340 - Other Assets and Deferred Costs

340-**10 - Overall**

340-10-**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

340-10-00-**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
340-10-05-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
340-10-60-1	Amended	Accounting Standards Update No. 2016-02	02/25/2016
340-10-60-5	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-10-60-6	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-10-60-8	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-10-60-9	Superseded	Accounting Standards Update No. 2014-10	06/10/2014
340-10-60-15	Amended	Accounting Standards Update No. 2013-08	06/07/2013

340-10-**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

340-10-05-**1** The Other Assets and Deferred Costs Topic includes the following Subtopics:

a. Overall

b. Subparagraph superseded by Accounting Standards Update No. 2014-09.

c. Insurance Contracts That Do Not Transfer Insurance Risk.

d. Contracts with Customers

340-10-05-**2** The Overall Subtopic addresses the accounting and reporting for certain deferred costs and prepaid expenses. The guidance in this Subtopic is limited to a discussion of the nature of prepaid expenses and preproduction costs related to long-term supply arrangements. The specific guidance for many other costs that have been deferred is included in various other financial, broad, and industry Topics. References to certain, but not all, of the guidance in other Topics are included in this Subtopic.

Deferred Costs Addressed in this Subtopic

340-10-05-**3** The following provides background regarding certain items included in this Subtopic.

Nature of Prepaid Expenses

340-10-05-**4** Prepaid expenses are a category of assets that are typically used up or expire within the normal operating cycle of an entity. The term derives from the fact that they are paid in advance of their use or consumption.

340-10-05-**5** Prepaid expenses include items such as the following:

a. Insurance
b. Interest
c. Rents
d. Taxes
e. Unused royalties
f. Current paid advertising service not yet received
g. Operating supplies.

Preproduction Costs Related to Long-Term Supply Arrangements

340-10-05-**6** Manufacturers often incur preproduction costs related to products they will supply to their customers under long-term supply arrangements. For example, the manufacturer may incur costs to perform certain services related to the design and development of the products it will sell under long-term supply arrangements and may incur costs to design and develop molds, dies, and other tools that will be used in producing those products. While practice varies from industry to industry, the supplier may be contractually guaranteed reimbursement of design and development costs, implicitly guaranteed reimbursement of design and development costs through the pricing of the product or other means, or not guaranteed reimbursement of the design and development costs incurred under the long-term supply arrangement.

340-10-**15** - Scope and Scope Exceptions

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

> **General Note for Financial Instruments:** Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

Overall Guidance

340-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Other Assets and Deferred Costs Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Deferred Costs and Other Assets Topic.

Entities

340-10-15-**2** The guidance in the Other Assets and Deferred Costs Topic applies to all entities.

340-10-**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.

340-10-**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 Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

Preproduction Costs Related to Long-Term Supply Arrangements

340-10-25-**1** Design and development costs for products to be sold under long-term supply arrangements shall be expensed as incurred. Design and development costs for molds, dies, and other tools that a supplier will own and that will be used in producing the products under a long-term supply arrangement shall be capitalized as part of the molds, dies, and other tools (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10) unless the design and development is for molds, dies, and other tools involving new technology, in which case, the costs shall be expensed as incurred in accordance with Subtopic 730-10.

340-10-25-**2** Design and development costs for molds, dies, and other tools that a supplier will not own and that will be used in producing the products under the long-term supply arrangement shall be capitalized (subject to an impairment assessment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10) if the supply arrangement provides the supplier the noncancelable right (as long as the supplier is performing under the terms of the supply arrangement) to use the molds, dies, and other tools during the supply arrangement. Otherwise, those design and development costs shall be expensed as incurred, including costs incurred prior to the supplier's receiving the noncancelable right to use the molds, dies, and other tools during the supply arrangement.

340-10-25-**3** If a contractual guarantee for reimbursement exists for design and development costs that otherwise would be expensed based on the guidance in this Section, those costs shall be recognized as an asset as incurred. For purposes of this Subtopic, contractual guarantee means a legally enforceable agreement in which the amount of reimbursement can be objectively measured and verified.

340-10-25-**4** See Examples 1 through 4 (paragraphs 340-10-55-2 through 55-5) for preproduction costs related to long-term supply arrangements.

Planned Major Maintenance Activities

340-10-25-**5** Paragraph 360-10-25-5 states that the use of the accrue-in-advance (accrual) method of accounting for planned major maintenance activities is prohibited in annual and interim financial reporting periods.

340-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

340-10-35-**1** See paragraphs 360-10-15-4 through 15-5 for a discussion of the applicability of the guidance on long-lived assets to be held and used or disposed of to long-term prepaid assets.

340-10-**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

Classification of Prepaid Expenses

340-10-45-**1** See paragraph 210-10-45-2 for a discussion of how the nature of prepaid expenses results in their classification as current assets.

Planned Major Maintenance Activities

340-10-45-**2** See paragraphs 360-10-45-1 and 908-360-45-2 for a discussion of the consistent application of the method of accounting for planned major maintenance activities.

340-10-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

340-10-55-**1** Paragraph not used.

Illustrations

Example 1: Entity Agrees to Reimburse Supplier up to a Maximum Amount

340-10-55-**2** This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to reimburse the supplier for preproduction design and development costs incurred under the arrangement, up to a maximum reimbursement of $1,000,000. Under this arrangement, the amount of reimbursement for design and development costs can be objectively measured and verified. The supplier shall recognize the design and development costs as an asset as costs are incurred, up to a maximum of $1,000,000.

Example 2: Entity Agrees to Pay Supplier Specified Amount per Part

340-10-55-**3** This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3.

It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the supplier $55 per part for the first 200,000 parts produced and $50 for every part thereafter. No agreement exists concerning reimbursement of the supplier's design and development costs if fewer than 200,000 parts are produced under the arrangement. Under this arrangement, the amount of reimbursement for design and development costs cannot be objectively measured and verified. The supplier shall expense the preproduction design and development costs as incurred.

Example 3: Entity Agrees to Pay Supplier Specified Amount per Part Plus Reimbursement if Minimum Amount Not Produced

340-10-55-**4** This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the supplier $55 per part for the first 200,000 parts produced and $50 for every part thereafter. The arrangement provides that if fewer than 200,000 parts are produced, the supplier will be reimbursed for design and development costs incurred under the arrangement, up to a maximum reimbursement of $1,000,000 reduced by $5 per part for each part produced under the supply arrangement. For example, if 190,000 parts are produced under the supply arrangement, in addition to the $55 per part received for the parts produced, the supplier would be reimbursed for design and development costs incurred under the arrangement, up to a maximum of $50,000 [$1,000,000 - ($5 X 190,000)]. Under this agreement, the amount of reimbursement for design and development costs can be objectively measured and verified. The supplier shall recognize the design and development costs as an asset as costs are incurred, up to a maximum of $1,000,000.

Example 4: Entity Agrees to Pay Supplier Specified Amount per Part Plus Specified Amount per Part Not Produced if Minimum Not Produced

340-10-55-**5** This Example illustrates the recognition guidance in paragraphs 340-10-25-1 through 25-3. It is assumed that the design and development costs would be expensed under that guidance absent a reimbursement arrangement. It is also assumed that the supply arrangement is legally enforceable. An entity enters into a long-term arrangement with a supplier in which the entity agrees to pay the supplier $52.50 per part. The arrangement requires that a minimum of 400,000 parts be produced. If fewer than 400,000 parts are produced under the arrangement, the supplier will receive a payment of $52.50 per part not produced under the arrangement, up to a maximum of 400,000 parts. Under this arrangement, the amount of reimbursement for design and development costs cannot be objectively measured and verified. The supplier shall expense the design and development costs as incurred.

340-10-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Receivables

340-10-60-**1** For accounting for nonrefundable fees and costs associated with lending, committing to lend, or purchasing a group of loans, see Subtopic 310-20.

Intangibles-Goodwill and Other

340-10-60-**2** For capitalization of internal and external costs incurred to develop internal-use computer software, see Sections 350-40-25 and 350-40-30.

Asset Retirement and Environmental Obligations

340-10-60-**3** For capitalization of costs incurred to treat asbestos, see Section 410-30-45 and paragraphs 410-30-25-17 through 25-18.

340-10-60-**4** For accounting criteria for environmental contamination treatment costs, see paragraphs 410-30-25-16 through 25-19.

340-10-60-**5** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-10-60-**6** Paragraph superseded by Accounting Standards Update No. 2014-09.

Other Expenses

340-10-60-**7** For accounting for the cost of business process reengineering activities, see Subtopic 720-45.

340-10-60-**8** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-10-60-**9** Paragraph superseded by Accounting Standards Update No. 2014-10.

Entertainment-Cable Television

340-10-60-**10** For capitalization and subsequent measurement of initial subscriber installation costs, see Section 922-360-35.

Entertainment-Music

340-10-60-**11** For reporting of an advance royalty to an artist as an asset, see paragraph 928-340-25-1.

Financial Services-Brokers and Dealers

340-10-60-**12** For consideration of a membership as an asset by broker dealers, see Section 940-340-25.

340-10-60-**13** For accounting guidance for underwriting expenses by broker dealers, see Sections 940-20-25 and 940-20-35.

340-10-60-**14** For accounting guidance for distribution fees by broker dealers, see Subtopic 940-340.

Financial Services-Investment Companies

340-10-60-**15** For accounting for offering costs by investment companies, see Subtopic 946-20.

Financial Services-Title Plant

340-10-60-**16** For capitalization guidance for costs incurred to construct a title plant, see paragraph 950-350-30-1.

Software

340-10-60-**17** For accounting for the costs of computer software to be sold, leased, or otherwise marketed, see Subtopic 985-20.

340-10-**S00 - 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

340-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
340-10-S99-2	Amended	Accounting Standards Update No. 2012-03	08/27/2012
340-10-S99-2	Amended	Accounting Standards Update No. 2010-22	08/19/2010

340-10-**S25 - 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

Expenses Incurred Before the Effective Date of an Offering of Equity Securities

340-10-S25-**1** See paragraph 340-10-S99-1, SAB Topic 5.A, for SEC Staff views on deferral of costs related to an equity offering incurred before the effective date of the offering.

340-10-**S30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Debt Issue Costs in Conjunction with a Business Combination

340-10-S30-**1** See paragraph 340-10-S99-2, SAB Topic 2.A.6, Question 1, for SEC Staff views on accounting for debt issues costs paid to an investment banker in connection with a business combination.

340-10-**S35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Debt Issue Costs in Conjunction with a Business Combination

340-10-S35-**1** See paragraph 340-10-S99-2, SAB Topic 2.A.6, Question 1, for SEC Staff views on the amortization of debt issue costs for interim "bridge financing."

340-10-**S45 - 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

Balance Sheet Presentation of Deferred Charges

340-10-S45-**1** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.17, for required balance sheet presentation for deferred charges and other assets.

340-10-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Pre-Production Costs Related to Long-Term Supply Agreements

340-10-S50-**1** See paragraph 340-10-S99-3, SEC Observer Comment: Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements, for SEC Staff views on disclosure of accounting policy and other matters pertaining to pre-production design and development costs.

340-10-S50-**2** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.17, for the requirement to disclose policy for deferral and amortization of deferred costs.

340-10-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.A, Expenses of Offering

340-10-S99-**1** The following is the text of SAB Topic 5.A, Expenses of Offering.

Facts: Prior to the effective date of an offering of equity securities, Company Y incurs certain expenses related to the offering.

Question: Should such costs be deferred?

Interpretive Response: Specific incremental costs directly attributable to a proposed or actual offering of securities may properly be deferred and charged against the gross proceeds of the offering. However, management salaries or other general and administrative expenses may not be allocated as costs of the offering and deferred costs of an aborted offering may not be deferred and charged against proceeds of a subsequent offering. A short postponement (up to 90 days) does not represent an aborted offering.

SAB Topic 2.A.6, Debt Issue Costs in Conjunction with a Business Combination

340-10-S99-**2** The following is the text of SAB Topic 2.A.6, Debt Issue Costs in Conjunction with a Business Combination.

Facts: Company A is to acquire the net assets of Company B in a transaction to be accounted for as a business combination. In connection with the transaction, Company A has retained an investment banker to provide advisory services in structuring the acquisition and to provide the necessary financing. It is expected that the acquisition will be financed on an interim basis using "bridge financing" provided by the investment banker. Permanent financing will be arranged at a later date through a debt offering, which will be underwritten by the investment banker. Fees will be paid to the investment banker for the advisory services, the bridge financing and the underwriting of the permanent financing. These services may be billed separately or as a single amount.

Question 1: Should total fees paid to the investment banker for acquisition-related services and the issuance of debt securities be allocated between the services received?

Interpretive Response: Yes. Fees paid to an investment banker in connection with a business combination or asset acquisition, when the investment banker is also providing interim financing or underwriting services, must be allocated between acquisition related services and debt issue costs.

When an investment banker provides services in connection with a business combination or asset acquisition and also provides underwriting services associated with the issuance of debt or equity securities, the total fees incurred by an entity should be allocated between the services received on a relative fair value basis. The objective of the allocation is to ascribe the total fees incurred to the actual services provided by the investment banker.

FASB ASC Topic 805, Business Combinations, provides guidance for the portion of the costs that represent acquisition-related services. The portion of the costs pertaining to the issuance of debt or equity securities should be accounted for in accordance with other applicable GAAP.

Question 2: May the debt issue costs of the interim "bridge financing" be amortized over the anticipated combined life of the bridge and permanent financings?

Interpretive Response: No. Debt issue costs should be amortized by the interest method over the life of the debt to which they relate. Debt issue costs related to the bridge financing should be recognized as interest cost during the estimated interim period preceding the placement of the permanent financing with any unamortized amounts charged to expense if the bridge loan is repaid prior to the expiration of the estimated period. Where the bridged financing consists of increasing rate debt, the guidance issued in FASB ASC Topic 470, Debt, should be followed. FN1

FN1 As noted in FASB ASC paragraph 470-10-35-2, the term-extending provisions of the debt instrument should be analyzed to determine whether they constitute an embedded derivative requiring separate accounting in accordance with FASB ASC Topic 815, Derivatives and Hedging.

Comments Made by SEC Observer at Emerging Issues Task Force (EITF) Meetings

Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements

340-10-S99-**3** The following is the text of SEC Observer Comment: Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements.

Registrants will be expected to disclose their accounting policy for pre-production design and development costs (paragraph 340-10-25-1) as well as the aggregate amount of:

a. Assets recognized pursuant to agreements that provide for contractual reimbursement of pre-production design and development costs

b. Assets recognized for molds, dies, and other tools that the supplier owns

c. Assets recognized for molds, dies, and other tools that the supplier does not own.

340-**20 - Capitalized Advertising Costs**

340-20-**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

340-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**
340-20-05-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-05-2	Superseded	Accounting Standards	05/28/2014

		Update No. 2014-09	
340-20-15-1 through 15-4	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-25-1 through 25-18	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-30-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-30-2	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-35-1 through 35-7	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-45-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-50-1	Amended	Maintenance Update 2016-11	06/27/2016
340-20-50-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-55-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
340-20-60-1	Superseded	Accounting Standards Update No. 2014-09	05/28/2014

340-20-**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

340-20-05-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-05-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-05-**3** [Not used]

340-20-05-**4** [Not used]

340-20-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

340-20-15-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-15-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-15-**3** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-15-**4** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**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

340-20-25-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**3** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**4** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**5** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**6** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**7** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**8** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**9** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**10** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**11** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**12** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**13** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**14** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**15** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**16** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**17** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-25-**18** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

340-20-30-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-30-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

340-20-35-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**3** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**4** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**5** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**6** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-35-**7** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**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

340-20-45-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

340-20-50-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

340-20-55-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-20-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

340-20-60-**1** Paragraph superseded by Accounting Standards Update No. 2014-09.

340-**30 - Insurance Contracts That Do Not Transfer Insurance Risk**

340-30-**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

340-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Reinsurance	Added	Accounting Standards Update No. 2016-19	12/14/2016
340-30-15-	Amended	Accounting Standards Update	12/14/2016

2		No. 2016-19	
340-30-25-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
340-30-35-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
340-30-45-3	Amended	Accounting Standards Update No. 2016-19	12/14/2016
340-30-50-2	Amended	Accounting Standards Update No. 2024-03	11/04/2024
340-30-50-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
340-30-55-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016

340-30-**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

340-30-05-**1** This Subtopic provides guidance on how to apply the deposit method of accounting when it is required for insurance and reinsurance contracts that do not transfer insurance risk. These contracts may be prospective or retroactive in nature.

340-30-05-**2** The transfer of insurance risk requires transferring both timing risk and underwriting risk. Therefore, four possible categories for deposit arrangements have been identified as follows:

a. An insurance or reinsurance contract that transfers only significant timing risk.
b. An insurance or reinsurance contract that transfers only significant underwriting risk.
c. An insurance or reinsurance contract that transfers neither significant timing nor significant underwriting risk.
d. An insurance or reinsurance contract with an indeterminate risk.

An Insurance or Reinsurance Contract that Transfers Only Significant Timing Risk

340-30-05-**3** For an insurance or reinsurance contract to be considered to have transferred significant timing risk, the timing of the loss reimbursement under the contract must be based on the timing of the loss event.

340-30-05-**4** The timing of the loss reimbursement under an insurance contract would be based on the timing of the payment with respect to the loss event. For reinsurance contracts, the timing of the loss reimbursement under the contract would be based on the timing of payment by the insured (reinsured) of the underlying loss, as well as when recovery is expected from the reinsurer.

340-30-05-**5** An insurance or reinsurance contract that transfers only significant timing risk limits the amount of underwriting risk to which the insurer or reinsurer is subject and is commonly entered into by the insured or ceding entity to provide liquidity. These limitations may result in an insufficient transfer of insurance risk. For example, insurance and reinsurance contracts that provide for experience adjustments may indicate that a sufficient amount of underwriting risk has not been transferred. The recovery of the amount of the initial deposit for a contract that transfers only significant timing risk is not substantially dependent on future loss experience of the insured.

An Insurance or Reinsurance Contract that Transfers Only Significant Underwriting Risk

340-30-05-**6** For an insurance or reinsurance contract to be considered to have transferred significant underwriting risk, the probability of a significant variation in the amount of payments under the insurance or reinsurance contract must be more than remote. Such variation must also result from variation in the insured's losses, and it must be at least reasonably possible that the insurer will realize a significant loss from the transaction. An insurance or reinsurance contract that transfers only significant underwriting risk may be entered into to lessen the overall economic risks associated with the contract and permit a greater amount of coverage than would otherwise be obtainable for a comparable premium. Features in insurance or reinsurance contracts that transfer only significant underwriting risk limit the uncertainties about the timing of the receipt and payment of cash flow, thus limiting the amount of timing risk assumed by the insurer. A delayed reimbursement of losses by the insurer is a possible indication that timing risk has not been transferred. Unlike insurance and reinsurance contracts that transfer only significant timing risk, the recovery of the amount of the initial deposit for an insurance or reinsurance contract that transfers only significant underwriting risk is substantially dependent on the future loss experience of the insured. Depending on such experience, the initial deposit may be recovered or the recovery may be significantly more or less than the original deposit.

An Insurance or Reinsurance Contract that Transfers Neither Significant Timing nor Significant Underwriting Risk

340-30-05-**7** Insurance and reinsurance contracts that transfer neither significant timing nor significant underwriting risk are expected to be rare.

An Insurance or Reinsurance Contract with an Indeterminate Risk

340-30-05-**8** These insurance and reinsurance contracts have uncertain terms, or there is insufficient information to reasonably estimate and allocate premiums in proportion to the protection provided. For example, certain insurance and reinsurance contracts allow the insured to obtain some degree of coverage for multiple years without exposing the insurer to a defined level of insurance risk each year. Uncertainties surrounding these insurance and reinsurance contracts are analogous to those often associated with foreign property and liability reinsurance as addressed in the Reinsurance Contracts Subsections of Subtopic 944-605.

340-30-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

340-30-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic, see Section 340-10-15, with specific qualifications and exceptions noted below.

Entities

340-30-15-**2** The guidance in this Subtopic applies to the following entities:

a. The insured and the insurer in an insurance contract

b. The ceding and assuming entity in a reinsurance contract.

Transactions

340-30-15-**3** The guidance in this Subtopic applies to the following kinds of insurance and reinsurance contracts:

a. Short-duration insurance and reinsurance contracts that do not transfer insurance risk as described in paragraph 720-20-25-1 and, for reinsurance contracts, as described in

Section 944-20-15

b. Multiple-year insurance and reinsurance contracts that do not transfer insurance risk or for which insurance risk transfer is not determinable.

340-30-15-**4** The guidance in this Subtopic does not apply to the following transactions and activities:

a. Long-duration life and health insurance contracts that do not indemnify against mortality or morbidity risk shall be accounted for as investment contracts under Topic 944. Therefore, such contracts are not covered by this Subtopic.

340-30-**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).

Assuming Entity

The party that receives a reinsurance premium in a reinsurance transaction. The assuming entity (or reinsurer) accepts an obligation to reimburse a ceding entity under the terms of the reinsurance contract.

Ceding Entity

The party that pays a reinsurance premium in a reinsurance transaction. The ceding entity receives the right to reimbursement from the assuming entity under the terms of the reinsurance contract.

Experience Adjustment

A provision in an insurance or reinsurance contract that modifies the premium, coverage, commission, or a combination of the three, in whole or in part, based on experience under the contract.

Insurance Risk

The risk arising from uncertainties about both timing risk. Actual or imputed investment returns are not an element of insurance risk. Insurance risk is fortuitous; the possibility of adverse events occurring is outside the control of the insured.

Reinsurance

A transaction in which a reinsurer (assuming entity), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding entity). For indemnity reinsurance, the legal rights of the insured are not affected by the reinsurance transaction and the insurance entity issuing the insurance contract remains liable to the insured for payment of policy benefits. Assumption or novation reinsurance contracts that are legal replacements of one insurer by another extinguish the ceding entity's liability to the policyholder.

Timing Risk

The risk arising from uncertainties about the timing of the receipt and payments of the net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract.

Underwriting Risk

The risk arising from uncertainties about the ultimate amount of net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract.

340-30-**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

Deposit Asset or Liability Relating to Insurance and Reinsurance Contracts Accounted for Under Deposit Accounting

340-30-25-**1** At inception, a deposit asset or liability shall be recognized for insurance and reinsurance contracts accounted for under deposit accounting.

340-30-25-**2** See Sections 340-30-30 and 340-30-35 for guidance relating to the measurement of insurance and reinsurance contracts that transfer:

a. Only significant timing risk

b. Neither significant timing nor significant underwriting risk

c. Only significant underwriting risk.

Insurance and Reinsurance Contracts with Indeterminate Risk

340-30-25-**3** Uncertainties surrounding insurance and reinsurance contracts with indeterminate risk are analogous to those often associated with foreign property and liability reinsurance as addressed in the Reinsurance Contracts Subsections of Subtopic 944-605. As a result, that guidance regarding the open-year method shall be followed.

340-30-25-**4** Under the open-year method, the effects of the contracts are not included in the determination of net income until sufficient information becomes available to reasonably estimate and allocate premiums. The open-year method requires that these effects be aggregated in the balance sheet.

340-30-25-**5** The open-year method shall not, however, be used to defer losses that otherwise would be recognized pursuant to Subtopic 450-20.

340-30-25-**6** If sufficient information becomes available to reasonably estimate and allocate premiums, the insurance or reinsurance contract with indeterminate risk shall be reclassified into one of the three following categories, as appropriate, and accounted for accordingly:

a. Transfers that have neither significant timing nor significant underwriting risk

b. Transfers that have only significant timing risk

c. Transfers that have only significant underwriting risk.

340-30-25-**7** The change in deposit assets or liabilities that result if sufficient information becomes available is treated as a change in accounting estimate in accordance with Topic 250.

Short-Duration Reinsurance Contracts

340-30-25-**8** If a short-duration reinsurance contract does not meet either the condition in paragraph 944-20-15-41 or the exception in paragraph 944-20-15-53 but transfers significant insurance risk, then the accounting for contracts that transfer only significant underwriting risk shall be followed as discussed in paragraphs 340-30-35-5 through 35-7 and 340-30-45-3 through 45-5.

340-30-**30 - Initial Measurement**

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Deposit Asset or Liability Related to Insurance and Reinsurance Contracts Accounted for Under Deposit

Accounting

340-30-30-**1** At inception, a deposit asset or liability shall be measured based on the consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer, irrespective of the experience of the contract. Accounting for such fees shall be based on the terms of the contract.

340-30-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Insurance and Reinsurance Contracts that Transfer Only Significant Timing Risk and Insurance and Reinsurance Contracts that Transfer Neither Significant Timing nor Significant Underwriting Risk

340-30-35-**1** For insurance and reinsurance contracts that transfer only significant timing risk or that transfer neither significant timing nor significant underwriting risk, the amount of the deposit asset or liability shall be adjusted at subsequent reporting dates by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments (as discussed in paragraph 340-30-35-3), with a corresponding credit or charge to interest income or expense (see Examples 1 through 3 [paragraphs 340-30-55-2 through 55-7])).

340-30-35-**2** This approach is consistent with the interest method described in Subtopics 310-20 and 835-30.

340-30-35-**3** The calculation of the effective yield shall use the estimated amount and timing of cash flows. Consistent with paragraph 310-20-35-26, if a change in the actual or estimated timing or amount of cash flows occurs, the effective yield shall be recalculated to reflect the revised actual or estimated cash flows. The deposit shall be adjusted to the amount that would have existed at the balance-sheet date had the new effective yield been applied since the inception of the insurance or reinsurance contract.

340-30-35-**4** Significant changes in the expected amounts of aggregate cash flows are expected to occur infrequently because of the nature of these kinds of contracts. Should a significant change occur in the total amount of actual or estimated cash flows, the entity shall determine whether the change indicates that the contract does include significant underwriting risk and therefore shall be converted to the accounting for contracts that transfer only significant underwriting risk (see paragraphs 340-30-35-5 and 340-30-45-3 through 45-5). In addition, a contract that transfers only significant timing risk, which subsequently is determined also to transfer significant underwriting risk, cannot be accounted for under insurance or reinsurance accounting when the revised determination is made.

Insurance and Reinsurance Contracts that Transfer Only Significant Underwriting Risk

340-30-35-**5** Until such time as a loss is incurred that will be reimbursed under an insurance or reinsurance contract that transfers only significant underwriting risk, the deposit shall be measured based on the unexpired portion of the coverage provided. Once a loss is incurred that will be reimbursed under such a contract, then the deposit shall be measured by the present value of the expected future cash flows arising from the contract plus the remaining unexpired portion of the coverage provided (see Example 4 [paragraph 340-30-55-8]).

Insurance and Reinsurance Contracts that Transfer Only Significant Underwriting Risk-Discount Rate

340-30-35-**6** For the insured or ceding entity, the discount rate used to determine the deposit asset shall be the current rate on U.S. government obligations with similar cash-flow characteristics, adjusted for default risk. Consideration of the default risk, if any, shall be based on the assessment of the creditworthiness of the insurer. For the insurer or assuming entity, the discount rate used to determine the deposit liability shall be the current rate on U.S. government obligations with similar cash-flow characteristics. These rates shall be established at the date of each loss incurred and used for the remaining life of the contract and shall not be changed.

340-30-35-**7** If numerous losses occur, the use of average rates is permitted because establishing individual rates might require detailed record keeping and computations that could be burdensome and unnecessary to produce reasonable approximations of the results.

340-30-**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

Deposit Asset and Liability

340-30-45-**1** Deposit assets and liabilities shall be reported on a gross basis, unless the right of offset exists as defined in Subtopic 210-20. The accounting by the insured and insurer are symmetrical, except as noted in paragraphs 340-30-35-6 through 35-7.

Insurance and Reinsurance Contracts that Transfer Only Significant Timing Risk and Insurance and Reinsurance Contracts that Transfer Neither Timing nor Significant Underwriting Risk

340-30-45-**2** Changes in the carrying amount of the deposit shall be reported as interest income or interest expense.

Insurance and Reinsurance Contracts that Transfer Only Significant Underwriting Risk

340-30-45-**3** Changes in the recorded amount of the deposit, other than the unexpired portion of the coverage provided, arising from an insurance or reinsurance contract that transfers only significant underwriting risk shall be recorded in an insured's income statement as an offset against the loss recorded by the insured that will be reimbursed under the insurance or reinsurance contract and in an insurer's income statement as an incurred loss.

340-30-45-**4** Insurance entities shall record the reduction in the deposit related to the unexpired portion of the coverage provided as an adjustment to incurred losses.

340-30-45-**5** If the insured is an entity other than an insurance entity, the reduction in the deposit related to the unexpired portion of the coverage provided shall be recorded as an expense.

340-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Deposit Asset or Liability

340-30-50-**1** Entities shall disclose a description of the contracts accounted for as deposits and the separate amounts of total deposit assets and total deposit liabilities reported in the statement of financial position.

Insurance and Reinsurance Contracts that Transfer Only Underwriting Risk

340-30-50-**2** Insurance entities shall disclose the following information regarding the changes in the recorded amount of the deposit arising from an insurance or reinsurance contract that transfers only significant underwriting risk:

a. The present values of initial expected recoveries that will be reimbursed under the insurance or reinsurance contracts that have been recorded as an adjustment to incurred losses

b. Any adjustment of amounts initially recognized for expected recoveries. The individual components of the adjustment (meaning, interest accrual, the present value of additional expected recoveries, and the present value of reductions in expected recoveries) shall be disclosed separately.

c. The amortization expense attributable to the expiration of coverage provided under the contract.

PENDING CONTENT

Transition Date: P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 220-40-65-1

Insurance entities shall disclose the following information regarding the changes in the recorded amount of the deposit arising from an insurance or reinsurance contract that transfers only significant underwriting risk:

a. The present values of initial expected recoveries that will be reimbursed under the insurance or reinsurance contracts that have been recorded as an adjustment to incurred losses

b. Any adjustment of amounts initially recognized for expected recoveries. The individual components of the adjustment (meaning, interest accrual, the present value of additional expected recoveries, and the present value of reductions in expected recoveries) shall be disclosed separately.

c. The amortization expense attributable to the expiration of coverage provided under the contract.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

340-30-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

340-30-55-**1** The following Examples illustrate the application of the guidance in this Subtopic. It shall not be construed that any aspect of the illustrations establishes or changes requirements as to when deposit accounting should be applied. Rather, the Examples illustrate how deposit accounting is to be applied when it is determined that it should be applied under other accounting literature. These Examples illustrate the accounting by the insured. The accounting by the insurer would be symmetrical, except as noted in paragraphs 340-30-35-6 through 35-7.

Example 1: Insurance and Reinsurance Contracts that Transfer Neither Significant Timing nor Significant Underwriting Risk

340-30-55-**2** This Example illustrates the accounting by the insured for an insurance or reinsurance contract that transfers neither significant timing nor significant underwriting risk. The facts are as shown in the following table.

Premium	$1,000
Coverage period	1 year
Expected recoveries	$250 at the end of each year for 5 years
Implicit interest rate	8 percent [a]

(a) Present value of $250 per year for 5 years at 8 percent = $1,000.

340-30-55-**3** At contract inception, the insured records a $1,000 asset. Changes in the amount or timing of cash flows are not anticipated. As they are received, cash recoveries reduce the carrying amount of the deposit, and the carrying amount of the deposit is increased at each reporting date by the amount of the interest earned during the period. The Example assumes that the entity is reporting related financial information as of the end of each year, as shown in the following table.

Description	8 Percent Interest Income	Cash Recoveries	Deposit Balance
Initial payment			$1,000
Year 1	$80		1,080
End of Year 1		$(250)	830
Year 2	66		896
End of Year 2		(250)	646
Year 3	52		698
End of Year 3		(250)	448
Year 4	36		484
End of Year 4		(250)	234
Year 5	16		250
End of Year 5		(250)	-
Totals	$ 250	$ (1,250)	$ -

Example 2: Insurance and Reinsurance Contracts that Transfer Only Significant Timing Risk

340-30-55-**4** This Example illustrates the accounting by the insured for an insurance or reinsurance contract that transfers only significant timing risk. The facts are as shown in the following table.

Premium	$1,000
Coverage period	1 year
Initial expected recoveries	$225 per year (at end of year) for 5 years
Initial implicit rate	4 percent [(a)]

(a) Present value of $225 per year for 5 years at 4 percent = $1,000.

340-30-55-**5** This implicit rate often will be less than the current risk-free rate because of the uncertainties as to the timing of cash flows in the insurance or reinsurance contract.

340-30-55-**6** At contract inception, the insured records a $1,000 asset. Though the total amount ($1,125) is likely to be paid, changes in estimates of the timing of cash flows are expected. At each subsequent reporting date, the amount of the deposit would be increased by the amount of interest earned during the period, calculated using the estimated future cash flows to determine the then-current implicit discount rate (this is consistent with the retrospective approach in applying the interest method). At the end of Year 2, the timing of anticipated recoveries under the insurance or reinsurance contract is revised. A reevaluation of the implicit interest rate produces a rate of 3.63 percent and an asset of $640 at the end of the year. Given the change in the expected timing of cash flows at the end of Year 2, the carrying amount of the asset would be calculated as shown in the following table.

Description	Interest Income	Cash Recoveries	Deposit Balance
Initial payment			$ 1,000
Year 1 (4 percent) [(a)]	$ 40		1,040
End of Year 1		$ (225)	815
Year 2 (4 percent)	33		848
End of Year 2		(200)	648
Yield adjustment	(8)		640
Year 3 (3.63 percent)	23		663
End of Year 3		(175)	488
Year 4 (3.63 percent)	18		506
End of Year 4		(175)	331
Year 5 (3.63 percent)	12		343
End of Year 5		(175)	168
Year 6 (3.63 percent)	7		175
End of Year 6		(175)	-
Totals	$ 125	$ (1,125)	$ -

(a) Implicit rate at the inception of the insurance or reinsurance contract.

Example 3: Conversion from a Contract that Transfers Neither Significant Timing Risk nor Significant Underwriting Risk or a Contract that Transfers Only Significant Timing Risk to a Contract that Transfers Significant Underwriting Risk

340-30-55-**7** This Example builds on Examples 1 and 2 (see paragraphs 340-30-55-2 through 55-6). It uses the same assumptions and facts as Example 2 for the first two years; however, at the end of Year 3, the estimated recovery is increased from $1,125 to $1,950 (with the remaining recovery to be $450 per year for the remaining 3 years). For purposes of this Example, assume the magnitude of the change in the estimated recovery is such that a determination should be reached that the contract does include significant underwriting risk. The risk-free rate of interest at Year 1 is 6 percent adjusted for default risk. In addition, this rate would be utilized when appropriate for the life of the contract. The following table illustrates the accounting for a conversion from a contract that transfers neither significant timing risk nor significant underwriting risk or a contract that transfers only significant timing risk to a contract that transfers significant underwriting risk.

Description	Interest Income	Offset to Recorded Losses	Cash Recoveries at End of Year	Deposit Balance
Initial payment				$ 1,000
Year 1 (4 percent)	$ 40		$ (225)	815
Year 2 (4 percent)	25 (a)		(200)	640
Year 3 (3.63 percent)	23		(175)	488
Adjustment		$ 715 (b)		1,203 (c)
Year 4 (6 percent)		72	(450)	825
Year 5 (6 percent)		50	(450)	425
Year 6 (6 percent)		25	(450)	-
Totals	$ 88	$ 862	$ (1,950)	$ -

(a) The interest income adjustment at 4 percent of $33 less the yield adjustment of $8 equals $25.
(b) At the end of Year 3, there is a change in the estimated recovery to $1950. The payment of the remaining losses will occur over 3 years, in Years 4, 5, and 6.
(c) The present value of $450 per year for 3 years discounted at 6 percent (the risk-free rate at the time of the loss adjusted for default risk).

Example 4: Insurance and Reinsurance Contracts that Transfer Only Significant Underwriting Risk

340-30-55-**8** This Example illustrates the accounting by the insured for an insurance or reinsurance contract that transfers only significant underwriting risk. The facts are as shown in the following table.

Initial premium	$1,000
Coverage period	1 year
Expected recoveries	Could aggregate up to $10,000 with none paid prior to Year 8 regardless of when the insured incurs or pays a loss

340-30-55-**9** A delayed reimbursement clause, which provides that the full amount will be paid to the insured or ceding entity at the end of Year 8, mitigates timing risk. A $5,000 loss is incurred at the end of Year 1 and is expected to be recovered at the end of Year 8. The risk-free rate of interest in Year 1 for the period from the loss to the expected payment date, adjusted for default risk, is 6 percent. (For the insurer, the risk-free rate would be used but it would not be adjusted for default risk.) At the end of Year 3, the estimated loss is increased from $5,000 to $6,000.

340-30-55-**10** At contract inception, the insured records a $1,000 asset. The $1,000 amount is amortized over the coverage period of 1 year. If the $5,000 loss is incurred, the insured increases the amount of the asset by the present value of the $5,000. (Note that the insured has recorded the entire $5,000 loss from the underlying event in the same period.) At each subsequent reporting date, the portion of the carrying amount of the asset attributable to the incurred loss would be recalculated by discounting the estimated future cash flows.

340-30-55-**11** The carrying amount of the asset would be calculated as shown in the following table.

Description	Amortization	Offset to Recorded Losses	Recoveries at End of Year	Deposit Balance
Initial payment				$ 1,000
Amortization	$ 1,000			-
Year 1		$ 3,325 (a)		3,325 (b)
Year 2		200		3,525
Year 3		211		3,736
Adjustment		**747**		4,483 (c)
Year 4		270		4,753
Year 5		284		5,037
Year 6		303		5,340
Year 7		320		5,660
Year 8		340	$ 6,000	-
Totals	$ 1,000	$ 6,000	$ 6,000	$ -

(a) The loss occurred on the last day of the year.
(b) The present value of $5,000 received after 7 years discounted at 6 percent. At the end of Year 1, there is no remaining deposit applicable to the unexpired portion of the coverage because it is a 1-year contract.
(c) The present value of $6,000 received after 5 years discounted at 6 percent.

340-**40 - Contracts with Customers**

340-40-**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

340-40-00-**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

Not-for-Profit Entity	Added	Accounting Standards Update No. 2014-09	05/28/2014
Performance Obligation	Added	Accounting Standards Update No. 2014-09	05/28/2014
Public Business Entity	Amended	Maintenance Update 2017-06	04/07/2017
Public Business Entity	Amended	Maintenance Update 2016-11	06/27/2016
Public Business Entity	Added	Accounting Standards Update No. 2014-09	05/28/2014
Revenue	Added	Accounting Standards Update No. 2014-09	05/28/2014
Transaction Price	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-05-1	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-05-2	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-15-1 through 15-3	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-25-1 through 25-8	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-35-1 through 35-6	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-35-3 through 35-5	Amended	Accounting Standards Update No. 2016-20	12/21/2016
340-40-50-1 through 50-6	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-50-3	Amended	Accounting Standards Update No. 2024-03	11/04/2024
340-40-55-1 through 55-9	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-60-1	Added	Accounting Standards Update No. 2014-09	05/28/2014
340-40-60-2	Added	Accounting Standards Update No. 2014-09	05/28/2014

340-40-**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

340-40-05-**1** This Subtopic provides accounting guidance for 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 in the scope of another Topic.

340-40-05-**2** Paragraphs presented in **bold type** in this Subtopic state the main principles. All paragraphs have equal authority.

340-40-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities,

transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Overall Guidance

340-40-15-**1** This Subtopic follows the same Scope and Scope Exceptions as outlined in the Overall Subtopic (see Section 340-10-15), with specific qualifications and exceptions noted below.

Transactions

Incremental Costs of Obtaining a Contract with a Customer

340-40-15-**2** The guidance in this Subtopic applies to the incremental costs of obtaining a contract with a customer within the scope of Topic 606 on revenue from contracts with customers (excluding any consideration payable to a customer, see paragraphs 606-10-32-25 through 32-27).

Costs Incurred in Fulfilling a Contract with a Customer

340-40-15-**3** The guidance in this Subtopic applies to the costs incurred in fulfilling a contract with a customer within the scope of Topic 606 on revenue from contracts with customers, unless the costs are within the scope of another Topic or Subtopic, including, but not limited to, any of the following:

a. Topic 330 on inventory

b. Paragraphs 340-10-25-1 through 25-4 on preproduction costs related to long-term supply arrangements

c. Subtopic 350-40 on internal-use software

d. Topic 360 on property, plant, and equipment

e. Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed.

340-40-**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.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Performance Obligation

A promise in a customer to transfer to the customer either:

a. A good or service (or a 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.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It 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.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

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.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Transaction Price

The amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

340-40-**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

Contract Costs

Incremental Costs of Obtaining a Contract

340-40-25-**1** **An entity shall recognize as an asset the incremental costs of obtaining a** contract **with a** customer **if the entity expects to recover those costs.**

340-40-25-**2** 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).

340-40-25-**3** Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

340-40-25-**4** 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 to Fulfill a Contract

340-40-25-**5** **An entity shall 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**.

340-40-25-**6** For costs incurred in fulfilling a contract with a customer that are within the scope of another Topic (for example, Topic 330 on inventory; paragraphs 340-10-25-1 through 25-4 on preproduction costs related to long-term supply arrangements; Subtopic 350-40 on internal-use software; Topic 360 on property, plant, and equipment; or Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed), an entity shall account for those costs in accordance with those other Topics or Subtopics.

340-40-25-**7** 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).

340-40-25-**8** An entity shall recognize the following costs as expenses when incurred:

a. General and administrative costs (unless those costs are explicitly chargeable to the customer under the contract, in which case an entity shall evaluate those costs in accordance with paragraph 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).

340-40-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Amortization and Impairment

340-40-35-**1** An asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5 shall be amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The asset may relate to goods or services to be transferred under a specific anticipated contract (as described in paragraph 340-40-25-5(a)).

340-40-35-**2** An entity shall update the amortization to reflect a significant change in the entity's expected timing of transfer to the customer of the goods or services to which the asset relates. Such a change shall be accounted for as a change in accounting estimate in accordance with Subtopic 250-10 on accounting changes and error corrections.

340-40-35-**3** An entity shall recognize an impairment loss in profit or loss to the extent that the carrying amount of an asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5 exceeds:

a. The amount of consideration that the entity expects to receive in the future and that the entity has received but has not recognized as revenue, in exchange for the goods or services to which the asset relates ("the consideration"), less

b. The costs that relate directly to providing those goods or services and that have not been recognized as expenses (see paragraphs 340-40-25-2 and 340-40-25-7).

340-40-35-**4** For the purposes of applying paragraph 340-40-35-3 to determine the consideration, an entity shall use the principles for determining the transaction price (except for the guidance in paragraphs 606-10-32-11 through 32-13 on constraining estimates of variable consideration) and adjust that amount to reflect the effects of the customer's credit risk. When determining the consideration for the purposes of paragraph 340-40-35-3, an entity also shall consider expected contract renewals and extensions (with the same customer).

340-40-35-**5** Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5, the entity shall recognize any impairment loss for assets related to the contract that are recognized in accordance with another Topic other than Topic 340 on other assets and deferred costs, Topic 350 on goodwill and other intangible assets, or Topic 360 on property, plant, and equipment (for example, Topic 330 on inventory and Subtopic 985-20 on costs of software to be sold, leased, or otherwise marketed). After applying the impairment test in paragraph 340-40-35-3, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 340-40-25-1 or 340-40-25-5 in the carrying amount of the asset group or reporting unit to which it belongs for the purpose of applying the guidance in Topics 360 and 350.

340-40-35-**6** An entity shall not recognize a reversal of an impairment loss previously recognized.

340-40-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer

340-40-50-**1** Consistent with the overall disclosure objective in paragraph 606-10-50-1 and the guidance in paragraphs 606-10-50-2 through 50-3, an entity shall provide the following disclosures of assets recognized from the costs to obtain or fulfill a contract with a customer in accordance with paragraphs 340-40-25-1 or 340-40-25-5.

340-40-50-**2** An entity shall describe both of the following:

a. The judgments made in determining the amount of the costs incurred to obtain or fulfill a contract with a customer (in accordance with paragraph 340-40-25-1 or 340-40-25-5)

b. The method it uses to determine the amortization for each reporting period.

340-40-50-**3** An entity shall disclose all of the following:

a. The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract with a customer (in accordance with paragraph 340-40-25-1 or 340-40-25-5), by main category of asset (for example, costs to obtain contracts with customers, precontract costs, and setup costs)

b. The amount of amortization and any impairment losses recognized in the reporting period.

> **PENDING CONTENT**
>
> **Transition Date:** P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 220-40-65-1
>
> An entity shall disclose all of the following:
>
> a. The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract with a customer (in accordance with paragraph 340-40-25-1 or 340-

40-25-5), by main category of asset (for example, costs to obtain contracts with customers, precontract costs, and setup costs)

b. The amount of amortization and any impairment losses recognized in the reporting period.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

340-40-50-**4** An entity, except for a public business entity, 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, or an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission, may elect not to provide the disclosures in paragraphs 340-40-50-2 through 50-3.

Practical Expedients

340-40-50-**5** If an entity elects to use the practical expedient in paragraph 340-40-25-4 on the incremental costs of obtaining a contract, the entity shall disclose that fact.

340-40-50-**6** An entity, except for a public business entity, 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, or an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission, may elect not to provide the disclosure in paragraph 340-40-50-5.

340-40-**55 - Implementation Guidance and Illustrations**

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Contract Costs

340-40-55-**1** Examples 1 and 2 illustrate the guidance in paragraphs 340-40-25-1 through 25-4 on incremental costs of obtaining a contract, paragraphs 340-40-25-5 through 25-8 on costs to fulfill a contract, and paragraphs 340-40-35-1 through 35-6 on amortization and impairment of contract costs.

Example 1-Incremental Costs of Obtaining a Contract

340-40-55-**2** An entity, a provider of consulting services, wins a competitive bid to provide consulting services to a new customer. The entity incurred the following costs to obtain the contract:

External legal fees for due diligence	$ 15,000
Travel costs to deliver proposal	25,000
Commissions to sales employees	10,000
Total costs incurred	$ 50,000

340-40-55-**3** In accordance with paragraph 340-40-25-1, the entity recognizes an asset for the $10,000 incremental costs of obtaining the contract arising from the commissions to sales employees because the entity expects to recover those costs through future fees for the consulting services. The entity also pays discretionary annual bonuses to sales supervisors based on annual sales targets, overall profitability of the entity, and individual performance evaluations. In accordance with paragraph 340-40-25-1, the entity does not recognize an asset for the bonuses paid to sales supervisors because the bonuses are not incremental to obtaining a contract. The amounts are discretionary and are based on other factors, including the profitability of the entity and the individuals' performance. The bonuses are not directly attributable to identifiable contracts.

340-40-55-**4** The entity observes that the external legal fees and travel costs would have been incurred regardless of whether the contract was obtained. Therefore, in accordance with paragraph 340-40-25-3, those costs are recognized as expenses when incurred, unless they are within the scope of another Topic, in which case, the guidance in that Topic applies.

Example 2-Costs That Give Rise to an Asset

340-40-55-**5** An entity enters into a service contract to manage a customer's information technology data center for five years. The contract is renewable for subsequent one-year periods. The average customer term is seven years. The entity pays an employee a $10,000 sales commission upon the customer signing the contract. Before providing the services, the entity designs and builds a technology platform for the entity's internal use that interfaces with the customer's systems. That platform is not transferred to the customer but will be used to deliver services to the customer.

Incremental Costs of Obtaining a Contract

340-40-55-**6** In accordance with paragraph 340-40-25-1, the entity recognizes an asset for the $10,000 incremental costs of obtaining the contract for the sales commission because the entity expects to recover those costs through future fees for the services to be provided. The entity amortizes the asset over seven years in accordance with paragraph 340-40-35-1 because the asset relates to the services transferred to the customer during the contract term of five years and the entity anticipates that the contract will be renewed for two subsequent one-year periods.

Costs to Fulfill a Contract

340-40-55-**7** The initial costs incurred to set up the technology platform are as follows:

Design services	$ 40,000
Hardware	120,000
Software	90,000
Migration and testing of data center	100,000
Total costs	$ 350,000

340-40-55-**8** The initial setup costs relate primarily to activities to fulfill the contract but do not transfer goods or services to the customer. The entity accounts for the initial setup costs as follows:

a. Hardware costs-accounted for in accordance with Topic 360 on property, plant, and equipment

b. Software costs-accounted for in accordance with Subtopic 350-40 on internal-use software

c. Costs of the design, migration, and testing of the data center-assessed in accordance with paragraph 340-40-25-5 to determine whether an asset can be recognized for the costs to fulfill the contract. Any resulting asset would be amortized on a systematic basis over the seven-year period (that is, the five-year contract term and two anticipated one-year renewal periods) that the entity expects to provide services related to the data center.

340-40-55-**9** In addition to the initial costs to set up the technology platform, the entity also assigns two employees who are primarily responsible for providing the service to the customer. Although the costs for these two employees are incurred as part of providing the service to the customer, the entity concludes that the costs do not generate or enhance resources of the entity (see paragraph 340-40-25-5(b)). Therefore, the costs do not meet the criteria in paragraph 340-40-25-5 and cannot be recognized as an asset using this Topic. In accordance with paragraph 340-40-25-8, the entity recognizes the payroll expense for these two employees when incurred.

340-40-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Revenue from Contracts with Customers

340-40-60-**1** For guidance on revenue from contracts with customers, see Topic 606.

Financial Services-Insurance

340-40-60-**2** For guidance regarding direct response advertising costs, see Subtopic 944-30.