

ASC 606:

New Standard for Revenue from Contracts with Customers

JOINT PROJECT BETWEEN FASB & IASB

ASU 2014-09
ASC 606
FASB

IFRS 15
IASB

SCOPE



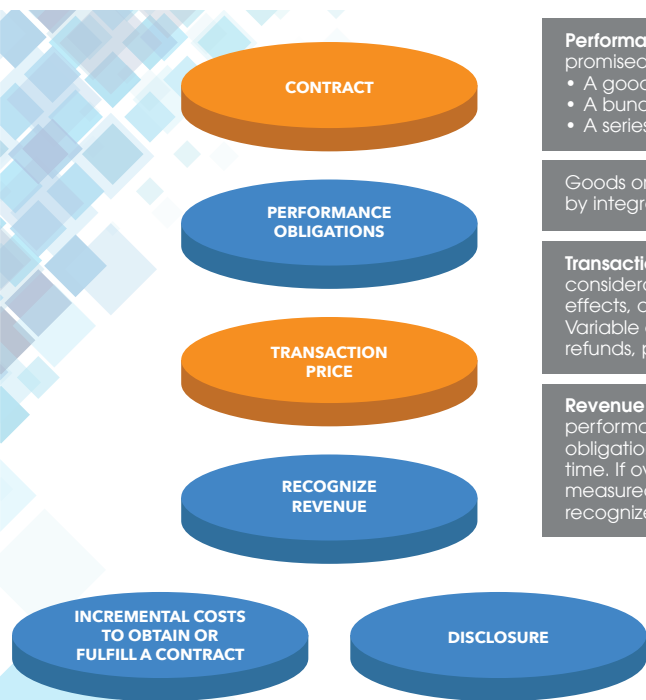
Applies to all Contracts with Customers that are not covered by other FASB topics (e.g. leases, insurances, some financial instruments)

GOALS



- Improved Consistency & Comparability across companies, industries, regions
- Robust revenue accounting framework
- Greater disclosure
- Simplify prep of financial statements

ASC 606 ELEMENTS



Performance Obligations: the distinct goods or services promised in a contract.

- A good or service, or
- A bundle of goods or services, or
- A series of distinct goods or services

Goods or services may not be distinct if accompanied by integration services.

Transaction price includes fixed and variable consideration, possible future reversals, financing effects, and more. Variable consideration can be discounts, rebates, refunds, penalties, incentives, etc.

Revenue is recognized when a company satisfies a performance obligation to a customer. A performance obligation can be satisfied over time or at a point in time. If over time, progress toward completion must be measured so that the correct amount of revenue is recognized at the proper time.

Retrospective Comparisons show differences in financials using ASC 606 compared with prior guidance.

For ongoing periodic disclosure, companies are to disclose qualitative and quantitative information about:

Contracts with customers

Judgments made in applying ASC 606 guidance

Assets recognized from costs to obtain or fulfill contracts

ASC 606 points to Subtopic 340-40

Recognize the incremental costs of obtaining a contract with a customer as an asset if those costs are expected to be recovered.

Sales commissions are the prevalent cost that fits this definition

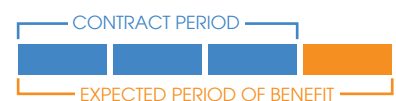
Contract Modifications

Commission not tied to single contract

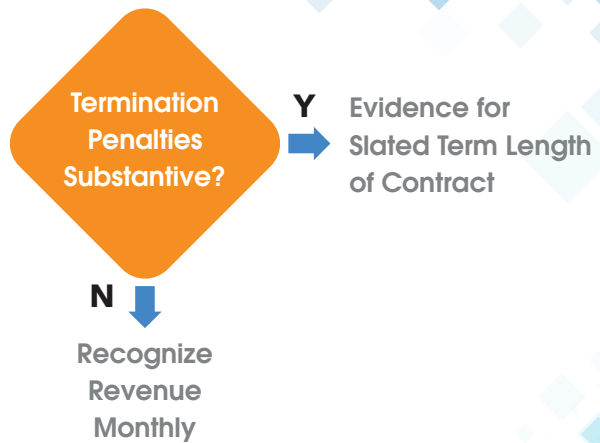
Judgment & Interpretation required in many situations. Joint Transition Resource Group (TRG) provided comments on some issues.

Threshold-based Commissions

Bonuses



Capitalized contract costs are amortized over the "expected period of benefit", which may be the contract term or may be longer.



CONTRACT MODIFICATIONS

SEPARATE CONTRACT:

Additional Goods & Services distinct from G&S in original contract
Consideration for additional G&S reflects standalone selling price

TERMINATE EXISTING CONTRACT, CREATE NEW:

Remaining G&S distinct from those transferred before modification
Allocate to the remaining G&S: Additional consideration from modification, plus original contract consideration not yet recognized

MODIFICATION TO EXISTING CONTRACT:

Additional Goods & Services not distinct from G&S in original contract

NAVIGATING SALES COMPENSATION ACCOUNTING UNDER ASC 606

- For each Contract: Timely, Accurate Compensation Calculations that are Reportable & Auditable
- If calculations or rates change over time (e.g. accelerators), calculations must be accurately maintained
- Reporting must provide auditable data for disclosure tables, impairment testing, amortization schedules
- Flexibility required as interpretations and guidance continue to evolve