

**FORD MOTOR COMPANY AND SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 4. REVENUE (Continued)**

**Company Excluding Ford Credit**

*Vehicles, Parts, and Accessories.* For the majority of vehicles, parts, and accessories, we transfer control and recognize a sale when we ship the product from our manufacturing facility to our customer (dealers and distributors). We receive cash equal to the invoice price for most vehicle sales at the time of wholesale. When the vehicle sale is financed by our wholly-owned subsidiary Ford Credit, the dealer is obligated to pay Ford Credit when it sells the vehicle to the retail customer (see Note 10). Payment terms on part sales to dealers, distributors, and retailers range from 30 to 120 days. The amount of consideration we receive and revenue we recognize varies with changes in return rights and marketing incentives we offer to our customers and their customers. When we give our dealers the right to return eligible parts and accessories, we estimate the expected returns based on an analysis of historical experience. Estimates of marketing incentives are based on expected retail and fleet sales volumes, mix of products to be sold, and incentive programs to be offered. Customer acceptance of products and programs, as well as other market conditions, will impact these estimates. We adjust our estimate of revenue at the earlier of when the value of consideration we expect to receive changes or when the consideration becomes fixed. As a result of changes in our estimate of marketing incentives, we recorded a decrease in revenue of \$ 973 million during 2020 and an increase in revenue of \$ 252 million and \$ 209 million during 2021 and 2022, respectively, related to revenue recognized in prior annual periods.

We have elected to recognize the cost for freight and shipping when control over vehicles, parts, or accessories have transferred to the customer as an expense in *Cost of sales*.

We sell vehicles to daily rental companies and may guarantee that we will pay them the difference between an agreed amount and the value they are able to realize upon resale. At the time of transfer of vehicles to the daily rental companies, we record the probable amount we will pay under the guarantee to *Other liabilities and deferred revenue* (see Note 25).

*Used Vehicles.* We sell used vehicles both at auction and through our consolidated dealerships. Proceeds from the sale of these vehicles are recognized in *Company excluding Ford Credit revenues* upon transfer of control of the vehicle to the customer, and the related vehicle carrying value is recognized in *Cost of sales*.

*Services and other revenue.* For separate or stand-ready performance obligations that are included as part of the vehicle consideration received (e.g., free extended service contracts, vehicle connectivity, over-the-air updates), we use an observable price to determine the stand-alone selling price or, when one is not available, we use a cost-plus margin approach. We also sell separately priced service contracts that extend mechanical and maintenance coverages beyond our base warranty agreements to vehicle owners. We receive payment at contract inception and the contracts generally range from 12 to 120 months. We recognize revenue for vehicle service contracts that extend mechanical and maintenance coverages beyond our base warranties over the term of the agreement in proportion to the costs we expect to incur in satisfying the contract obligations. Revenue related to other future or stand-ready performance obligations is generally recognized on a straight-line basis over the period in which services are expected to be performed.

We had a balance of \$ 4.2 billion and \$ 4.3 billion of unearned revenue associated primarily with outstanding extended service contracts reported in *Other liabilities and deferred revenue* at December 31, 2020 and 2021, respectively. We recognized \$ 1.3 billion and \$ 1.4 billion of the unearned amounts as revenue during the years ended December 31, 2021 and 2022, respectively. At December 31, 2022, the unearned amount was \$ 4.4 billion. We expect to recognize approximately \$ 1.3 billion of the unearned amount in 2023, \$ 1.1 billion in 2024, and \$ 2 billion thereafter.

We record a premium deficiency reserve to the extent we estimate the future costs associated with extended service contracts exceed the unrecognized revenue. Amounts paid to dealers to obtain these contracts are deferred and recorded as *Other assets*. These costs are amortized to expense consistent with how the related revenue is recognized. We had a balance of \$ 309 million and \$ 315 million in deferred costs as of December 31, 2021 and 2022, respectively. We recognized \$ 79 million, \$ 81 million, and \$ 88 million of amortization during the years ended December 31, 2020, 2021, and 2022, respectively.