

## TECHNICAL BRIEF - ASU 2021-02

### “FRANCHISORS – REVENUE FROM CONTRACTS WITH CUSTOMER”

FASB has issued ASU 2021-02 to reduce the complexity of applying ASC 606 to pre-opening services given by private company franchisors.

#### **Existing guidance and improvements:**

Under the existing guidance, entities are required to analyze pre-opening services to determine whether there are separate performance obligations. If the pre-opening services contain separate performance obligations, entities are required to allocate the transaction price as per ASC 606.

The Board found that the cost and complexity of applying existing guidance was higher than the benefit. Hence the ASU was issued to reduce complexity by giving practical expedient and accounting policy election to private companies.

The ASU provides a predefined list of pre-opening services which are to be accounted as a separate performance obligation distinct from the franchise license. [Para 952-606-25-2]

Also, the Board has provided an accounting policy election to consider pre-opening services as a single performance obligation. [Para 952-606-25-3]

The practical expedient does not change the other provisions of ASC 606, like, the guidance on allocating the transaction price and determining standalone selling prices.

#### **Applicability, Effective date, and transitional provisions:**

##### *Applicable to:*

Private company franchisors within the scope of Topic 952.

##### *Effective date:*

A) **If ASC 606 is yet to be adopted** – Refer ASC 606 [Para 606-10-65-1]

B) **If ASC 606 is adopted** – Beginning on or after December 15, 2020 with earlier adoption permitted.

##### *Transitional provision:*

Adoption is to be done retrospectively upto the date ASC 606 was adopted. That is, cumulative-effect adjustment is required to opening retained earnings as of the beginning of the period in which the para 606-10-65-1 was applied.

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