

Case 22-4c
Upscale Management Co.

In May 2018, Upscale Management Co. (the “Company”) entered into a contract with Second City Hotels (the “Customer”) to provide hotel management services. The contract was for a five-year period at a fixed price of \$10,000 per day (total transaction price of \$18.26 million [$\$10,000 \text{ per day} \times 1,826 \text{ days}$]). The Company’s hotel management services include hiring and managing employees, procuring goods and services, and advertising and marketing at one hotel property owned by the Customer.

On a given day, the Company might clean guest rooms, perform marketing efforts to increase occupancy, and operate the concierge desk. The contract provides integrated hotel management services (the “integrated services”) over the term of the contract and not a specific quantity of specified services (e.g., cleaning 100 guest rooms per day). The underlying activities can vary significantly from day to day; however, the daily activities are required to satisfy the Company’s obligation to provide the integrated services. Therefore, the integrated services transferred to the customer are substantially the same during each period (i.e., the Customer receives substantially the same benefit each period).

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 pandemic and related travel restrictions and other containment efforts had a significant impact on the travel industry. As a result, after providing two years of integrated services (for which the Company recognized \$7.3 million in revenue [$\$10,000 \text{ per day} \times 365 \text{ days per year} \times 2 \text{ years}$]) and because of the economic downturn resulting from the COVID-19 pandemic, in May 2020, the Company agreed to lower the price for the remaining three years of integrated services to \$8,000 per day.

The following is additional information related to the contract:

- At inception, the contract met the criteria in ASC 606-10-25-1 to be accounted for as a contract with a customer.
- Each daily increment of service is distinct, meets the criteria for recognizing revenue over time, and has the same method for measuring progress. Therefore, the Company concluded that the integrated services satisfy the requirements of ASC 606-10-25-14(b) to represent a series of distinct goods or services and to be accounted for as a single performance obligation.
- The change in the price of the contract is approved by both parties to the contract. There were no other changes to the terms of the contract.
- The Company has no history of granting price concessions, and the price concession is not related to the quality of the services transferred.
- The Company believes that the Customer has the intent and ability to pay the updated agreed-upon price when it is due.

Required:

1. Is the impact of the COVID-19 pandemic and the resulting price concession indicative of a significant change in facts and circumstances under ASC 606-10-25-5, necessitating reassessment of whether the contract can be accounted for as a contract with a customer under the criteria in ASC 606-10-25-1?
2. If the criteria in ASC 606-10-25-1 continue to be met, does the price concession represent a change in transaction price associated with variable consideration or a contract modification?
3. What is the resulting accounting treatment for the price concession under ASC 606?