Understanding revenue recognition: changes to U.S. GAAP - 2014
Audit Risk Alert

American Institute of Certified Public Accountants (AICPA)
Understanding Revenue Recognition
Changes to U.S. GAAP

2014

Understanding Revenue Recognition
Changes to U.S. GAAP

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STRENGTHENING AUDIT INTEGRITY
SAFEGUARDING FINANCIAL REPORTING
Understanding Revenue Recognition
Changes to U.S. GAAP

Strengthening Audit Integrity
Safeguarding Financial Reporting

AICPA

2014 Alert
Notice to Readers

This alert is intended to provide accountants and auditors a better understanding of FASB Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The alert outlines the provisions under the new framework for revenue recognition, and illustrates differences from current standards.

FASB ASU No. 2014-09 is an authoritative release which modifies the FASB *Accounting Standards Codification®*. The standard applies to public entities with reporting periods beginning after December 15, 2016, and December 15, 2017, for non-public entities. Public entities do not have the option of early adoption; however, non-public entities may elect to adopt the standard for annual periods ending as early as December 15, 2016.

This document has not been approved, disapproved, or otherwise acted on by a senior committee of the AICPA.

Recognition

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Accounting and Auditing Publications

Feedback

As you encounter accounting or reporting issues that you believe warrant discussion in next year's alert, please feel free to share them with us. Any other comments or feedback you have about the alert would also be appreciated. You may e-mail comments and feedback to A&APublications@aicpa.org.
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How This Alert Helps You

This alert is intended to help you better understand FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), including its principles, characteristics, and considerations for implementing guidance under the new revenue recognition framework.

.01 In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns surrounding the inconsistencies and complexities in accounting for revenue transactions. The outcome of this newly issued joint standard is heavily based on an exposure draft (ED) that was jointly released in 2011. The IASB and FASB (the boards) spent the better part of 2012 and 2013 redeliberating on the various nuances of the proposed standard based on the 2011 ED before finalizing the standard. Consistent with each board's policy, FASB issued the update in the form of FASB Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the IASB issued International Financial Reporting Standards (IFRS) 15, Revenue from Contracts with Customers. FASB ASU No. 2014-09 amended the FASB Accounting Standards Codification (ASC) by creating Topic 606, Revenue from Contracts with Customers, and Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. The guidance in this update supersedes revenue recognition requirements in FASB ASC 605, Revenue Recognition, along with most of the guidance under the 900 series of industry-specific topics. IFRS 15 will replace International Accounting Standard (IAS) 11, Construction Contracts, and IAS 18, Revenue.

.02 The recognition and measurement of revenue affects the accounting, auditing, and financial reporting of almost every entity. Current revenue recognition rules are complex and rely on specific rules and guidance from FASB to help users accurately record and report information related to revenue. When FASB and the IASB began reviewing the accounting standards related to revenue, they determined that a new approach was needed to clarify the principles for recognizing revenue and to develop a common revenue standard between the two sets of standards. Specifically, FASB states that the objectives of the new standard are to

- remove inconsistencies and weaknesses in existing revenue requirements;
- provide a more robust framework for addressing revenue issues;
- improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets;
- provide more useful information to users of financial statements through improved disclosure requirements; and
- simplify the preparation of financial statements by reducing the number of requirements to which an entity must adhere.

.03 As part of the boards' efforts to converge U.S generally accepted accounting principles (U.S. GAAP) and IFRS, the standard eliminates the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principles-based approach for revenue recognition. The standard applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the
transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). Financial instruments, guarantees (other than product or service warranties), and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers are also scoped out.

.04 This alert is designed to be used by management and practitioners to gain a better understanding of the new revenue recognition framework and identify issues that may need to be addressed at implementation. The alert summarizes FASB ASU No. 2014-09, explaining its core concepts and highlighting key considerations to assist management and practitioners to appropriately record revenue under the new framework. Where applicable, it also provides a comparison between existing guidance and future accounting implications, as a result of the issuance of FASB ASU No. 2014-09. Refer to appendix B of this alert for the AICPA Learning Implementation Plan to understand how and when to prepare for the effects of the new revenue recognition standard.

Principles-Based Standards

.05 The current revenue standards are developed on a rules-based approach. As stated previously, the new revenue standard is drafted using a principles-based approach, which has been described by the SEC Office of the Chief Accountant’s Report to Congress as an approach that

- is based on an improved and consistently applied framework,
- clearly states the accounting objective of the standard,
- provides sufficient detail and structure so that the standard can be operationalized and applied on a consistent basis,
- minimizes exceptions from the standard, and
- avoids the use of percentage tests ("bright-lines") that allow financial engineers to achieve technical compliance with the standard while evading the intent of the standard.

.06 The move to principles-based standards has been a long process. In October 2002, FASB released a proposal document entitled "Principles-Based Approach to U.S. Standard Setting" for comment. The underlying rationale for moving to a principles-based approach was to address concerns that previous "rules-based" standards were too complex and detailed. The document also noted a number of issues with the rule-based standards including the following:

- Accounting professionals face large compliance costs and struggle with keeping current with constant rule changes.
- Rules-based standards allow financial and accounting engineering of transactions to circumvent the intent of current regulations.
- A lack of consistency currently exists between entities due to the large number of exceptions and guidance provided that is specific to certain industries and transactions. This in turn does not help users of financial information with making comparisons.

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.07 FASB’s proposal document indicated that a principles-based framework would remove many of the problems listed previously as such an approach would lead to less exceptions (due to broad applicability of the guidance), and also less interpretive and implementation guidance when applying the standards. Along with these improvements, the need for professional judgment will increase as we move away from a rules-based accounting framework. These expected outcomes are consistent with the intent and objective of FASB ASU No. 2014-09.

.08 Judgment is a necessity when preparing financial statements and asserting that such statements are prepared in accordance with a set of accounting standards. A report on a 2003 study conducted by the SEC on the adoption of a principles-based accounting system states the following:2

By changing the focus of professional judgment to the objectives of the accounting standard, objectives-oriented [principle-based] standards allow accounting professionals to operationalize accounting treatments in a manner that best fulfills the objective of each standard and thereby best captures the underlying economic reality.

.09 The report further states that a rules-based approach minimizes (and in certain instances, trivializes) the judgmental component of accounting through the establishment of "complicated, finely articulated rules that attempt to foresee all possible application challenges." The issuance of a common revenue standard is the result of significant efforts taken to emphasize the importance of judgment when applying accounting rules.

Authoritative Status and Effective Date

.10 To allow entities time to implement systems, gather data and resolve implementation questions, the guidance in the new standard is effective for annual reporting periods of public entities beginning on or after December 15, 2016, including interim periods within that reporting period. Early application is not permitted for public entities.3

.11 For nonpublic entities, the amendments in the new guidance are effective for annual reporting periods beginning on or after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Non-public entities may elect to adopt the standard earlier, however, only as of the following:

- An annual reporting period beginning after December 15, 2016, including interim periods within that reporting period (public entity effective date)
- An annual reporting period beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017

3 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 to the SEC.
• An annual reporting period beginning after December 15, 2017, including interim periods within that reporting period

**Transitioning to the New Standard**

.12 FASB allows entities two options when transitioning to the guidance under the new standard. Entities may opt for full retrospective application of the new standard, which requires reflecting the cumulative effect of the change in all contracts on the opening retained earnings of the earliest period presented, and adjusting the financial statements for each prior period presented to reflect the effect of applying the new accounting standard. Retrospective application would be applied to interim periods, as well as annual periods presented. The entity may elect any of the following practical expedients:

- For completed contracts, an entity does not need to restate contracts that begin and end within the same annual reporting period.
- 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.
- For all reporting periods presented before the date of initial application, an entity does not need to disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

.13 As an alternative, entities may apply the amendments to the new standard retrospectively with the cumulative effect of initially applying the amendments recognized at the date of initial application. When using this method, the entity should provide additional disclosures in reporting periods that include the date of initial application of the following:

- The amount by which each financial statement line item is affected in the current reporting period by the application of the new standard as compared to the guidance that was in effect before the change
- An explanation of the reasons for significant changes

.14 Both the full and modified retrospective application methods include a direct effect of change in accounting principle. Indirect effects that would have been recognized if newly adopted accounting principles had been followed in prior periods would not be included in retrospective application. FASB ASC 250-10-45-8 defines direct effects of a change in accounting principle as "those recognized changes in assets or liabilities necessary to effect a change in accounting principle." This section of FASB ASC 250, *Accounting Changes and Error Corrections*, provides an example of a direct effect as an adjustment to an inventory balance to effect a change in inventory valuation method. Indirect effects are defined within FASB ASC 250-10-20 as "any changes to current or future cash flows of an entity that result from making a change in accounting principle that is applied retrospectively." An example of an indirect change is a change in royalty payments based on a reported amount such as revenue or net income.
To assist with implementation of the new standard, FASB and the IASB announced the formation of the Joint Transition Resource Group for Revenue Recognition (TRG) in June 2014. The objective of this group is to keep the boards informed of potential implementation issues that may arise as entities implement the new guidance. Members of the TRG include financial statement preparers, auditors, and financial statement users representing various industries, geographies, and public and private companies. Any stakeholder may submit a potential implementation issue for discussion at TRG meetings, to be evaluated and prioritized for further discussion by each board. Refer to each board’s website for more information on this group and the status of their efforts.

Overview of ASU No. 2014-09, Revenue from Contracts with Customers

The core principle of the revised revenue recognition standard is that an entity should recognize revenue to depict the transfer of 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.

To recognize revenue under the new framework, FASB ASU No. 2014-09 states that an entity should follow these five steps:

- Step 1—Identify the contract(s) with a customer.
- Step 2—Identify the performance obligations in the contract.
- Step 3—Determine the transaction price.
- Step 4—Allocate the transaction price to the performance obligations in the contract.
- Step 5—Recognize revenue when (or as) the entity satisfies a performance obligation.

Under the new standard, revenue is recognized when a company satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). As a result of the provisions of the new standard, some industries will be affected more than others, depending on the types of contracts entered into. In addition, revenue may in some cases be accelerated, and in other cases deferred.

The next section will discuss in detail each of the five steps listed in paragraph .17 and incorporate comparisons of provisions from FASB ASU No. 2014-09 to existing guidance within FASB ASC 605 and other areas of the current FASB ASC.

Understanding the Five-Step Process

Step 1: Identify the Contract(s) With a Customer

FASB ASU No. 2014-09 defines a contract as "an agreement between two or more parties that creates enforceable rights and obligations." Under the new standard, a contract with a customer must meet all of the following criteria:

a. Has approval and commitment of the parties.
b. Rights of the parties are identified.

c. Payment terms are identified.

d. The contract has commercial substance.

e. Collectability of consideration is probable.

**The Contract**

.21 Enforceability of the rights and obligations in the contract is a matter of law. Contracts can be written, oral, or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries, and entities. Additionally, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity should consider those practices and processes in determining when an agreement with a customer creates enforceable rights and obligations of the entity.

.22 A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (parties). A contract is wholly unperformed if both of the following criteria are met:

a. The entity has not yet transferred any promised goods or services to the customer.

b. The entity has not yet received, and is not yet entitled to receive, any consideration in exchange for promised goods or services.

.23 If a contract with a customer meets the criteria to be considered a contract under the revenue recognition standard at contract inception, an entity should not reassess those criteria unless there is an indication of a significant change in facts and circumstances. If a contract with a customer does not meet the criteria to be considered a contract under the revenue recognition standard, an entity should continue to assess the contract to determine whether the criteria are subsequently met.

.24 When a contract with a customer does not meet the criteria to be considered a contract under the revenue recognition standard and an entity receives consideration for the customer, the entity should recognize the consideration received as revenue only when either of the following events occurs:

a. 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 nonrefundable.

b. The contract has been terminated, and the consideration received from the customer is nonrefundable.

.25 An entity should recognize the consideration received from the customer as a liability until one of the preceding events occurs or until the contract meets the criteria to be considered a contract with a customer under the revenue recognition standard are subsequently met. Depending on the facts and circumstances relating to the contract, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability should be measured at the amount of consideration received from the customer.
Combination of Contracts

.26 An entity should combine two or more contracts entered into at or near the same time with the same customer and account for the contracts as a single contract if any of the following criteria are met:

a. The contracts are negotiated as a package with a single commercial objective.

b. The amount of consideration to be paid in one contract depends on the other price or performance of the other contract.

c. The goods and services promised in the contracts (or some goods or services promised in the contracts) are a single performance obligation.

Contract Modifications

.27 A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract (sometimes called a change order, a variation, or an amendment). A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, orally, or implied by customary business practice. If the parties to a contract have not approved a contract modification, an entity should continue to apply the guidance in the standard to the existing contract until the contract modification is approved.

.28 A contract modification may exist even though the parties to the contract have a dispute about the scope or price (or both) of the modifications or the parties have approved a change in the scope of the contract but have not yet determined the corresponding change in price. In determining whether the rights are obligations that are created or changed by a modification are enforceable, an entity should consider all relevant facts and circumstances including the terms of the contract and other evidence.

.29 If the parties to a contract have approved a change in the scope of the contract but have not yet determined the corresponding changes in price, an entity should estimate the change to the transaction price arising from the modification in accordance with the guidance on estimating variable consideration and constraining estimates of variable consideration.

.30 An entity should account for a contract modification as a separate contract if both of the following conditions are present:

a. The scope of the contract increases because of the addition of promised goods or services that are distinct.

b. The price of the contracts increases by an amount of consideration that reflects the entity’s standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity may adjust the standalone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer.

.31 If a contract modification is not accounted for as a separate contract (if both of the conditions in paragraph .30 are not met), an entity should account
for the promised goods or services not yet transferred at the date of the contract modification (that is, the remaining promised goods or services) in one of the following ways:

a. An entity should account for the contract modification as if it were a termination of the existing contract, and the creation of a new contract, if the remaining goods and services are distinct from the goods or services transferred on or before the date of the contract modification. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation) is the sum of

1. the consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognized as revenue and

2. the consideration promised as part of the contract modification.

b. An entity should account for the contract modification as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has on the transaction price and on the entity's measure of progress toward complete satisfaction of the performance obligation is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (that is, the adjustment to revenue is made on a cumulative catch-up basis).

c. If the remaining goods or services are a combination of items (a) and (b), then the entity should account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with the objectives of this paragraph.

Comparison to Existing Guidance

Current guidance on accounting for contract modifications is limited to industry-specific guidance such as that for construction- and production-type contracts. Under the guidance for construction- and production-type contracts, contract revenue and costs must be adjusted for approved contract modifications involving scope and price. More detailed guidance is provided for unpriced change orders, which addresses the treatment for costs (whether to expense immediately or defer) and revenue, if the percentage-of-completion method is applied. Under the new standard, accounting for contract modifications is heavily focused on the type of modification and is applicable to all industries.

Collectability

The term collectability refers to a customer's credit risk; that is, the risk that the entity will be unable to collect contract consideration from the customer to which it is entitled. Under the new standard
a. there is no recognition threshold for expectations about collectability.

b. transaction price is equal to the amount to which the entity expects to be entitled, not the amount that the entity expects to receive (so, without regard to collection risk).

c. transaction price is not adjusted for customer credit risk; instead, impairments to receivables will be separately presented as an expense.

d. if collectability is not considered probable, a contract may not exist.

Comparison to Existing Guidance
As one of the four revenue recognition criteria under FASB ASC 605, collectability of consideration must be considered reasonably assured for revenue to be recognized. Under the new guidance, collectability is not considered in the transaction price; however, it is a factor when determining whether a valid contract exists.

Step 2: Identify the Performance Obligations in the Contract
A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

At contract inception, an entity should assess the goods or services promised in a contract with a customer and should identify as a performance obligation each promise to transfer to the customer one of the following:

a. A good or service (or bundle of goods or services) that is distinct

b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer

A good or service that is not distinct should be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Comparison to Existing Guidance
The unit of account currently referred to as "deliverables" or "elements" in a multiple-element arrangement is specifically defined in the new standard and referred to as "performance obligation." Identification of performance obligations is less restrictive than current GAAP; therefore, contracts may have more performance obligations (deliverables) being accounted for separately than under current accounting rules.

Distinct Goods or Services
A good or service is distinct if both of the following criteria are met:

a. **Capable of being distinct.** A customer can benefit from a good or service if the good or service can be used, consumed, sold for an amount that is greater than scrap value, or otherwise held in a way that generates economic benefits. For some goods or services,
a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

b. **Distinct within the context of the contract.** Factors that indicate that an entity's promise to transfer a good or service to a customer is separately identifiable include, but are not limited to, the following:

1. The entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.

2. The good or service does not significantly modify or customize another good or service promised in the contract.

3. The good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.

**Series of Distinct Goods or Services**

.36 A series of distinct goods or services has the same pattern of transfer to the customer if both of the following criteria are met:

a. Each distinct good or service in the series that the entity promises to transfer to the customer would meet the criteria to be a performance obligation over time.

b. The same method would be used to measure the entity's progress toward complete satisfaction of the performance obligation to transfer each distinct good or service in the series to the customer.

**Promises in Contracts With Customers**

.37 A contract with a customer generally explicitly states that it includes goods or services that an entity promises to transfer to a customer. However, the performance obligations identified in a contract with a customer may not be limited to the goods or services that are explicitly stated in that contract.
This is because a contract with a customer may also include promises that are implied by an entity's customary business practices, published policies, or specific statements if those promises create a valid expectation of the customer that the entity will transfer a good or service to the customer. Performance obligations do not include activities that an entity must undertake to fulfill a contract unless the entity will transfer a good or service to the customer. For example, a service provider may need to perform various administrative tasks to set up a contract. The performance of those tasks does not transfer a service to the customer as the tasks are performed. Therefore, those setup activities are not considered performance obligations.

Depending on the contract, promised goods or services may include, but are not limited to, the following:

- a. Sale of goods produced by an entity (for example, inventory of a manufacturer)
- b. Resale of goods purchased by an entity (for example, merchandise of a retailer)
- c. Resale of rights to goods or services purchased by an entity (for example, a ticket resold by an entity acting as a principal)
- d. Performing a contractually agreed-upon task (or tasks) for a customer
- e. Providing a service of standing ready to provide goods or services (for example, unspecified updates to software that are provided on a when-and-if-available basis) or of making goods or services available for a customer to use as and when the customer decides
- f. Providing a service of arranging for another party to transfer goods or services to a customer (for example, acting as an agent of another party)
- g. Granting rights to goods or services to be provided in the future that a customer can resell or provide to its customer (for example, an entity selling a product to a retailer promises to transfer an additional good or service to an individual who purchases the product from the retailer)
- h. Constructing, manufacturing, or developing an asset on behalf of a customer
- i. Granting licenses
- j. Granting options to purchase additional goods or services (when those options provide a customer with a material right)

**Step 3: Determine the Transaction Price**

The transaction price is 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 (for example, some sales taxes). To determine the transaction price, an entity should consider the effects of the following:

- a. Variable consideration
- b. Constraining estimates of variable consideration
- c. The existence of a significant financing component
d. Noncash considerations

e. Consideration payable to the customer

.40 An entity should consider the terms of the contract and its customary business practices to determine the transaction price. For purposes of determining the transaction price, an entity should assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed, or modified.

Variable Consideration

.41 If the consideration promised in a contract includes a variable amount, an entity should estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.

.42 Consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The promised consideration also can vary if an entity's entitlement to the consideration is contingent on the occurrence or nonoccurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

.43 The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:

a. The customer has a valid expectation arising from an entity's customary business practices, published policies, or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry, or customer, this offer may be referred to as a discount, rebate, refund, or credit.

b. Other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer.

.44 An entity should estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

a. The expected value, which is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

b. The most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).
An entity should apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. Also an entity should consider all the information (historical, current, and forecast) that is reasonably available to the entity and identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration typically would be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

**Comparison to Existing Guidance**

Under current guidance, accounting for variable consideration is inconsistent across industries. Under current guidance, an entity does not include variable amounts in the transaction price until the variability is resolved. The new guidance creates a single model whereby variable consideration (rebates, discounts, bonuses, right of return) will be included in the transaction price to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As variable consideration can now be estimated in order to be recognized, revenue recognition may be accelerated upon implementation of the new standard.

**Constraining Estimates of Variable Consideration**

An entity should include in the transaction price some or all of an amount of variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In assessing this probability, an entity should consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

a. The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions, and a high risk of obsolescence of the promised good or service.

b. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

c. The entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

d. The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

e. The contract has a large number and broad range of possible consideration amounts.

At the end of each reporting period, an entity should update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the
circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity should account for changes in the transaction price in accordance with paragraphs 42–45 of FASB ASC 606-10-32.

.49 Consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property is an exception to the guidance for constraints on variable consideration. An entity should recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

a. The subsequent sale or usage occurs.
b. The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

**Significant Financing Component**

.50 An entity should adjust the promised amount of consideration for the effects of the time value of money when financing is involved. The objective of this adjustment is for an entity to recognize revenue at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (that is, the cash selling price).

.51 An entity should consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:

a. The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services
b. The combined effect of both of the following:
   1. The expected length of time between transfer of the promised goods or services from the entity to the customer and customer payment for those goods or services
   2. The prevailing interest rates in the relevant market.

.52 A contract with a customer would not have a significant financing component if any of the following factors exist:

a. The customer paid for the goods or services in advance, and the timing of the transfer of those goods or services is at the discretion of the customer.
b. A substantial amount of the consideration promised by the customer is variable, and the amount or timing of that consideration varies on the basis of the occurrence or nonoccurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).
c. The difference between the promised consideration and the cash selling price of the good or service arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide
the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.

.53 When adjusting the promised amount of consideration for a significant financing component, an entity should use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. After contract inception, an entity should not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk).

.54 The effects of financing (interest income or interest expense) should be presented separately from revenue from contracts with customers in the statement of comprehensive income (statement of activities). Interest income or interest expense is recognized only to the extent that a contract asset (or receivable) or a contract liability is recognized in accounting for a contract with a customer. In accounting for the effects of the time value of money, the following guidance should be considered:

a. Subsequent measurement guidance in paragraphs 1A–3 of FASB ASC 835-30-45 on presentation of the discount and premium in the financial statements
b. Application of the interest method in paragraphs 2–3 of FASB ASC 835-30-55.

.55 As a practical expedient, the promised amount of consideration does not need to be adjusted for the effects of a significant financing component if the entity expects, at contract inception, that the period between transfer of a promised good or service from the entity to a customer and customer payment for that good or service will be one year or less.

Noncash Consideration

.56 To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity should measure the noncash consideration (or promise of noncash consideration) at fair value. If an entity cannot reasonably estimate the fair value of the noncash consideration, the entity should measure the consideration indirectly by reference to the standalone selling price of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

.57 The fair value of a noncash consideration may vary because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). If the fair value of the noncash consideration promised by a customer varies for reasons other than only the form of the consideration (for example, the entity's performance), an entity should apply the guidance on constraining estimates of variable consideration.

.58 If a customer contributes goods or services to facilitate an entity's fulfillment of the contract, the entity should assess whether it obtains control of those contributed goods or services. If so, the entity should account for
the contributed goods or services as noncash consideration received from the customer.

**Consideration Payable to a Customer**

.59 An entity should account for consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity should estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with guidance on variable consideration.

.60 Consideration payable to a customer includes cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer). Consideration payable to a customer also includes credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer).

.61 If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity should account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity should account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it should account for the full amount of the consideration payable to the customer as a reduction of the transaction price.

.62 Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity should recognize the reduction of revenue when (or as) the later of either of the following events occurs:

a. The entity recognizes revenue for the transfer of the related goods or services to the customer.

b. The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

**Step 4: Allocate the Transaction Price to the Performance Obligations in the Contract**

.63 For a contract that has more than one performance obligation, an entity should allocate the transaction price to each separate performance obligation in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for satisfying each separate performance obligation.

.64 To allocate an appropriate amount of consideration to each performance obligation, an entity should determine the stand-alone selling price at contract inception of the distinct goods or services underlying each performance obligation. Sometimes, the transaction price includes a discount or variable consideration that relates entirely to one of the performance obligations in a contract. The requirements specify when an entity should allocate the discount
or variable consideration to one (or some) performance obligation(s) rather than to all performance obligations in the contract.

.65 An entity should allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Amounts allocated to a satisfied performance obligation should be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

Standalone Selling Price

.66 To allocate the transaction price to each performance obligation on a relative standalone selling price basis, an entity should determine the standalone selling price at contract inception of the distinct good or service underlying each performance obligation in the contract and allocate the transaction price in proportion to those standalone selling prices.

.67 The standalone selling price is the price at which an entity would sell a promised good or service separately to a customer. The best evidence of a standalone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but should not be presumed to be) the standalone selling price of that good or service.

.68 If a standalone selling price is not directly observable, an entity should estimate it. When estimating a standalone selling price, an entity should consider all information (including market conditions, entity-specific factors, and information about the customer or class of customer) that is reasonably available to the entity and maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

.69 The standard includes a list of suitable methods for estimating the standalone selling price of a good or service include, but are not limited to, the following:

a. Adjusted market assessment approach—An entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach also might include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

b. Expected cost plus a margin approach—An entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

c. Residual approach—An entity may estimate the standalone selling price by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract. However, an entity may use a residual approach to estimate the standalone selling price of a good or service only if one of the following criteria is met:

1. The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (that is, the selling price is highly variable because a representative standalone selling price is not
discernible from past transactions or other observable evidence).

2. The entity has not yet established a price for that good or service, and the good or service has not previously been sold on a standalone basis (that is, the selling price is uncertain).

.70 A combination of methods may need to be used to estimate the standalone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain standalone selling prices. For example, an entity may use a residual approach to estimate the aggregate standalone selling price for those promised goods or services with highly variable or uncertain standalone selling prices and then use another method to estimate the standalone selling prices of the individual goods or services relative to that estimated aggregate standalone selling price determined by the residual approach. When an entity uses a combination of methods to estimate the standalone selling price of each promised good or service in the contract, the entity should evaluate whether allocating the transaction price at those estimated standalone selling prices would be consistent with the allocation objective and the guidance on estimating standalone selling prices in the standard.

### Comparison to Existing Guidance

Under current guidance, an entity is generally required to determine the standalone selling price of a good or service based on the following hierarchy of evidence:

1. Vendor-specific objective evidence (VSOE)
2. Third-party evidence
3. Best estimate

Some industry-specific guidance, such as that for software and films, has guidance on allocating arrangement consideration to individual deliverables in multiple-element arrangements. For example, for multiple-element software arrangements, only VSOE of fair value may be used to allocate the fee. If VSOE does not exist, revenue is generally deferred.

Under the new guidance, the requirement that entity must have VSOE of fair value to avoid revenue deferral for software transactions is eliminated. An entity will be able to allocate a portion of the transaction price to each obligation based on its standalone selling price even if VSOE of fair value cannot be established. This new guidance will especially affect the technology industry, as most of their contracts include more than one performance obligation for which standalone selling prices must be determined. As standalone selling prices can be calculated or estimated in various ways, revenue will likely be accelerated under the new standard.

### Allocation of a Discount

.71 A customer receives a discount for purchasing a bundle of goods or services if the sum of the standalone selling prices of those promised goods or services in the contract exceeds the promised consideration in a contract. Except when an entity has observable evidence that the entire discount relates to only one or more (as discussed in the following paragraph), but not
all, performance obligations in a contract, the entity should allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the transaction price to each performance obligation on the basis of the relative standalone selling prices of the underlying distinct goods or services.

.72 An entity should allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

- The entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a standalone basis.
- The entity also regularly sells on a standalone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the standalone selling prices of the goods or services in each bundle.
- The discount attributable to each bundle of goods or services described in (b) is substantially the same as the discount in the contract, and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.

.73 If a discount is allocated entirely to one or more performance obligations in the contract, an entity should allocate the discount before using the residual approach to estimate the standalone selling price of a good or service.

Allocation of Variable Consideration

.74 Variable consideration that is promised in a contract may be attributable to the entire contract or to a specific part of the contract, such as either of the following:

- One or more, but not all, performance obligations in the contract. For example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time.
- One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation. For example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index.

.75 An entity should allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with FASB ASC 606-10-25-14(b) if both of the following criteria are met:

- The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service).
- Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent
with the overall objective for allocating the transaction price to performance obligations, when considering all of the performance obligations and payment terms in the contract.

.76 If the variable consideration is not allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation, the remaining amount of the transaction price should be allocated based on the allocation requirements related to allocation based on standalone selling price and allocation of a discount.

**Change in the Transaction Price**

.77 After contract inception, the transaction price can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

.78 An entity should allocate to the performance obligations in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity should not reallocate the transaction price to reflect changes in standalone selling prices after contract inception. Amounts allocated to a satisfied performance obligation should be recognized as revenue, or as a reduction of revenue, in the period in which the transaction price changes.

.79 An entity should allocate a change in the transaction price entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b) only if both of the following criteria are met:

a. The terms of the change in transaction price relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service).

b. Allocating the change in transaction price entirely to the performance obligation or the distinct good or service is consistent with the overall objective for allocating the transaction price to performance obligations, when considering all of the performance obligations and payment terms in the contract.

.80 An entity should account for a change in the transaction price that arises as a result of a contract modification in accordance with the guidance on contract modifications. However, for a change in the transaction price that occurs after a contract modification, an entity should apply the guidance on changes in the transaction price to allocate the change in the transaction price in whichever of the following ways is applicable:

a. An entity should allocate the change in the transaction price to the performance obligations identified in the contract before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for as if it were a termination of the existing contract and the creation of a new contract.
b. In all other cases in which the modification was not accounted for as a separate contract, an entity should allocate the change in the transaction price to the performance obligations in the modified contract (that is, the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

**Step 5: Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation**

.81 An entity should recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

.82 Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. When evaluating whether a customer obtains control of an asset, an entity should consider any agreement to repurchase the asset.

**Performance Obligations Satisfied Over Time**

.83 Revenue is recognized over time only when an entity transfers control of a good or service. The performance obligation is considered satisfied over time if one of the following criteria is met to indicate transfer of control:

a. The customer receives and consumes the benefits provided by the entity's performance as the entity performs

b. The entity's performance creates or enhances an asset (for example, building an addition to an existing home) that the customer controls as the asset is created or enhanced

c. The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date

.84 It is important to note that the right to payment for performance completed to date, as indicated in item (c) under paragraph .85, does not have to be for a fixed amount. At all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for the performance completed to date if the contract were to terminate early for reasons other than failure to perform by the entity.

.85 If any of the criteria in paragraph .85 are met, for each performance obligation determined to be satisfied over time, revenue should be recognized over time by measuring the progress toward complete satisfaction of that performance obligation. The standard requires that an entity apply a single method of measuring progress for each performance obligation satisfied over time, and apply that method consistently to similar performance obligations and in similar circumstances.

.86 Progress toward complete satisfaction of a performance obligation over time can be measured by output (for example, surveys of performance completed to date, appraisals of results achieved, milestones reached, units produced or units delivered) or input methods (for example, resources consumed, labor hours expended, costs incurred, time elapsed, or machine hours used). The method for measuring progress will depend on what best depicts an
entity's performance in transferring control of goods or services promised to a customer.

.87 If the reporting entity is not able to reasonably measure its progress toward satisfaction of the performance obligation but expects to recover costs, the entity can recognize revenue only to the extent of costs incurred. If none of the criteria in paragraph .85 are met, the entity should recognize revenue at a point in time at which the entity transfers control of the good or service to the customer.

### Comparison to Existing Guidance

Under current U.S. GAAP, the percentage-of-completion method is generally applied when recognizing revenue for long-term contracts. Under the new framework, revenue is recognized only when or as control of the asset is transferred to the customer. The new guidance is focused on the analysis of the contract and the determination of whether a performance obligation is satisfied over time or at a point in time.

In addition, note the difference between milestone or progress payments under the old guidance versus the right to payment under the new guidance. The former is an agreement to pay, assuming both parties perform their respective obligations; the latter is the right to receive payment owed to date if the contract were to terminate prior to completion of the contract (assuming the reason for early termination is not failure to perform by the reporting entity).

### Performance Obligations Satisfied at a Point in Time

.88 If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity should consider the guidance on control in paragraphs 23–26 of FASB ASC 606-10-25. In addition, an entity should consider indicators of the transfer of control, which include, but are not limited to, the following:

a. The entity has a present right to payment for the asset. If a customer presently is obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

b. The customer has legal title to the asset. Legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

c. The entity has transferred physical possession of the asset. The customer's physical possession of an asset may indicate that the customer has the ability to direct the use of and obtain
substantially all of the remaining benefits from the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs 66–78 of FASB ASC 606-10-55, paragraphs 79–80 of FASB ASC 606-10-55, and paragraphs 81–84 of FASB ASC 606-10-55 provide guidance on accounting for repurchase agreements, consignment arrangements, and bill-and-hold arrangements, respectively.

d. The customer has the significant risks and rewards of ownership of the asset. The transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity should exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

e. The customer has accepted the asset. The customer's acceptance of an asset may indicate that the customer has obtained the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity should consider the guidance in paragraphs 85–88 of FASB ASC 606-10-55.

The next several sections describe revenue recognition criteria under FASB ASU No. 2014-09 that falls outside the five-step process described in the previous sections.

### Incremental Costs of Obtaining a Contract

An entity should recognize as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, a sales commission). Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained should be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

As a practical expedient, an entity may recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less.
Costs of Fulfilling a Contract

.92 An entity should recognize an asset from the costs incurred to fulfill a contract only if those costs meet all of the following criteria:

a. The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved).

b. The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

c. The costs are expected to be recovered.

.93 For costs incurred in fulfilling a contract with a customer that are within the scope of another topic (for example, FASB ASC 330, Inventory; FASB ASC 360, Property, Plant, and Equipment), an entity should account for those costs in accordance with guidance in that other topic.

.94 Costs that relate directly to a contract (or a specific anticipated contract) include any of the following:

a. Direct labor (for example, salaries, and wages of employees who provide the promised services directly to the customer)

b. Direct materials (for example, supplies used in providing the promised services to a customer)

c. Allocations of costs that relate directly to the contract or to contract activities (for example, costs of contract management and supervision, insurance, and depreciation of tools and equipment used in fulfilling the contract)

d. Costs that are explicitly chargeable to the customer under the contract

e. Other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors)

.95 The following costs should be expensed when incurred:

a. General and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity should evaluate those costs in accordance with FASB ASC 340-40-25-7)

b. Costs of wasted materials, labor, or other resources to fulfill the contract that were not reflected in the price of the contract

c. Costs that relate to satisfied performance obligations (or partially satisfied performance obligations) in the contract (that is, costs that relate to past performance)

d. Costs for which an entity cannot distinguish whether the costs relate to unsatisfied performance obligations or to satisfied performance obligations (or partially satisfied performance obligations).

Additional guidance on incremental costs of obtaining a contract and costs to fulfill a contract is discussed in FASB ASC 340-40, the new subtopic developed with the issuance of FASB ASU No. 2014-09.
Disclosures

.96 The revenue recognition standard states that the objective of the disclosure requirements is to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and assets recognized from the costs to obtain or fulfill a contract with a customer. Qualitative and quantitative information is required about the following:

a. Contracts with customers—including revenue and impairments recognized, disaggregation of revenue, and information about contract balances and performance obligations (including the transaction price allocated to the remaining performance obligations)
b. Significant judgments and changes in judgments—determining the timing of satisfaction of performance obligations (over time or at a point in time), and determining the transaction price and amounts allocated to performance obligations
c. Assets recognized from the costs to obtain or fulfill a contract

.97 For contract balances, an entity should disclose all of the following:

a. The opening and closing balances of receivables, contract assets, and contract liabilities, if not otherwise separately presented or disclosed
b. Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period
c. Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price)

.98 For disclosures on performance obligations, the description should include all of the following:

a. When the entity typically satisfies its performance obligations including when performance obligations are satisfied in a bill-and-hold arrangement
b. The significant payment terms
c. The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent)
d. Obligations for returns, refunds, and other similar obligations
e. Types of warranties and related obligations

.99 Nonpublic entities may omit specific disclosures related to the following:

- Quantitative disaggregation disclosures
- Contract balances
- Transaction price allocated to remaining performance obligations
- Certain information related to significant judgments
- Use of practical expedients
- Certain information related to costs incurred to obtain or fulfill a contract with a customer
Warranties

.100 It is common for an entity to provide (in accordance with the contract, the law, or the entity’s customary business practices) a warranty in connection with the sale of a product (whether a good or service). The nature of a warranty can vary significantly across industries and contracts. Some warranties provide a customer with assurance that the related product will function as the parties intended because it complies with agreed-upon specifications. Other warranties provide the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

.101 If a customer has the option to purchase a warranty separately (for example, because the warranty is priced or negotiated separately), the warranty is a distinct service because the entity promises to provide the service to the customer in addition to the product that has the functionality described in the contract. In those circumstances, an entity should account for the promised warranty as a performance obligation and allocate a portion of the transaction price to that performance obligation.

.102 If a customer does not have the option to purchase a warranty separately, an entity should account for the warranty in accordance with the guidance on product warranties in FASB ASC 460, Guarantees, unless the promised warranty, or a part of the promised warranty, provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

.103 In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, an entity should consider factors such as:

a. Whether the warranty is required by law. If the entity is required by law to provide a warranty, the existence of that law indicates that the promised warranty is not a performance obligation because such requirements typically exist to protect customers from the risk of purchasing defective products.

b. The length of the warranty coverage period. The longer the coverage period, the more likely it is that the promised warranty is a performance obligation because it is more likely to provide a service in addition to the assurance that the product complies with agreed-upon specifications.

c. The nature of the tasks that the entity promises to perform. If it is necessary for an entity to perform specified tasks to provide the assurance that a product complies with agreed-upon specifications (for example, a return shipping service for a defective product), then those tasks likely do not give rise to a performance obligation.

.104 If a warranty, or a part of a warranty, provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the promised service is a performance obligation. Therefore, an entity should allocate the transaction price to the product and the service. If an entity promises both an assurance-type warranty and a service-type warranty but cannot reasonably account for them separately, the entity should account for both of the warranties together as a single performance obligation.

.105 A law that requires an entity to pay compensation if its products cause harm or damage does not give rise to a performance obligation.
example, a manufacturer might sell products in a jurisdiction in which the law holds the manufacturer liable for any damages (for example, to personal property) that might be caused by a consumer using a product for its intended purpose. Similarly, an entity's promise to indemnify the customer for liabilities and damages arising from claims of patent, copyright, trademark, or other infringement by the entity's products does not give rise to a performance obligation. The entity should account for such obligations in accordance with the guidance on loss contingencies in FASB ASC 450, Contingencies.

**Licensing**

.106 A license establishes a customer's rights to the intellectual property of an entity. Licenses of intellectual property may include, but are not limited to, any of the following:

a. Software and technology
b. Motion pictures, music, and other forms of media and entertainment
c. Franchises
d. Patents, trademarks, and copyrights

.107 An entity may promise to grant a license to a customer; it may also promise to transfer other goods or services to the customer. Those promises may be explicitly stated in the contract or implied by an entity's customary business practices, published policies, or specific statements. As with other types of contracts, when a contract with a customer includes a promise to grant a license in addition to other promised goods or services, an entity should apply the appropriate guidance within the new standard to identify each of the performance obligations in the contract.

.108 If the promise to grant a license is not distinct from other promised goods or services in the contract, an entity should account for the promise to grant a license and those other promised goods or services together as a single performance obligation. Examples of licenses that are not distinct from other goods or services promised in the contract include the following:

a. A license that forms a component of a tangible good and that is integral to the functionality of the good
b. A license that the customer can benefit from only in conjunction with a related service (such as an online service provided by the entity that enables, by granting a license, the customer to access content)

.109 If the license is not distinct, an entity should apply the guidance in paragraphs 23–30 of FASB ASC 606-10-25 to determine whether the performance obligation (which includes the promised license) is a performance obligation that is satisfied over time or satisfied at a point in time.

.110 If the promise to grant the license is distinct from the other promised goods or services in the contract and, therefore, the promise to grant the license is a separate performance obligation, an entity should determine whether the license transfers to a customer either over time or at a point in time. In making this determination, an entity should consider whether the nature of the entity's promise in granting the license to a customer is to provide the customer with either of the following:
a. A right to access the entity's intellectual property as it exists throughout the license period

b. A right to use the entity's intellectual property as it exists at the point in time at which the license is granted

.111 To determine whether an entity's promise to grant a license provides a customer with either a right to access an entity's intellectual property or a right to use an entity's intellectual property, an entity should consider whether a customer can direct the use of, and obtain substantially all of the remaining benefits from, a license at the point in time at which the license is granted. A customer cannot direct the use of and obtain substantially all of the remaining benefits from a license at the point in time at which the license is granted if the intellectual property to which the customer has rights changes throughout the license period. The intellectual property will change (and thus affect the entity's assessment of when the customer controls the license) when the entity continues to be involved with its intellectual property and the entity undertakes activities that significantly affect the intellectual property to which the customer has rights. In these cases, the license provides the customer with a right to access the entity's intellectual property. In contrast, a customer can direct the use of and obtain substantially all of the remaining benefits from the license at the point in time at which the license is granted if the intellectual property to which the customer has rights will not change. In those cases, any activities undertaken by the entity merely change its own asset (that is, the underlying intellectual property), which may affect the entity's ability to provide future licenses; however, those activities would not affect the determination of what the license provides or what the customer controls.

.112 The nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met:

a. The contract requires or the customer reasonably expects that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights.

b. The rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in FASB ASC 606-10-55-60(a).

c. Those activities do not result in the transfer of a good or a service to the customer as those activities occur.

.113 Factors that may indicate that a customer could reasonably expect that an entity will undertake activities that significantly affect the intellectual property include the entity's customary business practices, published policies, or specific statements. Although not determinative, the existence of a shared economic interest (for example, a sales-based royalty) between the entity and the customer related to the intellectual property to which the customer has rights may also indicate that the customer could reasonably expect that the entity will undertake such activities.

.114 If the criteria are met for determining if the nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property, an entity should account for the promise to grant a license as a performance obligation satisfied over time because the customer
will simultaneously receive and consume the benefit from the entity's performance of providing access to its intellectual property as the performance occurs. An entity should apply the guidance in paragraphs 31–37 of FASB ASC 606-10-25 to select an appropriate method to measure its progress toward complete satisfaction of that performance obligation to provide access.

.115 If the criteria are not met for determining if the nature of an entity's promise in granting a license is a promise to provide a right to access the entity's intellectual property, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of and obtain substantially all of the remaining benefits from the license at the point in time at which the license transfers. An entity should account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity should apply FASB ASC 606-10-25-30 to determine the point in time at which the license transfers to the customer. However, revenue cannot be recognized for a license that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the license. For example, if a software license period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognize revenue before that code has been provided (or otherwise made available).

.116 An entity should disregard the following factors when determining whether a license provides a right to access the entity's intellectual property or a right to use the entity's intellectual property:

a. Restrictions of time, geographical region, or use. These restrictions define the attributes of the promised license, rather than define whether the entity satisfies its performance obligation at a point in time or over time.

b. Guarantees provided by the entity that it has a valid patent to intellectual property and that it will defend that patent from unauthorized use. A promise to defend a patent right is not a performance obligation because the act of defending a patent protects the value of the entity's intellectual property assets and provides assurance to the customer that the license transferred meets the specifications of the license promised in the contract.

Comparison to Existing Guidance

With the issuance of FASB ASU No. 2014-09, there is only one approach to accounting for licenses across all industries. The entity should determine whether the license is a performance obligation based on criteria described in the preceding paragraphs or whether it should be bundled with other promised goods or services. If considered a performance obligation, it should be accounted for either as a promise to provide a right to use (satisfied at a point in time) or a promise to provide a right of access (satisfied over time). When considered a performance obligation satisfied at a point in time, applying the new guidance will likely result in accelerated revenue recognition.
Sales-Based or Usage-Based Royalties

As discussed in the section "Constraining Estimates of Variable Consideration," an entity should recognize revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when (or as) the later of the following events occurs:

a. The subsequent sale or usage occurs.

b. The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

Tax Effect

The tax effect of FASB ASU No. 2014-09 will vary from business to business. Although the effective date of the new standard is not immediate, some tax-related questions to ask today follow here:

a. Will larger or different (or both) book or tax (or both) differences result from the changes in revenue recognition? How might these differences affect schedules M-1 and M-3 on tax returns? Could a large tax liability be approaching that needs to be planned for?

b. How will the company's current reporting of deferred taxes be affected (for both the balance sheet and income statement)?

c. In certain instances does revenue recognition for tax purposes depend on revenue recognition for financial accounting purposes? Consider advance payments, for example. Consider what would happen if the company previously excluded payments from taxable income (by following the book method), but now some of the recognition of these payments will be accelerated.

d. How are costs for obtaining a contract affected? The new standard addresses when the costs of obtaining a contract must be capitalized versus expensed and may differ slightly from the federal income tax treatment of those costs.

e. How might state and local taxes be affected? The presentation and treatment of certain state and local taxes may also vary based on the principal versus agent guidance.

f. For multi-state companies, are allocation and appointment of revenues affected? Consideration must be given to the allocation and apportionment of revenues for multi-state companies. Though many states follow the federal rules, there are subtle differences between states and appropriate advance research should be done to ensure compliance.

g. Is the percentage of completion method being calculated and used correctly? Certain industries are currently required to use the percentage of completion method of accounting under the federal income tax rules and may need to pay special attention to the new standard.

h. Are there any transfer pricing implications that need to be addressed? Companies with foreign subsidiaries may need to reconsider their pricing methods if they are currently tied to the timing of revenue recognition. This can lead to substantial additional work.
in order to perform pricing studies and prepare the necessary documentation to support the new policy.

i. How might investments in foreign subsidiaries be affected? Companies with investments in foreign subsidiaries may determine that they have an outside or "tax basis" that differs from their "book basis" investment that they expect to recognize in the current year. The new standard could produce a difference in how the expected transaction must be recorded.

j. Could there be any benefits in adopting a new accounting method for tax purposes (Form 3115, "Application for Change in Accounting Method")? For example, could conformity in book and tax methods (if allowable) be beneficial? Further, whether the requested method is currently allowed and automatic will also determine whether an uncertainty in future taxes or liability accrual must be included in the current financial statements.

.119 This information is meant to provide a general overview of the possible tax implications of the new revenue recognition standards under FASB ASU No. 2014-09. It is not an exhaustive analysis of the potential effects and entities should ensure a competent professional is available to interpret and apply the new guidance.

Comparison to IFRS

.120 One of the objectives for the issuance of the new standard is to converge IFRS and U.S. GAAP; however, the following minor differences still exist:

a. Collectability threshold. The collectability threshold is probable under both U.S. GAAP and IFRS because that is similar to current guidance under each of the frameworks. It should be noted that "probable" has different definitions under U.S. GAAP and IFRS. Under U.S. GAAP, it is defined as "likely to occur"; some IFRSs define it as "more likely than not." As "probable" is a slightly higher threshold under U.S. GAAP than under IFRS, the two sets of standards may differ in what is considered a contract with a customer.

b. Interim disclosure requirements. The revenue recognition under U.S. GAAP requires additional interim financial statement disclosures for public entities as compared to IFRS. Under IFRS 15, the only disclosure requirement for contracts with customers in addition to existing interim reporting requirements is the disclosure of disaggregated revenue in an entity's interim financial statement. Under U.S. GAAP, FASB requires interim disclosures regarding contract balances and remaining performance obligations, in addition to disaggregated revenue.

c. Early application and effective date. IFRS 15 allows an entity to apply the requirements of the standard early. In contrast, U.S. GAAP prohibits an entity from applying the requirements of FASB ASU No. 2014-09 early. Also, the effective date for IFRS 15 is for annual reporting periods beginning on or after January 1, 2017. The effective date for public entities under FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2016.
d. **Nonpublic entity requirements.** Though the requirements in FASB ASU No. 2014-09 apply to nonpublic entities and offers specific practical expedients, IFRS 15 does not apply to nonpublic entities. *IFRS for Small and Medium-Sized Entities* is available for entities that do not have public accountability.

e. **Impairment loss reversal.** FASB ASU No. 2014-09 does not allow an entity to reverse an impairment loss on an asset that is recognized in accordance with the guidance on costs to obtain or fulfill a contract. In contrast, IFRS 15 requires an entity to reverse impairment losses.

**Resource Central**

> Discover these additional tools available to CPAs and accountants in business and industry to support an entity's financial reporting under the framework and practitioners who advise them.

.121 The following sections explore various resources that you may find beneficial in gaining additional understanding of the new revenue recognition standard.

**Publications**

.122 In addition to this alert, the AICPA develops numerous other professional publications for practitioners and financial management professionals in the areas of audit, financial reporting, internal controls, financial management, tax, firm marketing, and other areas of interest. You'll find a publication that fits your needs within the AICPA's industry-leading library at www.cpa2biz.com/AST/AICPA_CPA2BiZ_Nav/Top/Browse/Primary/Publications.jsp.

**AICPA Revenue Recognition Project Center**

.123 The AICPA Revenue Recognition Project Center offers resources for the entire financial reporting process, including what practitioners need to know about audit, review, and compilation engagements. You can access this site at www.aicpa.org/INTERESTAREAS/FRC/ACCOUNTINGFINANCIALREPORTING/REVENUERECOGNITION/Pages/RevenueRecognition.aspx.

**AICPA’s Online Professional Library: Accounting and Auditing Literature**

.124 The AICPA has created your core accounting and auditing library online. The AICPA Online Professional Library is now customizable to suit your preferences or your firm’s needs. You can also sign up for access to the entire library. Get access—anytime, anywhere—to FASB ASC, the AICPA’s latest *Professional Standards, Technical Practice Aids, Audit and Accounting Guides, Audit Risk Alerts, Accounting Trends & Techniques,* and more. To subscribe to this essential online service for accounting professionals, visit the AICPA store at www.cpa2biz.com.
The AICPA currently offers the AICPA Audit Guide *Auditing Revenue in Certain Industries*. This publication will be updated for the issuance of the new revenue recognition guidance as we approach the effective date of FASB ASC 606.

**Continuing Professional Education**

For CPAs interested in learning more about the new revenue recognition standard and also earning CPE credit, the AICPA currently offers the course *Revenue Recognition*, with a focus on existing requirements, as well as highlights of the new standard. An in-depth course focused only on the new standard will be available in the fall of 2014.

The AICPA offers a number of other CPE courses that are valuable to CPAs working in public practice and in business and industry. CPExpress, offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, CPExpress offers hundreds of hours of learning in a wide variety of topics. Subscriptions are available at www.cpa2biz.com/CPExpress (product no. BYT-XX).

To register for individual courses or to learn more, visit the AICPA store at www.cpa2biz.com.

Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high-quality CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available for viewing. For additional details on available webcasts, please visit the AICPA store at www.cpa2biz.com/AST/AICPA.CPA2BiZ_Nav/Top/Browse/Primary/Webcasts.jsp.

**Member Service Center**

To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at 888.777.7077.

**Hotlines**

**Accounting and Auditing Technical Hotline**

Do you have a complex technical question about U.S. GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. The hotline is available from 9 a.m. to 8 p.m. ET on weekdays. You can reach the Technical Hotline at 877.242.7212 or online at www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx. Members can also e-mail questions to aahotline@aicpa.org. Additionally, members can submit questions by completing a Technical Inquiry form found on the same website.
Ethics Hotline

In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at 888.777.7077 (select option 6, followed by option 1) or by e-mail at ethics@aicpa.org.

Conferences

The AICPA offers a number of conferences for practitioners in business and industry that include the most recent developments affecting the profession. Among others, such conferences include the AICPA Fair Value Measurements Workshop September 29–30 in New York, NY, the AICPA National Tax Conference November 3–4 in Washington, DC, the AICPA Controllers Conference November 18–19 in Las Vegas, NV, and the AICPA Conference on Current SEC and PCAOB Developments December 8–10 in Washington, DC.

For further information about AICPA conferences or to register, call 888.777.7077 or visit the AICPA store at www.cpa2biz.com.

Services for AICPA Members in Business, Industry, and Government

The AICPA provides a number of centers and services directed at its members in business and industry, including the Business, Industry, and Government interest area; the Audit Committee Effectiveness Center; and the Audit Committee Matching System. These centers and services can be accessed by visiting www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Pages/BIGHome.aspx.

CPAs face unprecedented changes in financial reporting. As such, the AICPA has created the Financial Reporting Center to support you in the execution of high-quality financial reporting. This center provides exclusive member-only resources for the entire financial reporting process and can be accessed at www.aicpa.org/frc.

The Financial Reporting Center provides timely and relevant news, guidance, and examples supporting the financial reporting process. You will find resources for accounting, preparing financial statements, and performing various types of engagements, including compilation and review, audit and attest, and assurance and advisory.
Appendix A—Mapping of Key Revenue Recognition Topics in FASB ASC

The change from a rules-based accounting standard to a principles-based accounting standard makes a straight comparison of old and new rules a difficult exercise. The purpose of this appendix is to provide a mapping of key revenue recognition topics that will be affected by the new standard. Topics have been aligned with the five-step process described in FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), with paragraph references within the new guidance mapped to specific sections in the existing FASB ASC. In addition to the new five-step process, other significant areas within revenue that have been affected by the new standard have been mapped to existing guidance as well. Please note that the comparison is not exhaustive and may not highlight all of the potential differences.

<table>
<thead>
<tr>
<th>STEPS</th>
<th>FASB ASU No. 2014-09</th>
<th>Current FASB ASC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1: Identify the contract(s) with a customer</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>606-10-25-1 through 25-8</td>
<td>605-10-25-1</td>
</tr>
<tr>
<td>Contract modifications</td>
<td>606-10-25-10 through 25-13</td>
<td>605-35-25</td>
</tr>
<tr>
<td><strong>Step 2: Identify the performance obligations in the contract</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>606-10-25-14 through 25-22</td>
<td>605-25-25</td>
</tr>
<tr>
<td><strong>Step 3: Determine the transaction price</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable Consideration</td>
<td>606-10-32-5 through 32-9</td>
<td>605-25-30</td>
</tr>
<tr>
<td>Significant Financing Component</td>
<td>606-10-32-15 through 32-20</td>
<td>470-40-25</td>
</tr>
<tr>
<td><strong>Step 4: Allocate the transaction price to the separate performance obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>606-10-32-28 through 32-30; 606-10-32-36 through 32-41</td>
<td>605-25-30; 605-28-25</td>
</tr>
<tr>
<td>Determining standalone selling price</td>
<td>606-10-32-31 through 32-35</td>
<td>605-25-30</td>
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</tbody>
</table>

(continued)
### STEPS

<table>
<thead>
<tr>
<th>FASB ASU No. 2014-09</th>
<th>Current FASB ASC</th>
</tr>
</thead>
</table>
| **Performance Obligations**

Satisfied Over Time

606-10-25-27 through 25-29; 606-10-55-4 through 55-15

605-20-25; 605-35-25

Satisfied at a Point in Time

606-10-25-30, 606-10-65-1

605-28

**Other**

<table>
<thead>
<tr>
<th>FASB ASU No. 2014-09</th>
<th>Current FASB ASC</th>
</tr>
</thead>
</table>
| Costs of obtaining a contract

340-40-25-1 through 25-4

340-20-25; 605-20-25; 605-35-25

Costs of fulfilling a contract

340-40-25-5 through 25-8

605-35-25

Disclosures

606-10-50-1 through 50-21; 606-10-55-89 through 55-91

605-20-50; 605-25-50; 605-35-50

Repurchase agreements

606-10-55-66 through 55-78

470-40-25; 360-20-40

Warranties

606-10-55-30 through 55-35

605-20-25

Licenses

606-10-55-54 through 55-64

605-25

The following table presents the effect of FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on existing guidance within the revenue subtopic for affected industries under the 900 topic series of FASB ASC. Some industries will retain a portion of the guidance related to revenue recognition within the 900 series, as indicated by the asterisk. Revenue recognition guidance for all other industries listed in the following table will be superseded by guidance in the new standard, which will be applicable across all industries.

<table>
<thead>
<tr>
<th>Current FASB ASC</th>
<th>Effect of FASB ASU No. 2014-09</th>
</tr>
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<tbody>
<tr>
<td>905-605 Agriculture</td>
<td>*</td>
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<tr>
<td>908-605 Airlines</td>
<td>Superseded</td>
</tr>
<tr>
<td>910-605 Contractors—Construction</td>
<td>Superseded</td>
</tr>
<tr>
<td>912-605 Contractors—Federal Government</td>
<td>Superseded</td>
</tr>
<tr>
<td>Current FASB ASC</td>
<td>Effect of FASB ASU No. 2014-09</td>
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<td>------------------------------------------------------</td>
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<tr>
<td>920-605 Entertainment—Broadcasters</td>
<td>Superseded</td>
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<tr>
<td>922-605 Entertainment—Cable Television</td>
<td>Superseded</td>
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<tr>
<td>924-605 Entertainment—Casinos</td>
<td>Superseded</td>
</tr>
<tr>
<td>926-605 Entertainment—Films</td>
<td>Superseded</td>
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<tr>
<td>928-605 Entertainment—Music</td>
<td>Superseded</td>
</tr>
<tr>
<td>932-605 Extractive Activities—Oil and Gas</td>
<td>Superseded</td>
</tr>
<tr>
<td>940-605 Financial Services—Brokers and Dealers</td>
<td>Superseded</td>
</tr>
<tr>
<td>942-605 Financial Services—Depository and Lending</td>
<td>Superseded</td>
</tr>
<tr>
<td>946-605 Financial Services—Investment Companies</td>
<td>Superseded</td>
</tr>
<tr>
<td>948-605 Financial Services—Mortgage Banking</td>
<td>Superseded</td>
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<tr>
<td>952-605 Franchisors</td>
<td>Superseded</td>
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<tr>
<td>954-605 Health Care Entities</td>
<td>*</td>
</tr>
<tr>
<td>958-605 Not-for-Profit Entities</td>
<td>*</td>
</tr>
<tr>
<td>970-605 Real Estate—General</td>
<td>Superseded</td>
</tr>
<tr>
<td>972-605 Real Estate—Common Interest Realty Associations</td>
<td>Superseded</td>
</tr>
<tr>
<td>974-605 Real Estate—Real Estate Investment Trusts</td>
<td>Superseded</td>
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<tr>
<td>976-605 Real Estate—Retail Land</td>
<td>Superseded</td>
</tr>
<tr>
<td>978-605 Real Estate—Time-Sharing Activities</td>
<td>Superseded</td>
</tr>
<tr>
<td>980-605 Regulated Operations</td>
<td>*</td>
</tr>
<tr>
<td>985-605 Software</td>
<td>Superseded</td>
</tr>
</tbody>
</table>

* Paragraphs within 905-605, 954-605, 958-605, and 980-605 have been either superseded or amended, or remain intact.
Appendix B—AICPA Learning and Implementation Plan

.B1 Use this roadmap to ensure that your company as well as its management team and staff do the following:¹

- Understand the changes to current generally accepted accounting principles (GAAP) based on FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*
- Understand transition and retrospective adoption of the revenue recognition standard, and determine how your company will adopt the new guidance
- Find resources to help train your professional staff to ensure effective and efficient implementation of the revenue recognition standard
- Educate users about the changes they can expect in your company’s financial statements

.B2 You will note several tools and resources to support your company as well as its management team and staff in their journey, specifically the AICPA member benefit resources in the Financial Reporting Center at www.aicpa.org/revenuerecognition.

.B3 The following table provides a suggested timeline for public entities to implement the new revenue recognition standard (nonpublic entities have an additional year to adopt the new guidance):

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Description and Considerations</th>
<th>Recommended Timing</th>
<th>Tools and Resources (Links to be included when available)</th>
</tr>
</thead>
</table>
| 1    | Assign individual company staff or form a task force to become experts and take the lead on understanding and implementing the new revenue recognition standard. Also be mindful of accounting, financial reporting, tax, internal audit, sales operations, IT, legal, and human resources implications. | The new revenue recognition standard will eliminate the transaction- and industry-specific revenue recognition guidance under current generally accepted accounting principles (GAAP) and replace it with a principles-based approach for determining revenue recognition. | 2014–2015 | AICPA’s Financial Reporting Center

- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard
- Introduction to the New Revenue Recognition Standard video clip

¹ This document could also be helpful for audit firms assisting their clients in gaining an understanding of FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606).*
<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Description and Considerations</th>
<th>Recommended Timing</th>
<th>Tools and Resources (Links to be included when available)</th>
</tr>
</thead>
</table>
| 2    | Evaluate the changes from current GAAP to the new revenue recognition standard and evaluate the impact on how your company accounts for existing revenue streams and the results to the company's financial statements. In addition, evaluate how the standard will affect operational and performance metrics, company contracts, compensation plans, accounting policies, internal controls, and tax matters. This would also include working with your auditor to ensure that your approach to implementing the new revenue recognition standard and any changes in accounting for revenue recognition are documented completely and accurately. | In order to complete this step, it will be necessary to obtain a full understanding of the new revenue recognition standard. All companies will need to evaluate how the new revenue recognition standard will affect their financial statements beyond just the impact to the statement of operations, as there are new estimates and disclosures related to revenue recognition. | 2014–2016 | AICPA's Financial Reporting Center  
- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
- Listing of implementation issues identified by the AICPA Revenue Recognition industry task forces (to be updated as issues are identified—starting Summer 2014)  

CPE  
- Revenue Recognition: Getting the New and Old Standard Right—available July 2014  
- Revenue Recognition Under the New Standard—available Fall 2014  

Guides and Alerts  
- AICPA Alert Understanding Revenue Recognition: Changes to U.S. GAAP—available July 2014 |
<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
<th>Description and Considerations</th>
<th>Recommended Timing</th>
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<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td>• <em>Revenue Recognition Accounting Guide,</em> which includes information to be considered when implementing the new revenue recognition standard in the following industries (available 2016):</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td>— Aerospace and Defense</td>
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<td>— Airlines</td>
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<td>• General Auditing Revenue Guide—available 2016</td>
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<td>• Industry-specific AICPA Audit and Accounting Guides will reference substantive changes in the 2016 editions and be fully conformed in the 2017 editions.</td>
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| 3    | Determine how you will retrospectively adopt the new revenue recognition standard, and how to track the accounting differences for periods that require restatement (in conjunction with step 4).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | The new revenue recognition standard should be applied using one of two methods, as discussed in FASB ASC 606-10-65-1. FASB ASC 250-10-45-8 notes the following: Retrospective application shall include only the direct effects of a change in accounting principle, including any related income tax effects. Indirect effects that would have been recognized if the newly adopted accounting principle had been followed in prior periods shall not be included in the retrospective application. If indirect effects are actually incurred and recognized, they shall be reported in the period in which the accounting change is made. | 2014 | AICPA's Financial Reporting Center  
  - Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
  CPE  
  - Revenue Recognition Under the New Standard—available Fall 2014  
  Guides  
  - Revenue Recognition Accounting Guide, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available 2016 |
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| 4    | Determine whether any changes will need to be made to IT systems or software applications to capture information needed for the new revenue recognition standard, including the following:  
  • Retrospective adoption  
  • The additional qualitative and quantitative disclosures required | Based on the determinations made in step 2 and step 3, the new revenue recognition standard may require modifications to IT systems to capture the appropriate level of information related to data used to make estimates on revenue recognition and new disclosures. | 2014               | AICPA's Financial Reporting Center  
  • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
  CPE  
  • Revenue Recognition Under the New Standard—available Fall 2014  
  Guides and Alerts  
  • Revenue Recognition Accounting Guide, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available 2016 |
| 5    | Determine what interim disclosures will need to be made before the revenue recognition standard is effective. | Issuers should consider the guidance in SEC Staff Accounting Bulletin (SAB) No. 74 (Topic 11:M), Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period, to determine the appropriate interim disclosures to be made prior to the adoption of the revenue recognition standard. | 2014–2016          | AICPA's Financial Reporting Center  
  • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
  CPE  
  • Revenue Recognition Under the New Standard—available Fall 2014  
  Guides and Alerts  
  • AICPA Alert Understanding Revenue Recognition: Changes to U.S. GAAP—available July 2014 |
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</table>
| 6    | Develop an evolving project plan for implementation of the revenue recognition standard considering all of the preceding steps and facilitate training for your staff. | 2014–2016 | - Revenue Recognition Accounting Guide, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available 2016  
- SEC SAB 74 (Topic 11:M), Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period  
- CPE  
  - Revenue Recognition: Getting the New and Old Standard Right—available July 2014  
  - Revenue Recognition Under the New Standard—available Fall 2014  
- Conferences  
  - National Conference on Banks & Savings Institutions: September 8–10, 2014 |

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<td>• AICPA &amp; PDI National Oil &amp; Gas Conference: November 18–19, 2014</td>
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<td>• National Construction Industry Conference: December 4–5, 2014</td>
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| 7    | Educate key stakeholders (audit committee, board of directors, and investors), on the new revenue recognition standard and what changes to expect in your company's financial statements. | Based on the determinations made in step 2 and step 3, the new revenue recognition standard may result in changes in timing of revenue recognized as well as new qualitative and quantitative disclosures that will need to be explained to key stakeholders. | 2015–2016 | AICPA's Financial Reporting Center  
- Revenue Recognition Primer for Audit Committees  
- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard |