

705 - Cost of Sales and Services

705-10 - Overall

705-10-00 - Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

705-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract	Added	Accounting Standards Update No. 2014-09	05/28/2014
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Revenue	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-10-05-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
705-10-05-1A	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-10-05-2	Amended	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-2	Amended	Accounting Standards Update No. 2015-11	07/22/2015
705-10-25-4	Amended	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-4A	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-6	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-8	Amended	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-9	Amended	Accounting Standards Update No. 2014-09	05/28/2014
705-10-25-10 through 25-12	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
705-10-45-1 through 45-5	Superseded	Accounting Standards Update No. 2014-09	05/28/2014

705-10-05 - Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

705-10-05-1 The Cost of Sales and Services Topic includes the following Subtopics:

- a. Overall
- b. Accounting for Consideration Received from a Vendor.

705-10-05-1A The Overall Subtopic only provides links to guidance on accounting for the cost of sales and

services in other applicable Subtopics because the asset liability model used in the Codification generally results in the inclusion of that guidance in other Topics. For example, because assets are sold or remeasured (or liabilities are incurred), the guidance related to the transactions is included in the applicable Derecognition and Subsequent Measurement Sections of Topic [330](#) on inventory and Topic [360](#) on plant, property, and equipment rather than in this Topic.

705-10-05-2 Included in Section [705-10-25](#) are links to certain other Subtopics containing guidance applicable to the recognition of cost of sales and services.

705-10-20 - Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

705-10-25 - Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

705-10-25-1 This Section consists solely of links to other Subtopics because the asset liability model used in the Codification requires that applicable guidance be included in other Topics. In addition, the following may not represent a complete list of other Topics containing cost of sales and services guidance.

Inventory

705-10-25-2 See paragraphs [330-10-35-1A through 35-11](#) for adjustments affecting cost of sales and services resulting from the subsequent measurement of inventory.

705-10-25-3 See paragraphs [330-10-30-1 through 30-13](#) for adjustments affecting cost of sales and services resulting from establishing the cost basis and the use of inventory pricing methods.

705-10-25-4 See Topic [606](#) on revenue from contracts with customers, specifically paragraph [606-10-32-10](#) and paragraphs [606-10-55-22 through 55-29](#) for the accounting for a sale with a right of return.

Other Assets and Deferred Costs-Contracts with Customers

705-10-25-4A See Subtopic [340-40](#) for guidance on the following costs related to a contract with a customer within the scope of Topic [606](#) on revenue from contracts with customers:

- a. Incremental costs of obtaining a contract with a customer

- b. Costs incurred in fulfilling a contract with a customer that are not within the scope of another Topic.

Property, Plant, and Equipment

Impairment or Disposal of Long-Lived Assets

- 705-10-25-5 See paragraphs [360-10-35-38 through 35-40](#) for a discussion of the costs to sell long-lived assets classified as held for sale for purposes of measuring the expected disposal loss.
- 705-10-25-6 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)

Interim Financial Reporting

- 705-10-25-7 See paragraphs [270-10-45-4 through 45-6](#) for a discussion of recognition principles used for cost of sales and services used in reporting on an interim basis.

Extended Warranty and Product Maintenance Contracts

- 705-10-25-8 See paragraph [605-20-25-6](#) for guidance on recognizing a loss on separately priced extended warranty and product maintenance contracts.

Consideration Received from a Vendor

- 705-10-25-9 See Subtopic [705-20](#) for a discussion of consideration received from a vendor by a customer.
- 705-10-25-10 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)
- 705-10-25-11 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)
- 705-10-25-12 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)

Costs Resulting from Share-Based Payment Transactions

- 705-10-25-13 See Section [718-10-25](#) for a discussion of recognition principles for costs incurred under share-based payment transactions.

Costs of Computer Software Sold

- 705-10-25-14 For guidance on costs incurred for duplicating the computer software, documentation, and training materials from product masters and for physically packaging the product for distribution, see Subtopic [985-330](#).
- 705-10-25-15 See Subtopic [350-40](#) for a discussion of the cost of internal-use computer software sold.

705-10-45 - Other Presentation Matters

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

- 705-10-45-1 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)
- 705-10-45-2 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)
- 705-10-45-3 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)
- 705-10-45-4 [Paragraph superseded by Accounting Standards Update No. 2014-09.](#)

705-20 - Accounting for Consideration Received from a Vendor

705-20-00 - Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

705-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Cash	Amended	Accounting Standards Update No. 2018-07	06/20/2018
Consideration			
Cash	Added	Accounting Standards Update No. 2014-09	05/28/2014
Consideration			
Contract	Added	Accounting Standards Update No. 2014-09	05/28/2014
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Probable (2nd def.)	Added	Accounting Standards Update No. 2014-09	05/28/2014
Reseller	Added	Accounting Standards Update No. 2014-09	05/28/2014
Revenue	Added	Accounting Standards Update No. 2014-09	05/28/2014
Standalone Selling Price	Added	Accounting Standards Update No. 2014-09	05/28/2014
Vendor	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-20-05-1	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-20-25-1 through 25-12	Added	Accounting Standards Update No. 2014-09	05/28/2014
705-20-25-7	Amended	Maintenance Update 2020-18	11/25/2020

705-20-05 - Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

705-20-05-1 This Subtopic provides guidance on accounting for consideration received by an entity from a vendor.

705-20-20 - Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Cash Consideration

Cash payments and credits that the customer can apply against trade amounts owed to the vendor. In addition, as indicated in Section [718-10-25](#), consideration in the form of share-based payment awards is recognized in the same period or periods and in the same manner (that is, capitalize versus expense) as if the entity had paid cash for the goods or services instead of paying with or using the share-based payment awards. Accordingly, guidance with respect to cash consideration is applicable to consideration that consists of equity instruments.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Probable

The future event or events are likely to occur.

Reseller

Any entity that purchases another vendor's products for resale, regardless of whether that entity is a distributor or wholesaler, a retailer, or other type of reseller.

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Standalone Selling Price

The price at which an entity would sell a promised good or service separately to a customer.

Vendor

A service provider or product seller, such as a manufacturer, distributor, or reseller.

705-20-25 - Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General**Accounting for Consideration Received from a Vendor (Supplier)**

705-20-25-1 Consideration from a vendor includes cash amounts that an entity receives or expects to receive from a vendor (or from other parties that sell the goods or services to the vendor). Consideration from a vendor also includes credit or other items (for example, a coupon or voucher) that the entity can apply against amounts owed to the vendor (or to other parties that sell the goods or services to the vendor). The entity shall account for consideration from a vendor as a reduction of the purchase price of the goods or services acquired from the vendor unless the consideration from the vendor is one of the following:

- a. In exchange for a distinct good or service (as described in paragraphs [606-10-25-19 through 25-22](#)) that the entity transfers to the vendor
- b. A reimbursement of costs incurred by the entity to sell the vendor's products
- c. Consideration for sales incentives offered to customers by manufacturers.

Consideration in Exchange for a Distinct Good or Service

- 705-20-25-2 If the consideration from a vendor is in exchange for a distinct good or service (see paragraphs [606-10-25-19 through 25-22](#)) that an entity transfers to the vendor, then the entity shall account for the sale of the good or service in the same way that it accounts for other sales to customers in accordance with Topic [606](#) on revenue from contracts with customers. If the amount of consideration from the vendor exceeds the standalone selling price of the distinct good or service that the entity transfers to the vendor, then the entity shall account for such excess as a reduction of the purchase price of any goods or services acquired from the vendor. If the standalone selling price is not directly observable, the entity shall estimate it in accordance with paragraphs [606-10-32-33 through 32-35](#).

Consideration Is a Reimbursement of Costs Incurred to Sell the Vendor's Products

- 705-20-25-3 Cash consideration represents a reimbursement of costs incurred by the entity to sell the vendor's products and shall be characterized as a reduction of that cost when recognized in the entity's income statement if the cash consideration represents a reimbursement of a specific, incremental, identifiable cost incurred by the entity in selling the vendor's products or services. If the amount of cash consideration paid by the vendor exceeds the cost being reimbursed, that excess amount shall be characterized in the entity's income statement as a reduction of cost of sales when recognized in the entity's income statement.

Consideration for Sales Incentives Offered to Customers by Manufacturers

- 705-20-25-4 Manufacturers often sell their products to resellers who then sell those products to consumers or other end users. In some cases, manufacturers will offer sales discounts and incentives directly to consumers—for example, rebates or coupons—in order to stimulate consumer demand for their products. Because the reseller has direct contact with the consumer, the reseller may agree to accept, at the point of sale to the consumer, the manufacturer's incentives that are tendered by the consumer (for example, honoring manufacturer's coupons as a reduction to the price paid by consumers and then seeking reimbursement from the manufacturer). In other instances, the consumer purchases the product from the reseller but deals directly with the manufacturer related to the manufacturer's incentive or discount (for example, a mail-in rebate).
- 705-20-25-5 Although the reseller often benefits from the vendor's direct-to-consumer incentives as a result of increased sales volume, the reseller generally has no control over which consumers or consumer groups participate in the incentive programs. Because the manufacturer reimburses the reseller for the value of the discount provided to the consumer, the reseller's gross margin on the product is the same regardless of whether or not the consumer purchases the product with the manufacturer's incentive.
- 705-20-25-6 The issue is whether consideration received by a reseller from a vendor that is a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers shall be recorded as a reduction of the cost of the reseller's purchases from the vendor and, therefore, characterized as a reduction of cost of sales under the guidance in paragraph [705-20-25-1](#).
- 705-20-25-7 For purposes of this guidance, the phrase vendor's sales incentive offered directly to consumers is limited to a vendor's incentive that meets all the following criteria:
- a. The incentive can be tendered by a consumer at resellers that accept manufacturer's incentives in partial payment of the price charged by the reseller for the vendor's product.
 - b. The reseller receives a direct reimbursement from the vendor (or a clearinghouse authorized by the vendor) based on the face amount of the incentive.
 - c. Terms of reimbursement to the reseller for the vendor's sales incentive offered to the consumer must not be influenced by or negotiated in conjunction with any other incentive arrangements between the vendor and the reseller but, rather, may be determined only by the terms of the incentive offered to consumers.

- d. The reseller is subject to an agency relationship with the vendor, whether expressed or implied, in the sales incentive transaction between the vendor and the consumer.

705-20-25-8 An entity with sales incentive arrangements that meet all of the criteria described in paragraph [705-20-25-7](#) shall not account for consideration received from a vendor as a reduction of the purchase price of the goods or services acquired from the vendor and shall consider the guidance in Topic [606](#) on revenue from contracts with customers. Sales incentives that do not meet all of the criteria in paragraph [705-20-25-7](#) shall be accounted for as a reduction of the purchase price of the goods or services acquired from the vendor.

705-20-25-9 See paragraphs [705-20-25-10 through 25-11](#) for guidance on the presentation of a rebate pursuant to a binding agreement.

Accounting for Certain Consideration Received from a Vendor

705-20-25-10 A rebate or refund of a specified amount of cash consideration that is payable pursuant to a binding arrangement only if the entity completes a specified cumulative level of purchases or remains a customer for a specified time period shall be recognized as a reduction of the cost of sales based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in progress by the entity toward earning the rebate or refund provided the amounts are probable and can be reasonably estimated. If the rebate or refund is not probable and cannot be reasonably estimated, it shall be recognized as the milestones are achieved.

705-20-25-11 The ability to make a reasonable estimate of the amount of future cash rebates or refunds depends on many factors and circumstances that will vary from case to case. However, any of the following factors may impair an entity's ability to determine whether the rebate or refund is probable and can be reasonably estimated:

- a. The rebate or refund relates to purchases that will occur over a relatively long period.
- b. There is an absence of historical experience with similar products or the inability to apply such experience because of changing circumstances.
- c. Significant adjustments to expected cash rebates or refunds have been necessary in the past.
- d. The product is susceptible to significant external factors (for example, technological obsolescence or changes in demand).

705-20-25-12 Changes in the estimated amount of cash rebates or refunds and retroactive changes by a vendor to a previous offer (an increase or a decrease in the rebate amount that is applied retroactively) are changes in estimate that shall be recognized using a cumulative catch-up adjustment. That is, the entity would adjust the cumulative balance of its rebate recognized to the revised cumulative estimate immediately. Entities shall consider whether any portion of the cumulative effect adjustment affects other accounts (inventory, for example), in which case only a portion of that adjustment would be reflected in the income statement.