Revenue recognition - Key considerations for the business and professional services industry
Your instructor

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Baltimore, MD
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Objectives

In this session, we will:

• Provide a high-level understanding of the new guidance
• Review key dates and actions to consider for implementation
• Discuss potential challenges associated with adopting the new guidance
Core principle and key steps
Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
Key steps

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when (or as) each performance obligation is satisfied
Core principle and key steps >

Step 1: Identify the contract with a customer
1. Identify the contract with a customer

- The following contract existence criteria must be met to account for a contract using ASC 606’s revenue model:
  - Commercial substance exists
  - Approvals have been obtained and a commitment to perform exists on the part of both parties
  - Rights of both parties are identifiable
  - Payment terms are identifiable
  - Collection of substantially all of the consideration to which the entity will be entitled in exchange for goods or services that will be transferred is probable (i.e., likely to occur)

- Can be an oral contract
- No longer has to be fixed or determinable

Once these criteria are met, reassessment is only required if there is a significant change in circumstances
Accounting for a portfolio of contracts

• **Practical expedient:** ASC 606 may be applied to a portfolio of contracts if doing so is not reasonably expected to result in a materially different outcome.
Contract modifications

- Accounting depends on a variety of factors, such as:
  - Were the scope and (or) price changes properly approved?
  - What is the pricing of the modification?
  - Are any new products or services added by the modification distinct?
  - Are any of the remaining goods or services part of a partially satisfied single performance obligation?
Contract modifications

- Depending on the facts and circumstances, the modification will be accounted for as one of the following:
  - A separate contract
  - The termination of one contract and execution of a new contract (results in prospective treatment)
  - Part of the original contract (which would result in recognition of a cumulative catch-up adjustment)
Business and professional services industry considerations

- Governmental work
- Subcontractor work
- Unapproved contract modifications
- Undocumented scope change
Core principle and key steps >

Step 2: Identify the performance obligations in the contract
2. Identify the performance obligations in the contract

Identify all of the promised goods or services

Determine if the promised goods or services represent performance obligations

Performance obligations (i.e., units of account)
Identifying promised goods or services

- Consider both explicit and implicit promises
  - Implicit based on the entity’s customary business practices, published policy or specific statement

- Not all activities performed by the entity in conjunction with the customer contract provide or transfer goods or services to the customer
  - Common example is set-up activities
Determining if promised goods or services are performance obligations

• Is the promised good or service **distinct**?
  - If so, account for separately as a performance obligation (i.e., unit of account)
  - **Series exception:** A series of distinct goods or services is a single performance obligation when each distinct good or service in the series is substantially the same and has the same pattern of transfer to the customer because:
    • Each distinct good or service would otherwise be considered satisfied over time
    • The same method of measuring progress toward completion would otherwise be used for each distinct good or service
  - If not, combine with other promised goods or services until there is a group that is distinct

• A promised good or service is **distinct** if it is **both**:
  - Capable of being distinct
  - Separately identifiable from other promises in the contract (e.g., distinct within the context of the contract)
Capable of being distinct

- A promised good or service is **capable** of being distinct when a customer can benefit from the promised good or service on its own or together with other readily available resources
  - Examples of situations in which a promised good or service is considered capable of being distinct:
    - The entity regularly sells the service separately
    - The customer can sell the good or service on a standalone basis for other than de minimis value
    - The customer can use the good or service together with a good or service that has already been transferred to it by the entity (e.g., installation service can be used with the equipment that has already been transferred to the customer)
    - The customer can use the good or service together with a good or service that is readily available in the marketplace
Separately identifiable from other promises in the contract

- Is the nature of the entity’s promise within the context of the contract to:
  - Transfer the promised good or service individually?
    • If so, the promised good or service is separately identifiable from the other promises in the contract
  - Transfer a combined item or items to which the promised good or service is an input?
    • If so, the promised good or service is not separately identifiable from the other promises in the contract
  - Additional factors provided to help with this determination
Separately identifiable from other promises in the contract

• Indicators that the promised good or service is not separately identifiable from other promises in the contract
  – The entity provides a **significant service of integrating** the various promised goods or services included in the contract into one or more combined outputs that were contracted for by the customer
    • The various promised goods or services are inputs to the combined output
  – One or more of the promised goods or services **significantly modify or customize** one or more of the other promised goods or services in the contract
  – The promised goods or services are **highly interdependent or highly interrelated** with each other, such that each of the promised goods or services in the contract is significantly affected by one or more other promised goods or services in the contract
    • This indicator can be highly relevant to certain entities in the service industry
Example: Series exception

- Hotel Manager enters into a long-term contract with Customer to manage one of its hotel properties.
- Hotel Manager evaluates the contract and determines that the only promised service it includes is a hotel management service.
  - While Hotel Manager performs a variety of activities that vary each day (e.g., cleaning, reservations, maintenance) these activities do not represent separate promises.
- Hotel Manager concludes that each day of service it provides is distinct.
  - *Capable of being distinct.* Customer can benefit from each day of services on its own.
  - *Distinct within context of contract.* Each day of service is separately identifiable from the other days of service (i.e., no significant customization or modification, no significant integration, not highly interdependent or interrelated).
Example: Series exception

• Are the daily hotel management services a series of distinct services that are substantially the same and have the same pattern of transfer to Customer?
  – Yes, because:
    • Hotel Manager is providing the same overall service each day (even though the daily tasks/activities vary)
    • Each day of service would otherwise be considered a performance obligation satisfied over time because Customer consumes the service as Hotel Manager provides it and the same measure of progress toward satisfaction would be used for each day of service
  – As a result, there is a single performance obligation in the contract
    • If the series exception did not apply, Hotel Manager would have many, many performance obligations
Insignificant goods or services

- **Accounting policy election:** Goods or services that are immaterial in the context of the contract do not have to be identified for further evaluation under ASC 606
  - Does not change the requirement to evaluate whether optional goods or services represent a material right to the customer
  - If elected, the entity must accrue the cost of those goods or services that are immaterial in the context of the contract if revenue related to the contract is recognized before those goods or services are transferred to the customer
Example: Identifying the performance obligations

- Advertising Agency enters into a contract to design and build a brand campaign for the Chicago Cubs (greatest team in baseball)
- The contract stipulates that Advertising Agency will perform the following:
  - General consulting and investigative research including market awareness (intelligence)
  - Six months of “white-board” development (logos, statements, artwork design, campaign reach)
  - Upon completion of the campaign design, manage and analyze advertising spend (media, TV, internet) procurement
Example: Identifying performance obligations

• CPE Company hosts an annual conference on recent accounting developments to which they seek “sponsors”

• CPE Company and Sponsor enter into a contract, which stipulates the following:
  - Sponsor gets 25 tickets to the conference
  - Sponsor’s logo receives central placement on the conference backdrop along with additional signage throughout the conference facility
  - Sponsor will receive digital advertising (banner ads) on CPE Company’s web pages about the conference (which are up and running for the nine months leading up to the conference)
  - Sponsor will receive advertising space on all print materials for the conference (which are provided to potential attendees periodically over the nine months leading up to the conference)
## Identifying units of account: Legacy GAAP vs. ASC 606

<table>
<thead>
<tr>
<th>ASC 605-25 (legacy GAAP)</th>
<th>ASC 606</th>
</tr>
</thead>
<tbody>
<tr>
<td>General multiple-element arrangement model in ASC 605-25 and some models for specific industries (e.g., software, construction) in other topics/subtopics</td>
<td>One model for all entities within scope to identify performance obligations</td>
</tr>
<tr>
<td>A delivered element must have standalone value to the customer to be accounted for separately—if the element is sold separately by the entity or another party, it is considered to have standalone value to the customer</td>
<td>Whether a promised good or service is distinct requires consideration of more factors than just whether the promised good or service is sold separately—also requires consideration of whether promised good or service is distinct within the context of the contract</td>
</tr>
</tbody>
</table>

These changes could lead to different units of account. For example, goods and services accounted for separately under ASC 605-25 may need to be bundled together under ASC 606.
Step 3: Determine the transaction price
3. Determine the transaction price

- What is the transaction price?
  - “The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties”

- An entity should assume the contract will be fulfilled in accordance with its terms (i.e., no assumption of cancellation, renewal or modification of the contract)
3. Determine the transaction price

- Estimate is reassessed each reporting period until all performance obligations have been satisfied and all amounts of consideration have been finally determined.

- **Accounting policy election:** An entity may elect to exclude sales and similar taxes collected from customers from the transaction price.
  - If an entity does not make this election, it must apply ASC 606’s principal vs. agent guidance to determine whether such taxes should be included in the transaction price.
3. Determine the transaction price

• Transaction price may include:

  - Variable consideration (more to come…)
  - Fixed cash consideration
  - Significant financing component (more to come…)
  - Consideration payable to the customer
  - Noncash consideration

- Includes upfront nonrefundable fees
- Reduces the transaction price unless the entity receives something in return that is distinct and has a reasonably estimable fair value that equals or exceeds the consideration payable
Variable consideration

• Examples of variable consideration in the business and professional services industry
  – Uptick revenue—executive search retainer (example to come)
  – Performance bonuses
  – Penalties
  – Discounts
  – Contingent fees
Variable consideration

• Overall accounting model
  – Estimate the amount of consideration the entity expects to be entitled to using whichever one of the following two methods better predicts that amount (not an election and must be applied consistently for life of contract):
    • Expected value method – probability-weighted estimate typically used when there are several potential outcomes (e.g., cost-target incentives, liquidated damages)
    • Most likely amount method – typically used when there are few outcomes (e.g., performance bonus of a fixed amount, so either earn the bonus amount or don’t)
  – Include the estimate in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur upon resolution of the underlying contingency
  – Estimate should be updated until the underlying contingency is resolved
• Exception to overall model for sales- and usage-based royalties
Example: Footnote for variable consideration

From Heidrick & Struggles 10-k as of December 31, 2017:

- Executive Search - The Company’s executive search engagements involve the receipt of a retainer that is equal to approximately one-third of the estimated first year compensation for the position to be filled. If actual compensation of a placed candidate exceeds the original compensation estimate, the Company is often authorized to bill the client for one-third of the excess compensation. The Company refers to this excess compensation billing as uptick revenue. Currently, the Company recognizes uptick revenue upon the completion of the executive search at the point the uptick revenue becomes fixed and determinable. Under ASU No. 2014-09, uptick revenue is considered variable consideration and the Company will be required to estimate this revenue at contract inception. The Company has developed an estimation process utilizing the expected value method, incorporating historical uptick revenue realized in the Company’s geographic regions and industry practices, which will result in an initial recording of a contract’s uptick revenue that is probable not to result in a significant reversal of cumulative revenue recognized when the actual amount of uptick revenue for that contract is known. Estimates of uptick revenue will be recognized using the same over time revenue recognition model the Company currently utilizes to recognize retainer revenue, and differences between the estimated and actual amount of uptick revenue will be recorded when known. Typically, revenue from executive search engagements is recognized over the expected average period of performance, in proportion to the estimated personnel time incurred to fulfill our obligations under the executive search arrangement. The Company is currently quantifying the required transition adjustment for the Executive Search revenue streams.
Example: Volume discounts/rebates

- Transaction Processor enters into a contract to process transactions for Customer for one year.
- The pricing of the transaction processing services depends on the number of transactions Customer sends to Transaction Processor for processing during the year:
  - 100,000 or fewer transactions = $1 per transaction
  - More than 100,000 transactions = 90 cents per transaction (including the first 100,000 transactions processed)
- Transaction Processor estimates the transaction price to be $1 per transaction using the most likely amount method (i.e., it expects Customer to send fewer than 100,000 transactions for processing)
### Variable consideration: Legacy GAAP vs. ASC 606

<table>
<thead>
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<th>Legacy GAAP</th>
<th>ASC 606</th>
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<tr>
<td>One of the revenue recognition criteria under certain legacy GAAP: The fee is fixed or determinable.</td>
<td>Estimate variable consideration the entity expects to be entitled to and apply the variable consideration constraint to determine the amount included in the transaction price</td>
</tr>
<tr>
<td>Application of this criterion and other specific guidance related to variable consideration results in the recognition of most variable consideration when the related contingency is resolved.</td>
<td></td>
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Earlier recognition of variable consideration is expected to occur in many cases under ASC 606 compared to legacy GAAP
Significant financing component

• Can occur with both advance and deferred payment terms
  − Deferred payments decrease the transaction price and result in the recognition of interest income over a period of time
  − Advance payments increase the transaction price and result in the recognition of interest expense over a period of time

• Whether a significant financing component exists depends on the facts and circumstances
  − What is the difference between: (a) the amount the customer would have had to pay upon transfer of the goods (i.e., cash selling price) and (b) the amount the customer pays under the contract?
  − How much time will pass between the transfer of the goods and services and payment for those goods or services and what are the prevailing interest rates in the relevant market?

• Practical expedient: Not necessary to reflect significant financing component in transaction price if difference between when transfer of goods/services and customer payment occurs is expected to be one year or less at contract inception
Core principle and key steps >

Step 4: Allocate the transaction price
4. Allocate the transaction price

- Overall approach is to allocate the transaction price using a relative standalone selling price model
- Steps in allocating the transaction price
  - Estimate the standalone selling prices of each performance obligation
  - Determine whether any discounts or variable consideration should be allocated to one or more, but less than all, performance obligations
  - Allocate the transaction price
Standalone selling prices

• A standalone selling price is the amount the entity charges (or would charge) when the goods or services are sold on their own to a customer.
• Determined only at contract inception.
• Best evidence is the directly observable price charged by the entity when they sell the goods or services separately in similar circumstances to similar customers.
  – If it exists, it **must** be used.
• If a directly observable price does not exist, must estimate a standalone selling price.
  – Maximize observable inputs.
  – Consider all reasonably available and relevant information.
Allocate discounts and variable consideration

• In general, proportionately allocate discounts and variable consideration in a customer contract by using the relative standalone selling price model
  − However, if certain criteria are met, a discount or variable consideration must be allocated to one or more, but not all, performance obligations
  • Separate criteria to evaluate for discounts vs. variable consideration
## Legacy GAAP vs. ASC 606

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<thead>
<tr>
<th>ASC 605-25 (legacy GAAP)</th>
<th>ASC 606</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any arrangement consideration allocated to a delivered element that is contingent on delivery of undelivered elements must be deferred until delivery of those undelivered elements occurs</td>
<td>When some or all of the transaction price is contingent upon the delivery of undelivered promised goods or services, the variable consideration guidance is applied</td>
</tr>
<tr>
<td>Relative selling price method used for purposes of allocating arrangement consideration—no exceptions</td>
<td>Relative selling price method used for purposes of allocating arrangement consideration—two exceptions related to allocating discounts and variable consideration</td>
</tr>
</tbody>
</table>
Step 5: Recognize revenue
5. Recognize revenue

- **Recognize the transaction price allocated to a performance obligation when (or as) it is **satisfied**
  - Performance obligation is **satisfied** when (or as) **control** of the underlying distinct good or service (or distinct bundle of goods or services) **transfers** to the customer
    - **Control has transferred** when the customer has the ability to direct the use of the good or service and receive substantially all of the related remaining benefits
Over time or at a point in time?

KEY QUESTION:
Is a performance obligation satisfied (and control of the underlying good or service transferred) over time or at a point in time?
Performance obligations satisfied over time

- A performance obligation is considered satisfied over time if any one of these criteria are met:
  - The customer simultaneously receives and consumes benefits as the entity performs
    - Could another entity step in and fulfill the remaining performance obligation without having to substantially reperform the work already performed by the entity?
  - The entity’s performance creates or enhances an asset that the customer controls as it is created or enhanced
  - The entity’s performance does not create an asset with an alternative use to the entity and there is an enforceable right to payment for performance completed to date (including a representative profit margin)

- If none of these criteria are met, the performance obligation is considered satisfied at a point in time
Performance obligations satisfied over time

- Identify a single method by which to measure progress toward complete satisfaction of the performance obligation, which should be:
  - A reasonable and reliable method
    - If one cannot be identified, recognize revenue to the extent of costs incurred only if the costs are expected to be recovered and only until a reasonable and reliable method can be identified
  - Consistent with how control of the underlying goods or services are transferred to the customer
Performance obligations satisfied over time

• An input method or output method may be appropriate depending on the facts and circumstances

  − **Practical expedient:** If the entity has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the entity’s performance completed to date, the entity may recognize revenue in the amount to which it has a right to invoice

• For example, a service contract in which the entity bills a fixed amount for each hour of service provided and that fixed amount corresponds directly with the value to the customer of the entity’s one hour of service provided
Performance obligations satisfied over time

• Measuring progress toward completion
  – Output methods or input methods permitted depending on facts and circumstances (whichever best measures progress toward complete satisfaction of the performance obligation)
  – Examples of input methods:
    • Costs, labor, time
  – Examples of output methods:
    • Appraisals
    • Hours of service provided
Performance obligations satisfied over time

- Measuring progress toward completion
  - If input method used, must exclude inputs that do not contribute to progress toward complete satisfaction of the performance obligation
  - Zero profit margin may be appropriate in limited circumstances in which an entity cannot reasonably measure the progress toward completion but expects to recover costs incurred in satisfying the performance obligation
Performance obligations satisfied at a point in time

- Recognize revenue when the customer obtains control over the underlying good or service

- Indicators that control has transferred include:
  - The entity has a present right to payment for the distinct good or service
  - One or more of the following have transferred/passed to the customer
    - Legal title to the distinct good or service
    - Physical possession of the distinct good or service
    - Significant risks and rewards of ownership
  - The customer has accepted the distinct good or service
Example: Over time or point in time?

- Professional Services Firm (PSF) enters into a contract with Customer to provide a consulting service.
- The purpose of the consulting service is for PSF to render a professional opinion related to facts and circumstances specific to Customer.
- If Customer terminates the contract for reasons other than PSF’s failure to perform as promised, Customer must compensate PSF for its costs incurred plus a 40% margin (which is PSF’s normal profit margin in similar contracts).
Example: Over time or point in time?

- Consider the following change in facts:
  - Professional Services Firm (PSF) enters into a contract with Customer to provide a consulting service
  - The purpose of the consulting service is for PSF to render a professional opinion related to facts and circumstances specific to Customer
  - If Customer terminates the contract for reasons other than PSF’s failure to perform as promised, Customer must compensate PSF only for its costs incurred. plus a 40% margin (which is PSF’s normal profit margin in similar contracts)
Example: Over time or point in time?

- Restructuring Consultancy enters into a contract with Customer to provide them with a restructuring plan
- The plan is specialized as it relates solely to Customer’s business
  - As a result, the restructuring plan does not have an alternative use to Restructuring Consultancy
- The payment schedule in the contract is as follows:
  - 10% of the contract price is due at contract inception
  - 50% of the contract price is due monthly as the restructuring plan is developed
  - 40% of the contract price is due upon the restructuring plan being accepted by Customer’s executive team
Example: Over time or point in time?

• All payments are nonrefundable, unless Restructuring Consultancy does not perform as promised

• If Customer terminates the contract for reasons other than Restructuring Consultancy’s failure to perform as promised, Restructuring Consultancy is entitled to retain any progress payments already received from Customer
  – Restructuring Consultancy does not have rights to any further compensation
Principal vs. agent
Principal vs. agent

• Incremental principal vs. agent guidance
  – Control analysis—The entity is a principal with respect to the specified good or service when it:
    • Obtains control of a good/asset and then transfers that good/asset to the customer
    • Obtains control of a right to a service and has the ability to direct another party in providing the service to the customer on the entity’s behalf
    • Obtains control of a good/service that it then combines with other goods/services to provide the specified good/service to the customer

Use the same concepts of control as used in recognizing revenue—Only difference is that this analysis is focused on whether the entity has control of the good/service **before** the customer
Principal vs. agent

- Incremental principal vs. agent guidance
  - Indicator analysis—If the control analysis is not definitive, consider whether any of the following “principal” indicators exist
    - The entity has primary responsibility for fulfillment
    - The entity has inventory risk
    - The entity has discretion in setting prices
  - In many cases, significant judgment will be required to reach a conclusion
Principal vs. agent

• Accounting effects of applying the principal vs. agent guidance
  – If the entity concludes it is a principal:
    • The specified good or service provided to the customer is a promised good or service for purposes of ASC 606
    • Revenue for the specified good or service is recognized gross
  – If the entity concludes it is an agent
    • The entity is not providing the specified good or service to the customer, so it does not recognize the related revenue
    • The entity provides other goods or services to the customer for which it does recognize revenue
    • For example, a travel agent does not recognize revenue for the airplane ticket, but does recognize revenue for the service it provides the customer in connection with booking the ticket
Contract costs
## Contract costs

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<th><strong>Costs to fulfill a contract</strong></th>
<th><strong>Costs to obtain a contract</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Applicability</strong></td>
<td>Guidance only applies when the contract is within the scope of ASC 606 and if the costs are not within the scope of other ASC Topics</td>
<td>Guidance only applies when the contract is within the scope of ASC 606</td>
</tr>
<tr>
<td><strong>Example</strong></td>
<td>Setup costs</td>
<td>Commission</td>
</tr>
</tbody>
</table>
| **Capitalization criteria** | Capitalize costs if all of the following criteria are met:  
• Directly relate to the contract or an anticipated contract  
• Generate or enhance resources that will be used to satisfy performance obligations in the future  
• Expected to be recovered | Capitalize incremental costs if they are expected to be recovered  
Capitalize costs that are not incremental only if they are explicitly chargeable to the customer regardless of whether the contract is obtained |
## Contract costs

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</thead>
<tbody>
<tr>
<td><strong>Practical expedient</strong></td>
<td>• None</td>
<td>Expense if amortization period would otherwise have been one year or less</td>
</tr>
</tbody>
</table>
| **Amortization**      | • Method should be consistent with how the related goods or services are transferred to the customer  
                        | • Depending on the facts and circumstances, it may be appropriate to use an amortization period longer than the initial contract period |
| **Impairment**        | • Compare the carrying amount to an amount that considers the revenue and costs that remain to be recognized under the contract, including expected contract renewals and extensions with the same customer |
Costs to obtain a contract

- Guidance for the treatment of these costs is within ASC 340-40 (new Codification subtopic)
- Some significant changes:
  - Entities can no longer elect to expense all commissions, but there is the practical expedient that entities may elect in limited situations to expense certain commissions
  - Costs that will be incurred regardless of whether the contract is obtained, such as costs incurred trying to obtain a contract, are expensed as incurred
Costs to obtain a contract

Examples of costs that are **not** incremental to obtaining a contract:

- Costs that are incurred regardless of whether the contract is obtained, such as costs incurred in negotiating or drafting a contract
- Costs that depend on further performance, such as continued employment
- Payments based on operating metrics like “EBITDA” or operating income that are not solely linked to obtaining one or more specific contracts
Examples of direct costs that are eligible for capitalization:

- Direct labor, such as employee wages
- Direct materials, such as supplies
- Allocation of costs that relate directly to a contract, such as depreciation and amortization
- Costs explicitly chargeable to a customer under the contract
- Other costs incurred only because the entity entered into the contract, such as subcontractor or outsourced service provider
Costs of fulfilling a contract

Examples of costs required to be expensed as incurred:
• General and administrative costs (unless explicitly chargeable under the contract)
• Costs related to satisfied performance obligations
• Costs that do not clearly relate to unsatisfied or partially satisfied performance obligations
Presentation and disclosure
Balance sheet presentation

• Entity recognizes a contract asset or contract liability by comparing its performance under the contract (i.e., transferring control of performance obligations) to Customer’s performance under the contract (i.e., making payments)
  – Contract asset
    • Entity’s performance > Customer’s performance
  – Contract liability
    • Entity’s performance < Customer’s performance

• Receivables are only recognized for the unconditional right to receive consideration
  – Recognized separate from other assets
Disclosures

• Detailed quantitative and qualitative information about the following must be disclosed:
  – Disaggregated revenue – by location, product type
  – Contract assets, contract liabilities and receivables
  – Variable consideration
  – Performance obligations in general and the transaction price allocated to the remaining performance obligations at the end of the reporting period
  – Significant judgments related to when performance obligations are satisfied and used to estimate and allocate the transaction price
  – Capitalized customer contract costs
  – There are plenty of public filers that have filed their first quarter 10-Q including adoptions of the new standard to use as examples
Effective date and transition
Effective date

<table>
<thead>
<tr>
<th>Effective date of ASC 606</th>
<th>Calendar year end entities</th>
<th>June 30 year end entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public entities*, quarter and year beginning…</td>
<td>January 1, 2018</td>
<td>July 1, 2018</td>
</tr>
<tr>
<td>Other entities, year ending…</td>
<td>December 31, 2019</td>
<td>June 30, 2020</td>
</tr>
</tbody>
</table>

**Early adoption of ASC 606**

| Allowed for both public entities and other entities… | As early as January 1, 2017 | As early as July 1, 2017 |

*Public entities include PBEs, nonprofit entities that have issued, or are conduit bond obligors for, securities that are traded, listed or quoted on an exchange or an over-the-counter market and (c) employee benefit plans that file or furnish financial statements to the SEC. However, the SEC staff recently announced that they would not object to those entities that are PBEs solely because their financial statements or financial information is included in another entity’s filing with the SEC pursuant to SEC rules and regulations choosing to adopt the new guidance in accordance with the effective date provided for private companies.
Transition methods

- Entities may choose to apply one of the following transition methods:
  - Full retrospective application of ASC 606 to all periods presented, with four practical expedients available
  - Modified retrospective application as of the date of initial application of ASC 606, with one practical expedient available