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| 1.0 Scope of ASC 606 |  |
| 1.0.1 Definition of a customer | Consider whether the counterparty is a customer - Is this a contract with a customer (i.e., counterparty) that is receiving goods or services that are an output of the entity's ordinary activities in exchange for consideration? |
| 1.0.2 Contract elements outside scope of ASC 606 | Consider whether a portion of the contract is within the scope of other guidance - Does the arrangement include any of the following:  Note: Lease contracts, insurance contracts, financial instruments, guarantees (other than product or service warranties), and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers are out of scope. When these elements are present, perform further technical analysis outside of this work program. |
| a) | Noncash consideration from the customer (i.e., nonmonetary exchanges) |
| b) | Repurchase provisions (e.g., the entity is permitted or required to repurchase the asset transferred to the counterparty) |
| c) | Collaborative arrangements (i.e., the counterparty is a collaborator or a partner that shares in the risks and benefits of developing a product to be marketed) |
| d) | Guarantee as part of a multiple-element arrangement |
| e) | Lease contracts |
| 1.0.3 License(s) of intellectual property (IP) | Does the contract contain a license of IP? |
| **Step 1: Identify the contract with the customer.** | |
| 1.1 Definition of a contract | Does the arrangement represent a contract with a customer that meets the following criteria?   - The parties to the contract have approved the contract and are committed to perform their respective obligations - The entity can identify each party's rights regarding the goods or services to be transferred - The entity can identify the payment terms for the goods or services to be transferred - The contract has commercial substance - It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer |
| 1.1.1 Contract enforceability and termination clauses | Does the contract have a stated duration during which neither party has a right to cancel? |
| 1.2 Combining contracts | Was the contract entered into at or near the same time as other contracts with the same customer or its related parties? |
| 1.2.1 Contract combination criteria | Do the contracts meet one or more of the following criteria?  -The contracts are negotiated as a package with a single commercial objective -The amount of consideration to be paid in one contract depends on the price or performance of the other contract -The goods and services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation (refer to Step 2 of this tool for guidance on identifying separate performance obligations)  Note: "New" contracts may need to be combined with existing contracts/treated as modifications in certain circumstances even when they were not entered into at or near the same time. |
| 1.3 Contract modifications | Has the contract been modified since it was entered into or commenced?  A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. Updates in estimates of variable consideration and changes that do not affect scope or price are not considered modifications. For estimates of variable consideration, refer to Step 3.1.1; for changes in those estimates, refer to Step 3.7.  If a contract contains a lease component in the scope of ASC 842, the starting point for evaluating the accounting for the modification is ASC 842, not ASC 606. |
| 1.3.1 Separate revenue arrangements | Did the modification increase the scope of the contract due to the addition of promised goods or services that are distinct and are priced at an amount that reflects the standalone selling price for the additional goods or services?   For discussion of distinct goods or services, refer to Step 2.1; for discussion of standalone selling price, refer to Step 4.2. |
| 1.3.2 Treatment of modified contract | Are the remaining goods or services in the modified contract:  (i) Distinct from the goods or services transferred on or before the date of the contract modification and not priced at standalone selling price? (ii) Part of a single performance obligation that is partially satisfied at the date of the contract modification?  Contracts modifications may meet both of these factors when there are multiple POs.  Consider the factors above separately for each performance obligation in the modified contract. For example, if one performance obligation is distinct and the remaining promises are part of a single performance obligation that is partially satisfied at the date of the modification, answer yes to both questions. |
| 1.3.2.1 Decrease in Scope of Contract | Has the scope in the contract decreased (i.e. partial termination)? |
| **Step 2: Identify the performance obligations in the contract.** | |
| 2.0 Performance obligations | What are the performance obligations in the contract? |
| 2.1 Identify the promised goods/services in the contract | What are the promised goods or services in the contract? |
| 2.1.1 Determine whether identified goods or services are distinct | Are the goods/services distinct? 2 step model to determine if distinct: 1. Is the good/service capable of being distinct? 2. Is the good/service distinct in the context of the contract?  a. evaluate whether multiple promised goods/services work together to deliver a combined output |
| 2.1.2 Promised goods/services that are not distinct | If the goods/services are not distinct, combine with other promised goods/services until a distinct bundle exists. |
| 2.1.3 Shipping and handling activities | Were shipping and handling activities performed after the control of a good had been transferred to the customer? |
| 2.2 Principal versus agent | Is another party involved in providing goods or services to the customer? |
| 2.2.1 Identify the specified goods/services in the contract | What is the specified good/service to be provided to the customer?  - defined in ASC 606-10-55-36 as each "distinct good or service (or distinct bundle of goods or services) to be provided to the customer". - because the specified goods/services are determined from the perspective of the end consumer, they will not always be the same as the entity's performance obligation - particularly when the entity is an agent. |
| 2.2.2 Control of the specified good or service | Has the entity determined whether it controls each specified good or service before that good or service is transferred to the customer and therefore whether the entity is acting in the capacity as a principal or an agent?  Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly in many ways such as by: a. Using the asset to produce goods/provide services (including public services) b. Using the asset to enhance the value of other assets c. Using the asset to settle liabilities or reduce expenses d. Selling/exchanging the asset e. Pledging the asset to secure a loan f. Holding the asset |
| 2.2.3 Principal Indicators | Evaluate the following: 1. The entity is primarily responsible for fulfilling the promise to provide the specified good/service. 2. The entity has inventory risk before the specified good/service has been transferred to the customer 3. The entity has discretion in establishing the price for the specified good/service |
| 2.2.4 Principal versus Agent conclusion | Is the entity acting as a principal or agent?  The entity is a principal when the nature of its promise is a performance obligation to provide the specified goods or services itself and an agent when its promise is to arrange for those goods or services to be provided by another party.  If an entity is a principal, it should recognize revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service. If an entity is an agent, it should recognize revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party. |
| 2.3 Service-type warranties | Could any of the promised services be considered warranties that are sold separately or that provide a service in addition to assurance that the related product complies with agreed-upon specifications? |
| 2.4 Customer options | Does the contract contain any options for the customer to acquire additional goods or services for free or at a discount (for example, sales incentives, customer award credits (or points), contract renewal options, or other discounts on future goods or services) that provide a material right to the customer that it would not receive without entering into the contract? |
| **Step 3: Determine the transaction price.** | |
| 3.0 Base transaction price | Is there an amount of the transaction price in the contract that is not variable? |
| 3.1 Variable consideration | Is any of the consideration in the contract variable or uncertain? |
| 3.1.1 Estimating variable consideration | Has the entity determined whether the "expected value" or the "most likely amount" method better predicts the amount to which it will be entitled for each source of variable consideration? |
| 3.1.2 Constraint on revenue recognized | Describe the entity's determination / evaluation of the following:  (1) Amount of the estimate of variable consideration that is constrained (2) Likelihood of a significant revenue reversal (3) Quantification of the magnitude of a possible revenue reversal |
| 3.1.3 Reassessment of Variable Consideration | Have any uncertainties been resolved or has new information been gained about remaining uncertainties since the initial assessment of variable consideration? |
| 3.1.4 Rights of return | Does the entity give customers rights of return? |
| 3.2 Refund liabilities | Does the entity have a refund liability? |
| 3.3 Significant financing component | Does the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provide the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer such that the contract contains a significant financing component? |
| 3.3.1 Significant financing component | Briefly describe the entity's conclusions related to significant financing components. |
| 3.4 Noncash consideration | Is the entity entitled to any noncash consideration? |
| 3.5 Consideration payable to the customer | Is there any amount of consideration that is payable to the customer that is not provided in exchange for a distinct good or service or that exceeds the fair value of any distinct good or service received? |
| 3.5.1 Form of consideration payable | Is the payment to the customer in the form of equity? |
| 3.5.2 Timing of recognition of consideration paid or payable to a customer | Describe the entity's evaluation of whether the consideration paid/payable to a customer should be accounted for as a reduction of the transaction price and the evaluation of the timing of recognition. Describe our assessment of whether the entity's conclusions are appropriate. |
| 3.6 Nonrefundable up-front fees | Is the entity entitled to up-front payments from the customer? |
| 3.7 Changes in transaction price | Has the transaction price changed since contract inception? |
| **Step 4: Allocate the transaction price to performance obligations** | |
| 4.0 Allocation of transaction price | Are there multiple performance obligations? |
| 4.1 Allocating attributable variable consideration | Is any variable consideration in the contract attributable to either one or more, but not all, performance obligations in the contract or one or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms a part of a single performance obligation? |
| 4.2 Allocating a discount | Does the contract contain a discount? |
| 4.3 Standalone selling price | Describe how the entity determined the standalone selling price for each performance obligation, or why such allocation was not performed. |
| 4.3.1 Updating the standalone selling price | Has the contract been modified and the modification was treated as either a separate contract or the termination of the old contract and creation of the new contract? |
| 4.4 Measurement of options that are separate performance obligations | If the contract contains an option with a material right, did the entity apply the practical alternative described in ASC 606-10-55-45? |
| 4.5 Applying the relative standalone selling price method | Did the entity properly allocate the transaction price based on the relative standalone selling price (when applicable)?  If the answer is yes, the entity should have used the relative standalone selling price method to allocate the transaction price except in the case of variable consideration or discounts (that are not related to all the promised goods/services in the contract).  Relative Standalone selling price method: the transaction price is allocated to each performance obligation based on the proportion of the standalone selling price of each performance obligation to the sum of the standalone selling prices of all the performance obligations in the contract. |
| 4.6 Allocation of transaction price to elements outside the scope of the standard | Does the revenue arrangement contain elements that are outside of the scope of ASC 606? |
| **Step 5: Satisfaction of performance obligations** | |
| 5.0 Transfer of control | Do any of the performance obligations meet any of the following criteria resulting in transfer of control over time? |
| a) | The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. |
| b) | The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. |
| c) | The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date. |
| 5.1 Control Transferred at a Point in Time | If the performance obligations do not meet the criteria to be recognized over time (as outlined in workstep 5.0), the performance obligation is satisfied at a point in time. Describe our assessment of the transfer of control and timing of revenue recognition. |
| 5.2 Repurchase provisions | Does the contract contain a repurchase provision related to the same or similar goods in the original agreement? |
| 5.3 Sales with Residual Value Guarantees | Does the contract contain a residual value guarantee? |
| 5.4 Bill-and-hold arrangements | Could the contract be considered a bill-and-hold arrangement as defined in ASC 606-10-55-81?  Note: Consultation is required for new or modified bill-and-hold arrangements before concluding that a client may appropriately recognize revenue for the sale of product on a bill-and-hold basis under ASC 606, when revenue for the undelivered product exceeds tolerable error on an individual transaction or cumulative basis. Refer to *Assurance Policy Manual* CONSULT: Appendix A for further information. |
| 5.5 Consignment arrangements | Could the contract be considered a consignment arrangement? |
| 5.5.1 Consignment transfer of control criteria | Describe the entity's evaluation of when control of the good(s) transfers to the dealer or end customer and our assessment of their conclusions. |
| 5.6 Customer acceptance | If the contract contains customer acceptance provisions, has the seller objectively determined that control of a good or service has been transferred to the customer in accordance with the agreed-upon specifications in the contract? |
| 5.7 Revenue recognition pattern | Describe the following for each performance obligation identified: |
| a) | For performance obligations transferred over time, describe which measure of progress the entity concluded best depicts the transfer of control of goods or services to the customer. A *single* measure of progress should be selected for a combined performance obligation satisfied over time. |
| b) | For performance obligations transferred at a point in time, describe the specific point in time that the entity determined is when the customer obtains control of the promised asset. |
| 5.8 Breakage and prepayments for future goods and services | Does the entity receive consideration that is attributable to a customer's unexercised right (e.g., unredeemed gift cards)? |