transaction price of $500 should be allocated between the ticket and award credits based on the relative stand-alone selling prices of $500 for the ticket and $40 (2,500 points x $0.016) for the award credits as follows:

Ticket:	$463 ($500 x $500/$540)
Award credits:	$ 37 ($500 x $40/$540)

Revenue of $463 would be recognised when the flight occurs. Revenue of $37 would be deferred and recognised as the 2,000 points (2,500 points x 80%) that are expected to be redeemed are redeemed by the customer or when the points expire.

Example 7

Facts: Assume the same facts as in Example 6 above. At the end of the first year, 1,000 points were redeemed out of the total 2,000 points expected to be redeemed, resulting in recognition of $18.5 (50% of the $37 deferred). In year 2, the airline now expects redemption of 90% of award credits earned (that is, a total of 2,250 points). During the year, 500 points are redeemed. How much revenue should be recorded?

Discussion: The estimate of the number of awards that will be redeemed should be updated each reporting period and revenue recognised adjusted on a cumulative catch-up basis. The company should recognise revenue of $6 in year 2, calculated as: [(1,500 points redeemed / 2,250 points expected to be redeemed) x $37 initial allocation] - $18.5 recognised in the first year.

Change fees

Change fees are common in the airline industry. The predominant industry practice under existing US GAAP is to account for change fees as a separate transaction independent of the original ticket sale and recognise revenue when the change occurs. In this case, change fees are viewed as a separate transaction because the fees are charged subsequent to the initial sale, passengers are not required to pay the fee at the time of the original sale, and passengers who pay the fee receive an additional benefit.

An alternative view is that the change is not a separate transaction, but the result of the customer paying the lowest cost to obtain the new travel reservation (that is, paying the change fee instead of the price of a new ticket). Using this approach, the change fee is deferred and recognised when the travel occurs.

Under IFRS, practice today is mixed with some entities following US GAAP predominant practice while others apply the alternative view.

The new standard will require management to consider whether the change fee should be accounted for as a separate contract or as a modification of the original contract. Distinct goods or services are not transferred to the customer when a change fee is paid, so there is no separate performance obligation under the new standard. The only performance obligation in the contract (setting aside any loyalty points) is the flight, so change fees will be deferred and recognised when the flight occurs.

Collectibility

Collectibility refers to the risk that the customer will not pay the promised consideration. To be in the scope of the revenue standard, an entity needs to conclude that it is "probable" at the inception of the contract that it will collect the consideration to which it will ultimately be entitled (that is, the transaction price) in exchange for the goods or services that are transferred to the customer. Both IFRS and US GAAP refer to "probable", which means more-likely-than-not under IFRS, but refers to a higher degree of certainty ("likely to occur") under US GAAP.

<table>
<tr><th>New standard</th><th>Current US GAAP</th><th>Current IFRS</th></tr>
<tr><td>An entity should account for a contract with a customer only when collectibility of the amount of consideration to which the entity will be entitled (that is, the transaction price) is probable. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable (see further discussion under variable consideration below) - for example, if the entity may offer the customer a price concession.</td><td>Revenue is recognised when collectibility is reasonably assured.

Credit risk is reflected as a reduction of accounts receivable by recording an increase in the allowance for doubtful accounts and bad debt expense, which is usually recorded as a general and administrative expense.</td><td>Management must establish that it is probable that economic benefits will flow before revenue can be recognised.</td></tr>
<tr><td>When collectibility of the transaction price is not probable at inception, an entity should continue to assess the contract each reporting period to determine if collectibility is probable. If collectibility of the transaction price is not probable and the entity receives</td><td colspan="2">Impact:
Revenue will not be recognised for a contract for which the collectibility of the transaction price is not probable until one of the criteria to recognise revenue (as described in the left column) has been met. An entity that receives consideration from a customer in an arrangement that does not meet the collectibility threshold is not permitted to apply "cash basis" accounting, even if the cash received is non-refundable.</td></tr>
</table>

New standard	Current US GAAP	Current IFRS
consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred: (1) the entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable, or (2) the contract has been terminated, and the consideration received from the customer is non-refundable. The FASB has proposed additional amendments related to collectibility. Specifically, the proposed amendments clarify that entities should consider, as part of the requirement to assess the collectibility of contract consideration, their ability to cease providing goods or services in the event of non payment.	Any cash received is recognised as a contract liability until either collectibility of the transaction price is probable or one of the criteria for recognition is met. This could result in revenue being recorded later than under current guidance in some situations.	

Variable consideration

Determining the transaction price may be simple when the contract price is fixed and paid at the time services are provided. Determining the transaction price may require more judgement if the consideration contains an element of variable or contingent consideration. Common issues for the transportation and logistics industry include the accounting for volume rebates and performance bonuses. Many transportation and logistics entities offer discounts for shipping a specified cumulative volume or shipping to or from specific locations. Volume rebates are generally receivable by the customer when specified cumulative levels of revenue are earned. Rebates based on volume or other factors are variable consideration under the new standard.

New standard	Current US GAAP	Current IFRS
Volume rebates The transaction price is the consideration that the entity expects to be entitled to in exchange for goods or services, including variable or uncertain consideration. It is based on either the probability-weighted estimate (that is, the "expected value") or the most likely amount, depending on which is the most predictive of the amount to which the entity will be entitled.	Volume rebates are recognised as a reduction to revenue as the customer earns the rebate. The reduction is limited to the estimated amounts potentially due to the customer. If the rebate cannot be reliably estimated, revenue is reduced by the maximum potential rebate.	Volume rebate payments are typically systematically accrued based on rebates expected to be taken. The rebate is recognised as a reduction of revenue based on the best estimate of the amounts potentially due to the customer. If the rebate cannot be reliably estimated, revenue is recognised at an amount no greater than the minimum consideration that the seller will retain.
	Impact: Accounting for most volume rebates is unlikely to be significantly different under the new standard as compared to today's accounting (IFRS and US GAAP).	

New standard	Current US GAAP	Current IFRS
If an entity receives consideration from a customer and expects to refund some or all of that consideration, a liability should be recognised for the amount of consideration that the entity expects to refund. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is probable [US GAAP] or highly probable [IFRS] that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (the "constraint"). An entity will need to apply judgement to determine if variable consideration is subject to a significant reversal. The following indicators might suggest that variable consideration could result in a significant reversal of cumulative revenue recognised in the future: • The amount of consideration is highly susceptible to factors outside the influence of the entity. • Resolution of the uncertainty about the amount of consideration is not expected for a long period of time. • The entity has limited experience with similar types of contracts. • The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions in similar circumstances for similar contracts. • The contract has a large number and broad range of possible consideration amounts. An entity will need to determine if there is a portion of the variable consideration (that is, a minimum amount) that will not result in a significant revenue reversal. That amount will be included in the estimated transaction price. The estimate will be reassessed each reporting period, including any estimated minimum amounts.		

New standard	Current US GAAP	Current IFRS
Time value of money An entity will adjust the amount of promised consideration to reflect the time value of money if the contract includes a significant financing component. Factors to consider when determining whether a contract has a significant financing component include, but are not limited to: (a) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services, (b) whether the amount of consideration would differ substantially if the customer paid in cash promptly in accordance with typical credit terms in the industry and jurisdiction, and (c) the interest rate in the contract and prevailing interest rates in the relevant market.	The discounting of revenues is required in only limited situations, including receivables with payment terms greater than one year. When discounting is required, the interest component is computed based on the stated rate of interest in the instrument or a market rate of interest if the stated rate is considered unreasonable.	Discounting of revenues to present value is required where the arrangement effectively constitutes a financing transaction. The imputed rate of interest is the more determinable imputed interest rate of either: (i) the prevailing rate for a similar instrument of an issuer with a similar credit rating, or (ii) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
As a practical expedient, an entity need not assess whether a contract has a significant financing component if the entity expects at contract inception that the period between payment by the customer and the transfer of the services to the customer will be one year or less. Additionally, a significant financing component does not exist if the timing of delivery is at the customer's discretion (for example, customer loyalty points) or the difference between the promised consideration and the cash selling price arises for reasons other than the provision of finance to either the customer or the entity. If a contract with a customer contains a significant financing component, the entity should measure the amount of the financing by using a discount rate that reflects a separate financing transaction between the entity and its customer, and that factors in credit risk.	*Impact:* The guidance related to a significant financing component is different than current guidance related to applying the time value of money. That said, we do not expect a significant change to current practice for most transportation and logistics entities in connection with the time value of money, because payment terms do not often extend over more than one year from the timing of contract performance.	

Example 8

Facts: A shipping entity enters into a voyage charter contract with a customer to transport goods from point A to point B. The shipping entity experiences delays in loading and unloading the cargo (referred to as demurrage). These delays are not deemed to be the responsibility of the shipping entity and the additional amount to be paid to the shipping entity is calculated in accordance with the terms of the contract. Demurrage claims are often negotiated, resulting in adjustments to the contract price, and can take a long time to resolve. When should the shipping entity recognise revenue from the demurrage claim?

Discussion: Demurrage claims might be difficult to predict and will vary depending on the counterparty and the type of delay. The shipping entity may be familiar with the issues and have experience in successfully negotiating these claims with the counterparty. The entity should determine whether it is probable [US GAAP] or highly probable [IFRS] that there will not be significant reversal in a future period, and some or all of the claim may not meet this threshold. The entity is required, however, to include in the transaction price any portion of the claim that meets the probable/highly probable threshold. The time taken to resolve claims or the external factors involved do not allow the entity to avoid including in the transaction price a minimum amount that meets the threshold. The entity should reassess its estimates of transaction price each reporting period.

Example 9

Facts: A railway entity enters into a contract to ship goods from point A to point B for $1,000. The customer earns a rebate of $100 for each load if the customer ships at least 10,000 loads annually. Based on past experience, management believes that it is likely that the customer will ship 10,000 loads and earn the rebate of $100 per load. How should the railway entity record revenue from this contract?

Discussion: The railway entity should record revenue of $900 per load (as this is the most likely amount of consideration to which it expects to be entitled) to the extent that it is probable [US GAAP] or highly probable [IFRS] that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Any amounts collected in excess of revenue recognised (that is, the additional $100 per load prior to earning the rebate) would be recorded as a liability. These estimates should be monitored and adjusted, as necessary, using a cumulative catch-up approach.

Example 10

Facts: A tour operator sells a refundable tour with a limited number of spaces to a customer with a deposit due at the time of booking, which is 13 months before the tour. The ticket price is $1,000, with $100 paid at booking and the remainder due 90 days in advance of the tour. Alternatively, customers have the option to pay 100% at the time of booking; however, there is no discount for paying in full at the time of booking. How should the tour operator measure the transaction price of this contract?

Discussion: The tour operator should consider the purpose of the payment terms to determine whether there is a significant financing component in the contract. In this example, the tour operator might conclude that the amount charged at booking is not charged for the primary purpose of obtaining financing, but to reserve and hold the booking and space for the customer and ensure the customer is committed to the reservation. The tour operator would therefore consider the $1,000 to be the transaction price, and not account for a financing component.

Contact us

Questions?

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