# TOPIC 606, REVENUE FROM CONTRACTS WITH CUSTOMERS - PRESENTATION AND DISCLOSURE

## 1. Introduction

In 2014, the Financial Accounting Standards Board (FASB) issued its landmark standard, *Revenue from Contracts with Customers*.[1] It is generally converged with equivalent new IFRS guidance and sets out a single and comprehensive framework for revenue recognition. It took effect in 2018 for public companies and takes effect in 2019 for all other companies, and addresses virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. For many entities, the timing and pattern of revenue recognition will change. In some areas, the changes will be very significant and will require careful planning.

In their deliberations of the new standard, the FASB noted that existing disclosure requirements were inadequate, as they often resulted in insufficient information for users of financial statements to understand the sources of revenue, and the key judgments and estimates that had been made in its recognition. The information disclosed was also often 'boilerplate' and uninformative. Accordingly, the new standard also introduces an overall disclosure objective together with significantly enhanced presentation and disclosure requirements for revenue recognition. In practice, even if the timing and pattern of revenue recognition does not change, it is possible that new and/or modified processes will be needed in order to comply with the expanded presentation and disclosure requirements.

## 2. Disclosure Objective

FASB Accounting Standards Codification (ASC) 606-10-50-1 provides that "the objective of the disclosure requirements in [the revenue standard] is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers." The standard further indicates that "an entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics (ASC 606-10-50-2)."

With that objective in mind, there will be significant judgment required to determine what disclosures are necessary. The FASB acknowledged that the disclosures described in the standard should not be viewed as a checklist of minimum disclosures. Accordingly, entities do not need to include disclosures that are immaterial or not relevant; however, entities must include disclosures that are needed to meet the overall disclosure objective. Entities must make appropriate disclosures for each reporting period for which a statement of comprehensive income (statement of activities) is presented and as of each statement of financial position date. Entities are not required to repeat disclosures if the information is already presented in the financial statements as required by other accounting standards.

The new standard also changes the disclosure requirements for interim financial statements. Though not as extensive as the annual disclosures, the interim requirements may also present some challenges to apply. Additionally, in the year of adoption, the Securities and Exchange Commission (SEC) requires public companies to include all required annual disclosures in any interim financial statements that are prepared until the next annual financial statements are filed – even if the disclosure requirements are only applicable for annual periods.

1 ASU 2014-09

# 3. Presentation

## STATEMENT OF FINANCIAL POSITION

The standard provides guidance on the presentation of assets and liabilities that arise from contracts with customers. ASC 606-10-45-1 indicates that "When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable."

A contract asset arises when an entity transfers a good or performs a service in advance of receiving consideration from the customer. A contract asset becomes a receivable once an entity's right to the consideration becomes unconditional (i.e., except for the passage of time). A contract liability arises when an entity receives consideration from its customer (or has the unconditional right to receive consideration) in advance of performance. Contract assets, receivables and contract liabilities should be presented separately on the statement of financial position or in the footnotes. Entities should look to other accounting standards (for example, balance sheet offsetting guidance in ASC 210-20) to assess if it is appropriate to net contract assets and contract liabilities that arise from different contracts (for example, multiple contracts with the same customer) that are not required to be combined in accordance with the revenue standard.

For contracts that have multiple performance obligations, contract assets and contract liabilities should be netted together at the contract level. That is, entities should generally present either a contract asset or a contract liability for each contract (or group of contracts that are required to be combined under the standard) rather than to present multiple contract assets and/or contract liabilities for the same contract based on individual performance obligations in the contract.

The standard does not require entities to use the terms "contract asset" and "contract liability". Entities may use alternative descriptions as long as they provide sufficient information to distinguish between those rights to consideration that are conditional (i.e., contract assets) from those that are unconditional (i.e., receivables). Additionally, contract assets, receivables, and contract liabilities should be presented as current and non-current in a classified statement of financial position. Contract assets and liabilities should be disclosed separately from other balances related to revenues outside the scope of ASC 606. For example, receivables from contract revenues should be disclosed separately from receivables that arise from leasing contracts.

### Distinguishing between a contract asset and a receivable

A receivable is distinguished from a contract asset if the receipt of the consideration is unconditional (i.e., except for the passage of time). The standard requires that receivables be presented separately from contract assets as the boards noted that receivables and contract assets are subject to different levels of risk. Although both are subject to credit risk, contract assets are also subject to other risks (e.g., performance risk). Once an entity's right to consideration becomes unconditional, the contract asset should be reclassified as a receivable – even if the entity has not generated an invoice (i.e., unbilled receivable). ASC 606-10-55-287 through 55-290 provides an example of entries that would be made when a performance obligation is satisfied before an entity has an unconditional right to consideration.

There may be situations in which an entity has an unconditional right to consideration in advance of performance. In such situations, it would be appropriate to record a both a receivable and a contract liability. ASC 606-10-45-2 states: "If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (that is, a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer." However, an entity should exercise care in determining whether there is an unconditional right to payment when it has not transferred a good or service, as this might be difficult to assert. Entities should carefully consider whether the contract terms and specific facts and circumstances support the existence of an unconditional right to payment. ASC 606-10-55-284 through 55-286 provides an example of entries that would be recorded when an entity has an unconditional right to consideration in advance of performance.

### Distinguishing between a contract liability and a refund liability

When a customer pays consideration (or consideration is unconditionally due) and the entity has an obligation to transfer goods or services to the customer, the entity records a contract liability. However, when the entity expects to refund some or all the amounts received to the customer, it records a refund liability. As such, a refund liability does not constitute an obligation to transfer goods or services to the customer in the future; therefore, we believe that such liability should be presented separately (if material) from the contract liability. ASC 606-10-55-291 through 55-294 provides an example of a refund liability.

### Presentation of other assets

The revenue standard provides guidance for the capitalization of incremental costs of obtaining a contract and costs to fulfill a contract. Such capitalized costs should be presented separately from contract assets and contract liabilities.

## STATEMENT OF COMPREHENSIVE INCOME (STATEMENT OF ACTIVITIES)

The revenue standard requires entities to present or disclose revenue recognized from contracts with customers separately from revenues from other sources of revenue (i.e., revenues outside the scope of ASC 606). For example, if not already presented separately on the statement of comprehensive income (statement of activities), an entity that earns income from contracts from customers and leases could disclose:

| | |
|---|---|
| Revenues from contracts with customers | $ 10,000 |
| Lease Income | 2,000 |
| Total Revenue | **$ 12,000** |

Entities must also present the effects of financing (interest income or interest expense) separately from revenue from contracts with customers in the statement of comprehensive income (statement of activities). The FASB indicated that entities may present interest income as revenue only when interest income represents income from their ordinary activities.[2]

Similarly, entities must disclose any impairment losses recognized on receivables or contract assets arising from contracts with customers separately from impairment losses from other contracts. Such impairment losses are not recorded as a reduction of revenue.

# 4. Disclosure

As noted previously, the objective of the disclosure requirements in the revenue standard is for entities to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. To help entities achieve this objective, the revenue standard proscribes quantitative and qualitative disclosures about:

- Contracts with customers
- Significant judgments, and changes in judgments, made in applying the guidance to those contracts
- Assets recognized from the costs to obtain or fulfill a contract with a customer

Judgment will be required to determine the appropriate level of aggregation or disaggregation of information needed to satisfy the overall disclosure objective.

The following table summarizes the disclosure requirements of the revenue standard:

2 Paragraph BC247 of ASU 2014-09, Background Information and Basis for Conclusions

## SUMMARY OF REQUIRED DISCLOSURES[3]

| | Public Entities[4] – Annual Disclosures | Non-Public Entities – Annual Disclosures | Interim- Disclosures Required?[5] |
|---|---|---|---|
| **Presentation ASC 606-10-45-1** | Present or disclose contract assets separately from contract liabilities<br>Present or disclose unconditional rights to consideration separately as a receivable | Same disclosure requirements | Not required |
| **Overall ASC 606-10-50-4** | Present or disclose revenue from contracts with customers separately from other sources of revenue (i.e., revenues outside the scope of ASC 606)<br>Present or disclose impairment losses on any receivables or contract assets arising from contracts with customers separately from impairment losses from other contracts[6] | Same disclosure requirements | Not required |
| **Disaggregated Revenue ASC 606-10-50-5 through 50-7** | Disaggregate revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors<br>Disclose sufficient information to enable users to understand the relationship of disaggregated revenue presented in accordance with this standard and revenue information disclosed for each reportable segment | Non-public entities may elect to not apply the quantitative disaggregation disclosure guidance in ASC 606-10-50-5 through 50-6 and 606-10-55-89 through 55-91; however, if this election is made, the entity must disclose at a minimum:<br>Revenue disaggregated according to the timing of transfer of goods or services (e.g., at a point in time or over time)<br>Qualitative information about how economic factors (such as, type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows | Public – Yes<br>Non-public - Optional |

3 This summary of required disclosures may be useful in understanding the general disclosure requirements; however, it should not be used in place of the revenue standard.

4 A "public entity" is one that meets the definition of a "public business entity" in the ASC Master Glossary, as defined in ASU 2013-12. Under ASU 2014-09, "not-for-profit" entities that have issued (or are conduit bond obligators for) certain securities will apply the same effective date as public business entities. Employee benefit plans that file or furnish financial statements with the SEC are also considered public. All other entities are considered "non-public" under the new revenue recognition standard.

5 In the year of adoption, the SEC requires public companies to include all required annual disclosures in any interim financial statements that are prepared until the next annual financial statements are filed – even if the disclosure requirements are only applicable for annual periods.

6 The disclosures presented here do not reflect the guidance in ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which becomes effective for public companies with annual reporting periods beginning on or after December 15, 2019, and for non-public companies with annual reporting periods beginning on or after December 15, 2020

| SUMMARY OF REQUIRED DISCLOSURES[3] | | | |
|---|---|---|---|
| | **Public Entities[4] – Annual Disclosures** | **Non-Public Entities – Annual Disclosures** | **Interim- Disclosures Required?[5]** |
| **Contract Balances ASC 606-10-50-8 through 50-11** | Disclose opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers<br>Disclose revenue recognized in the period that was included in the contract liability balance at the beginning of the period<br>Explain how timing of satisfaction of performance obligations relates to the typical timing of payment and the effect those factors have on the contract asset and contract liability balances<br>Provide an explanation of the significant changes in the contract asset and contract liability balances during the reporting period, including qualitative and quantitative information such as:<br>a) changes due to business combinations<br>b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or liability<br>c) impairment of a contract asset<br>d) a change in the time frame for a right to consideration to become unconditional (that is, for a contract asset to be reclassified to a receivable)<br>e) a change in the time frame for a performance obligation to be satisfied (that is, for the recognition of revenue arising from a contract liability) | Non-public entities can elect to disclose only the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers. The other disclosures in ASC 606-10-50-8 through 50-10 are optional. | Public – Disclose opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers and revenue recognized in the period that was included in contract liability balance at the beginning of the period.<br>Non-public - Optional |

| SUMMARY OF REQUIRED DISCLOSURES[3] | | | |
|---|---|---|---|
| | **Public Entities[4] – Annual Disclosures** | **Non-Public Entities – Annual Disclosures** | **Interim- Disclosures Required?[5]** |
| **Performance Obligations ASC 606-10-50-12 through 50-16** | Provide descriptive information about performance obligations, including:<br>When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered, or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement<br>Significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether the estimate of variable consideration is typically constrained)<br>The nature of the goods and services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent)<br>Obligations for returns, refunds and other similar obligations<br>Types of warranties and related obligations<br>Disclose revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).<br>Disclose information about remaining performance obligations:<br>Aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period<br>An explanation of when the entity expects to recognize revenue from remaining performance obligations either on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations or by using qualitative information<br>Optional exemptions – The FASB provided several optional exemptions from the remaining performance obligations disclosure requirements. See discussion in "Optional Exemptions" below. | Non-public entities can elect to disclose only the descriptive information about performance obligations required by ASC 606-10-50-12. The other disclosures in ASC 606-10-50-12A and ASC 606-10-50-13 through 50-15 are optional. | Public – Disclose revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example changes in transaction price) and disclose information about remaining performance obligations.<br>Non-public - Optional |

| SUMMARY OF REQUIRED DISCLOSURES[3] | | | |
|---|---|---|---|
| | **Public Entities[4] – Annual Disclosures** | **Non-Public Entities – Annual Disclosures** | **Interim- Disclosures Required?[5]** |
| **Significant Judgments ASC 606-10-50-17 through 50-21** | Disclose the judgments, and changes in judgments, that significantly affect the determination of amount and timing of revenue in regards to:<br><br>Timing of satisfaction of performance obligations<br>- For performance obligations satisfied over time, disclose both the methods used to recognize revenue and why the method is appropriate.<br>- For performance obligations satisfied at a point in time, disclose significant judgments made in evaluating when a customer obtains control of promised goods or services<br><br>Transaction price and amounts allocated to performance obligations. Disclose information about methods, inputs and assumptions used for:<br>a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring noncash consideration<br>b) assessing whether an estimate of variable consideration is constrained<br>c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable)<br>d) measuring obligations for returns, refunds, and other similar obligations | Non-public entities can elect to disclose only the information required by ASC 606-10-50-17 through 50-18(a). The other disclosures in ASC 606-10-50-18(b) through 50-20 are optional. However, if an entity elects not to provide the disclosures in paragraph 606-10-50-20, the entity shall provide the disclosure in ASC 606-10-50-20(b), which states that an entity shall disclose the methods, inputs, and assumptions used to assess whether an estimate of variable consideration is constrained. | Not Required |

| SUMMARY OF REQUIRED DISCLOSURES[3] | | | |
|---|---|---|---|
| | **Public Entities[4] – Annual Disclosures** | **Non-Public Entities – Annual Disclosures** | **Interim- Disclosures Required?[5]** |
| **Costs to obtain or fulfill a contract ASC 340-40-50-1 through 50-3** | Describe judgments made in determining the amount of costs incurred to obtain or fulfill a contract with a customer<br>Describe method of amortization<br>Disclose closing balances of assets recognized from costs incurred to obtain or fulfill a contract with a customer by main category of asset (for example, costs to obtain contracts with customers, precontract costs, and setup costs)<br>Disclose amount of amortization and any impairment losses recognized in the reporting period | Not required | Not Required |
| **Practical Expedients ASC 606-10-50-22 through 50-23 and ASC 340-40-50-5** | Disclose if an entity elects to use the practical expedient in either paragraph 606-10-32-18 (about the existence of a significant financing component) or paragraph 340-40-25-4 (about expensing the incremental costs of obtaining a contract). | Not required | Not required |

## DISAGGREGATED REVENUE

Although the revenue standard requires entities to provide disaggregated revenue information, it does not prescribe specific categories to present. Instead, it provides examples of categories that might be appropriate. ASC 606-10-55-90 through 55-91 indicates:

55-90 When selecting the type of category (or categories) to use to disaggregate revenue, an entity should consider how information about the entity's revenue has been presented for other purposes, including all of the following:

a. Disclosures presented outside the financial statements (for example, in earnings releases, annual reports, or investor presentations)

b. Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments

c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

55-91 Examples of categories that might be appropriate include, but are not limited to, all of the following:

a. Type of good or service (for example, major product lines)

b. Geographical region (for example, country or region)

c. Market or type of customer (for example, government and nongovernment customers)

d. Type of contract (for example, fixed-price and time-and-materials contracts)

e. Contract duration (for example, short-term and long-term contracts)

f. Timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)

g. Sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

### Relationship to Segment Disclosures

There will likely be situations in which disclosures needed to satisfy the objectives of the revenue standard will need to be disaggregated at a different level than segment disclosures. Accordingly, the revenue standard requires entities to disclose sufficient information to enable financial statement users to understand the relationship between disaggregated revenue disclosures and revenue information presented for each reportable segment. There is no prescribed format for these disclosures, but the revenue standard provides an example of such disclosures at ASC 606-10-55-296 through 55-297.

## CONTRACT BALANCES

As noted in the table above, the revenue standard requires specific disclosures regarding contract balances. The purpose of these disclosures is to provide information about the amount of revenue that is recognized in the current period that is not the result of current period performance. The revenue standard does not prescribe a specific format for these disclosures – they could be presented in a tabular or narrative format.

An example of potential disclosures using a combination of tabular and narrative formats follows:

### EXAMPLE – CONTRACT ASSET AND LIABILITY DISCLOSURES

Company A discloses receivables from contracts with customers separately in the statement of financial position. To satisfy the
other disclosure requirements for contract assets and liabilities, Company A includes the following information in the notes to the financial statements:

| | **20X9** | **20X8** | **20X7** |
|---|---|---|---|
| Contract assets | $ 500 | $ 700 | $ 400 |
| Contract liabilities (deferred revenue) | (200) | (300) | (100) |
| Revenue recognized in the period from:<br>Amounts included in the contract liability at the beginning of the period | $ 250 | $ 100 | $ 200 |

The timing of revenue recognition, billings, and cash collections results in receivables, contract assets and contract liabilities. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in contract liabilities. Accounts receivable are recorded when the right to consideration becomes unconditional and are presented separately in the statement of financial position. Contract assets and contract liabilities are included in other assets and deferred revenue, respectively, in the statement of financial position.

In 20X9, contract assets and liabilities increased by $20 and $10, respectively, as a result of cumulative catch-up adjustments due to changes in transaction price. In 20X8, contract assets and liabilities increased by $10 and $30, respectively, as a result of cumulative catch-up adjustments due to changes in transaction price. In 20X8, contract assets and liabilities also increased by $300 and $70, respectively, as a result of business combinations.

Although not required, a company could elect to meet the disclosure requirements related to contract assets and liabilities by providing a full rollforward of those balances and the applicable activity for each period presented.

## PERFORMANCE OBLIGATIONS

### Qualitative disclosures

The revenue standard requires disclosures that provide descriptive information about an entity's performance obligations to help financial statement users understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These disclosures should be entity-specific and should complement the entity's accounting policy disclosures. Entities should avoid "boilerplate" language and tailor these disclosures to their specific facts and circumstances.

The revenue standard also requires entities to disclose the amount of revenue recognized in the current period that relates to performance obligations satisfied (or partially satisfied) in previous periods. For example, if an entity changes its estimate of transaction price, the resulting amounts recognized as revenue that relate to performance obligations satisfied in previous periods should be disclosed.

### Remaining performance obligations

The revenue standard requires entities to disclose information about the transaction price allocated to remaining performance obligations as well as when revenue will be recognized related to these obligations. This type of disclosure is sometimes referred to as a "backlog" disclosure as it requires disclosure of future revenue to be recorded on partially completed contracts, but may be different than current backlog disclosures that are sometimes included in filings with the SEC. This quantitative disclosure of remaining performance obligations should only include amounts related to performance obligations in current contracts, that is, excluding renewals that have not been executed and that do not represent material rights accounted for as performance obligations under current contracts. Additionally, this disclosure does not include amounts of consideration that have been excluded from the transaction price. Entities should, however, explain whether any amounts have been excluded from the transaction price (and therefore excluded from the disclosure), such as variable consideration that has been constrained.

Explanations of when entities expect to recognize amounts as revenue can be provided either qualitatively or quantitatively using "time bands" that are most appropriate for the duration of the remaining performance obligations. Judgment is required to determine which type of disclosure will be most meaningful to financial statement users.

The revenue standard provides an example of such disclosures at ASC 606-10-55-298 through 55-307.

### Optional Exemptions

ASC 606-10-50-14 through 50-15 provides four optional exemptions related to the disclosure of transaction price allocated to the remaining performance obligations. The optional exemptions may be applied, if any of the following conditions are met:

a. The performance obligation is part of a contract that has an original expected duration of one year or less.

b. The entity recognizes revenue equal to the amount it has the right to invoice when that amount corresponds directly with the value to the customer of the entity's performance to date in accordance with ASC 606-10-55-18.

c. The variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property.

d. The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied distinct good or service that forms part of a single performance obligation.

The FASB provided these optional exemptions to avoid instances in which an entity would be required to estimate variable consideration for disclosure purposes, despite not being required to estimate it for recognition in the financial statements.

If an entity avails itself of the optional exemptions, it must disclose the nature of the performance obligations, the remaining duration, and a description of the variable consideration that has been excluded from their disclosures, as well as whether any consideration is not included in the transaction price.

## SIGNIFICANT JUDGMENTS

Financial statement users need information regarding the entity's critical judgments in order to understand the nature, amount, timing and uncertainty of the entity's revenues. Accordingly, the standard requires that entities disclose their judgments (and changes in judgments) that affect the amount and timing of revenue recognition.

### Judgments related to timing

For performance obligations satisfied over time, entities should disclose the methods used to recognize revenue and why the methods used provide a faithful depiction of the transfer of goods or services. For performance obligations satisfied at a point in time, entities should disclose significant judgments made in evaluating when a customer obtains control of the goods or services.

### Judgments related to transaction price

Entities should disclose the methods, inputs and assumptions used when determining the transaction price, which includes (but is not limited to):

estimating variable consideration

adjusting the consideration for the effects of time value of money

measuring noncash consideration.

Entities should also disclose the methods, inputs and assumptions used when assessing whether an estimate of variable consideration is constrained.

### Judgments related to amounts allocated to performance obligations

Entities should disclose the methods, inputs and assumptions used for allocating the transaction price, including estimating standalone selling prices of goods or services. This includes any judgments made in allocating discounts and variable consideration to a specific part of the contract (if applicable).

Similarly, entities should disclose judgments made in measuring obligations for returns, refunds, and other similar obligations.

## CONTRACT COSTS

Consistent with the overall disclosure objective, entities must disclose the judgments made in determining the amount of the costs incurred to obtain or fulfill a contract with a customer as well as the method of amortization. Additionally, entities must disclose the closing balances of contract costs by main category of asset (for example, costs to obtain contracts, precontract costs, and setup costs) and the amount of amortization and any impairment losses recognized in the period.

## PRACTICAL EXPEDIENTS AND ACCOUNTING POLICY ELECTIONS

The revenue standard provides several practical expedients that are meant to make it easier to apply the recognition and measurement principles of the standard. A public entity must disclose if it elects either of the following practical expedients:

Significant financing components - Entities need not adjust the promised amount of consideration for the effects of a significant financing component if, at contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service is expected to be one year or less.

Contract costs - Entities may recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less.

The standard also provides certain accounting policy elections, which must be disclosed if elected:

Shipping and handling – Whether shipping and handling activities represent a promised service in a contract with a customer depends on when they are performed. The standard clarifies that if such activities are performed before the customer obtains control of the good, they are fulfillment activities and not a promised service. On the other hand, if shipping and handling activities occur after the customer obtains control of the good, such activities would typically be a separate service provided to the customer for which consideration would need to be allocated. However, the standard provides that entities may elect to account for shipping and handling after the customer obtains control of the good as fulfillment activities rather than as a separate service to the customer. Entities that make this election must accrue the costs of the shipping and handling if revenue is recognized for the related good before the fulfillment activities occur.

Sales (and similar) taxes – Entities may make an accounting policy election to exclude from the measurement of the transaction price all taxes that are both imposed on and concurrent with a specific revenue transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes). This accounting policy election does not apply to taxes assessed on an entity’s total gross receipts or imposed during the inventory procurement process.

## OTHER DISCLOSURE CONSIDERATIONS

### Transition

The revenue standard includes specific transitional disclosures which generally supplement the transitional or change in accounting policy disclosure requirements of existing GAAP. Entities are required to provide an explanation to users of financial statements about which practical expedients were used in transition and, to the extent reasonably possible, a qualitative assessment of the estimated effect of applying those practical expedients.

### SAB 74 Disclosures

In periods prior to adoption of the revenue standard, entities are required to make disclosures under the SEC's Staff Accounting Bulletin No. 74 (codified in SAB Topic 11.M), *Disclosure Of The Impact That Recently Issued Accounting Standards Will Have On The Financial Statements Of The Registrant When Adopted In A Future Period* ("SAB 74"). SAB 74 requires that when a recently issued accounting standard has not yet been adopted, a registrant disclose the potential effects of the future adoption in its interim and annual SEC filings. SAB 74 disclosures should be both qualitative and quantitative. According to Center for Audit Quality Alert 2017-03, ***SAB Topic 11.M – A Focus on Disclosures for New Accounting Standards***, the SEC staff expects that SAB 74 disclosures will become more robust and quantitative as the new accounting standard's effective date approaches. As such, the following types of SAB 74 disclosures are expected in a registrant's financial statements in the periods before new accounting standards are effective:

**A comparison of accounting policies.** Registrants should compare their current accounting policies to the expected accounting policies under the new accounting standard(s).

**Status of implementation.** The status of the process should be disclosed, including significant implementation matters not yet addressed or if the process is lagging.

**Consideration of the effect of new footnote disclosure requirements in addition to the effect on the balance sheet and income statement.** A new accounting standard may not be expected to materially affect the primary financial statements; however, it may require new significant disclosures that require significant judgments.

**Disclosure of the quantitative impact of the new accounting standard if it can be reasonably estimated.**

**Disclosure that the expected financial statement impact of the new accounting standard cannot be reasonably estimated.**

**Qualitative disclosures.** When the expected financial statement impact is not yet known by a registrant, a qualitative description of the effect of the new accounting standard on the registrant's accounting policies should be disclosed.

### Selected Financial Data – 5 Year Table

Some SEC registrants have questioned whether they must recast all periods reflected in the 5 year Summary of Selected Financial Data in accordance with the new revenue standard. In short, the answer is "no". The Division of Corporation Finance's Financial Reporting Manual states that registrants that select a full retrospective approach are not required to apply the new revenue standard when reporting selected financial data to periods prior to those presented in its retroactively-adjusted financial statements. That is, a company would be required to reflect the accounting change in selected financial data only for the three years for which it presents full financial statements elsewhere in the filing. Companies will be required to provide the disclosures required by Instruction 2 to S-K Item 301 regarding comparability of the data presented.

# 5. Appendix A – Disclosure Example – Public Entity

## BACKGROUND

For purposes of this example, we have assumed Company A has three different revenue streams which correspond with the Company's reportable segments: Retail, Wholesale, and Subscription revenues. Each revenue stream has different characteristics, including differences in timing of payment, to demonstrate potential disclosures that could be made to satisfy the overall disclosure objective of the revenue standard. This example does not include required transitional disclosures.

For this example, we have not presented a statement of financial position or statement of comprehensive income, but have assumed that the Company has presented the following captions[7]:

Accounts receivable

Contract assets – retail

Other current assets

Deferred Costs

Deferred revenue – current

Other accrued liabilities

Revenue – retail products

Revenue – wholesale products

Revenue – subscription services

## NOTE X. SIGNIFICANT ACCOUNTING POLICIES

We recognize revenues when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

### Retail

We generate retail revenues primarily from the sale of household goods to customers in the United States and Canada at retail locations or through our website. For our in-store sales, we recognize revenue at the point of sale. For sales made through our website, we recognize revenue upon shipment to the customer as that is when the customer obtains control of the promised good.

We require cash or credit card payment at the point of sale or when the order is placed on our website. At period end, for non-cancellable orders, any amounts that have been collected (either cash or credit card) for which goods have not yet shipped are recorded as deferred revenue (contract liability) until shipment occurs.

### Accounts Receivable

Retail represents amount due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts is necessary.

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7 For purposes of this example, we have assumed such captions would meet the requirements of SEC Regulation S-X.

### Wholesale
We generate wholesale revenues primarily from the sale of our products to retailers and distributors in the United States and Canada. We recognize revenue upon shipment to the customer as that is when the customer obtains control of the promised goods. We typically extend credit terms to our wholesale customers based on their creditworthiness and generally do not receive advance payments. As such, we record accounts receivable at the time of shipment, when our right to the consideration becomes unconditional. Accounts receivable from our wholesale customers are typically due within 30 days of invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness. As of December 31, 20X8 and 20X7, our allowance for doubtful accounts totaled less than $1 million. Bad debt expense totaled approximately $2 million for each of the years ended December 31, 20X8, 20X7 and 20X6, respectively.

### Judgments
We considered several factors in determining that control transfers to the customer upon shipment of retail and wholesale products. These factors include that legal title transfers to the customer, we have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment.

We accrue a reserve for product returns at the time of sale based on our historical experience. We also accrue a related "returns asset" for goods expected to be returned in salable condition. As of December 31, 20X8 and 20X7, our sales returns reserve totaled $3 million and $3 million, respectively, and was included in other accrued liabilities on the statement of financial position. As of December 31, 20X8 and 20X7, our returns asset totaled $1 million and $1 million, respectively, and was included in other current assets on the statement of financial position. For the years ended December 31, 20X8, 20X7 and 20X6, we recorded sales returns of $12 million, $11 million and $11 million, respectively, as a reduction of revenue and product returns of $4 million, $4 million and $3 million, respectively, as a reduction of cost of sales.

### Subscription Services
We generate subscription services revenues from fees that provide our customers access to our on-line databases. We recognize revenue from these services on a ratable basis over the contract term beginning on the date our database is made available to the customer. Our subscription contracts generally range from one to three years, are billed annually in advance, and are non-cancellable. As a result, we record deferred revenue (contract liability) and accounts receivable for any amounts for which we have a right to invoice but for which services have not been provided. Accounts receivable from our subscription customers are typically due upon invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness. We mitigate our exposure to credit losses from our subscriptions customers by discontinuing services in the event of non-payment; accordingly, the related allowance for doubtful accounts and associated bad debt expense has not been significant.

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative standalone selling prices.

### Sales Taxes
Sales (and similar) taxes that are imposed on our sales and collected from customers are excluded from revenues.

### Shipping and handling costs
Costs for shipping and handling activities, including those activities that occur subsequent to transfer of control to the customer, are recorded as cost of sales and are expensed as incurred. The Company accrues costs for shipping and handling activities that occur after control of the promised good has transferred to the customer.

### Deferred Commissions
We capitalize costs of sales commissions paid to our sales force related to our subscription services as these costs are incremental and recoverable costs of obtaining a contract with a customer. These costs are amortized on a straight-line basis over the contract period, which is typically one to three years, as similar commissions are paid to our sales force (and capitalized) for contract renewals. Amortization is included in sales and marketing expense in the statement of comprehensive income.

## NOTE X. DEFERRED COSTS

Deferred costs, which primarily consist of sales commissions, totaled $10 million and $9 million as of December 31, 20X8 and 20X7, respectively. For the years ended December 31, 20X8, 20X7, and 20X6, we recorded amortization expense totaling $4 million, $4 million, and $3 million, respectively, in sales and marketing expense. There were no impairment losses recognized during these periods.

## NOTE X. REVENUES

The following table shows the Company's revenues disaggregated by reportable segment and by product or service type (in millions):

| YEAR ENDED DECEMBER 31, | 20X8 | 20X7 | 20X6 |
|---|---|---|---|
| **RETAIL** | | | |
| Product group A | $ 515 | $ 500 | $ 490 |
| Product group B | 210 | 190 | 185 |
| Product group C | 105 | 110 | 100 |
| **Retail Revenue** | **830** | **800** | **775** |
| **WHOLESALE** | | | |
| Product group D | 250 | 260 | 240 |
| Product group E | 140 | 150 | 145 |
| **Wholesale Revenue** | **390** | **410** | **385** |
| **SUBSCRIPTION SERVICES** | | | |
| Subscription service F | 120 | 110 | 105 |
| Subscription service G | 80 | 70 | 65 |
| **Subscription Services Revenue** | **200** | **180** | **170** |
| **TOTAL REVENUE** | **$ 1,420** | **$ 1,390** | **$ 1,330** |

The following table shows the Company's revenues disaggregated by geography, based on our customers' billing addresses (in millions):

| YEAR ENDED DECEMBER 31, | 20X8 | 20X7 | 20X6 |
|---|---|---|---|
| **RETAIL** | | | |
| United States | $ 620 | $ 600 | $ 580 |
| Canada | 210 | 200 | 195 |
| **Retail Revenue** | **830** | **800** | **775** |
| **WHOLESALE** | | | |
| United States | 300 | 310 | 290 |
| Canada | 90 | 100 | 95 |
| **Wholesale Revenue** | **390** | **410** | **385** |
| **SUBSCRIPTION SERVICES** | | | |
| United States | 200 | 180 | 170 |
| **Subscription Services Revenue** | **200** | **180** | **170** |
| **TOTAL REVENUE** | **$ 1,420** | **$ 1,390** | **$ 1,330** |

For the years ended December 31, 20X8, 20X7, and 20X6, the Company recorded no revenues related to performance obligations satisfied in prior periods.

### Remaining Performance Obligations

As part of our adoption of the new revenue standard, we have elected to use a practical expedient to exclude disclosure of transaction prices allocated to remaining performance obligations, and when we expect to recognize such revenue, for all periods prior to the date of initial application of the standard.

As of December 31, 20X8, Deferred Revenue – Retail represents our remaining performance obligations for our retail segment, all of which are expected to be recognized within one year.

As of December 31, 20X8, approximately $135 million is expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenue for these remaining performance obligations during the next three years approximately as follows (in millions):

| YEAR ENDED DECEMBER 31, | 20X9 | 20X0 | 20X1 |
|---|---|---|---|
| Estimated Subscription Services Revenue from remaining performance obligations as of December 31, 20X8 | $ 75 | $ 40 | $ 20 |

## NOTE X. CONTRACT ASSETS AND CONTRACT LIABILITIES

Our contract assets and liabilities consist of (in millions):

| YEAR ENDED DECEMBER 31, | 20X8 | 20X7 | 20X6 |
|---|---|---|---|
| **ACCOUNTS RECEIVABLE** | | | |
| Accounts Receivable – Retail | $ 5 | $ 4 | $ 4 |
| Accounts Receivable - Wholesale | 40 | 45 | 40 |
| Accounts Receivable – Subscription Services | 60 | 55 | 50 |
| **Total Accounts Receivable** | **105** | **104** | **94** |
| | | | |
| **Contract Assets - Retail** | **2** | **1** | **1** |
| | | | |
| **DEFERRED REVENUE** | | | |
| Deferred Revenue - Retail | 3 | 2 | 1 |
| Deferred Revenue - Subscription Services | 50 | 45 | 40 |
| **Total Deferred Revenue** | **53** | **47** | **41** |

For the years ended December 31, 20X8, 20X7 and 20X6, the Company recognized revenue of $1 million, $1 million and $2 million, respectively, from amounts that were included in Deferred Revenue – Retail at the beginning of each year and revenue of $35 million, $40 million and $45 million, respectively, from amounts that were included in Deferred Revenue – Subscription Services at the beginning of each year.

The increases (decreases) of Accounts Receivable, Contract Assets – Retail and Deferred Revenue were primarily due to normal timing differences between our performance and the customers' payments. However, in 20X8 $1 million and $1 million of the increase in the Contract Assets – Retail and Deferred Revenue-Retail balances, respectively, were the result of a business combination.

# 6. Appendix B – Disclosure Example – Non-public Entity

## BACKGROUND

For purposes of this example, we have assumed Company A has three different revenue streams which correspond with the Company's operating segments: Retail, Wholesale, and Subscription revenues. Each revenue stream has different characteristics, including differences in timing of payment, to demonstrate potential disclosures that could be made to satisfy the overall disclosure objective of the revenue standard. This example does not include required transitional disclosures.

For this example, we have not presented a statement of financial position or statement of comprehensive income, but have assumed that the Company has presented the following captions:

Accounts receivable

Contract assets – retail

Other current assets

Deferred Costs

Deferred revenue – current

Other accrued liabilities

Revenue – retail products

Revenue – wholesale products

Revenue – subscription services

## NOTE X. SIGNIFICANT ACCOUNTING POLICIES

We recognize revenues when control of the promised goods or services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

### Retail

We generate retail revenues primarily from the sale of household goods to customers in the United States and Canada at retail locations or through our website. For our in-store sales, we recognize revenue at the point of sale. For sales made through our website, we recognize revenue upon shipment to the customer as that is when the customer obtains control of the promised good.

We require cash or credit card payment at the point of sale or when the order is placed on our website. At period end, for non-cancellable orders, any amounts that have been collected (either cash or credit card) for which goods have not yet shipped are recorded as deferred revenue (contract liability) until shipment occurs.

### Accounts Receivable

Retail represents amount due from credit card companies and are generally collected within a few days of the purchase. As such, the Company has determined that no allowance for doubtful accounts is necessary.

### Wholesale

We generate wholesale revenues primarily from the sale of our products to retailers and distributors in the United States and Canada. We recognize revenue upon shipment to the customer as that is when the customer obtains control of the promised goods. We typically extend credit terms to our wholesale customers based on their creditworthiness and generally do not receive advance payments. As such, we record accounts receivable at the time of shipment, when our right to the consideration becomes unconditional. Accounts receivable from our wholesale customers are typically due within 30 days of invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness.

### Judgments

We considered several factors in determining that control transfers to the customer upon shipment of retail and wholesale products. These factors include that legal title transfers to the customer, we have a present right to payment, and the customer has assumed the risks and rewards of ownership at the time of shipment.

We accrue a reserve for product returns at the time of sale based on our historical experience. We also accrue a related "returns asset" for goods expected to be returned in salable condition. As of December 31, 20X8 and 20X7, our sales returns reserve totaled $3 million and $3 million, respectively, and was included in other accrued liabilities on the statement of financial position. As of December 31, 20X8 and 20X7, our returns asset totaled $1 million and $1 million, respectively, and was included in other current assets on the statement of financial position. For the years ended December 31, 20X8, 20X7 and 20X6, we recorded sales returns of $12 million, $11 million and $11 million, respectively, as a reduction of revenue and product returns of $4 million, $4 million and $3 million, respectively, as a reduction of cost of sales.

### Subscription Services

We generate subscription services revenues from fees that provide our customers access to our on-line databases. We recognize revenue from these services on a ratable basis over the contract term beginning on the date our database is made available to the customer. Our subscription contracts generally range from one to three years, are billed annually in advance, and are non-cancellable. As a result, we record deferred revenue (contract liability) and accounts receivable for any amounts for which we have a right to invoice but for which services have not been provided. Accounts receivable from our subscription customers are typically due upon invoicing. An allowance for doubtful accounts is provided based on a periodic analysis of individual account balances, including an evaluation of days outstanding, payment history, recent payment trends, and our assessment of our customers' creditworthiness. We mitigate our exposure to credit losses from our subscriptions customers by discontinuing services in the event of non-payment; accordingly, the related allowance for doubtful accounts is not significant.

Some of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative standalone selling prices.

### Sales Taxes

Sales (and similar) taxes that are imposed on our sales and collected from customers are excluded from revenues.

### Shipping and handling costs

Costs for shipping and handling activities, including those activities that occur subsequent to transfer of control to the customer, are recorded as cost of sales and are expensed as incurred. The Company accrues costs for shipping and handling activities that occur after control of the promised good has transferred to the customer.

### Deferred Commissions

We capitalize costs of sales commissions paid to our sales force related to our subscription services as these costs are incremental and recoverable costs of obtaining a contract with a customer. These costs are amortized over the contract period, which is typically one to three years, as similar commissions are paid to our sales force (and capitalized) for contract renewals. Amortization is included in sales and marketing expense in the statement of comprehensive income.

## NOTE X. REVENUES

The following table shows the Company's revenues disaggregated according to the timing of transfer of goods or services (in millions):

| YEAR ENDED DECEMBER 31, | 20X8 | 20X7 | 20X6 |
|---|---|---|---|
| **REVENUE RECOGNIZED AT A POINT IN TIME** | | | |
| Retail Revenue | $ 830 | $ 800 | $ 775 |
| Wholesale Revenue | 390 | 410 | 385 |
| **Total revenue recognized at a point in time** | **1,220** | **1,210** | **1,160** |
| **REVENUE RECOGNIZED OVER TIME** | | | |
| Subscription Services Revenue | 200 | 180 | 170 |
| **Total revenue recognized over time** | **200** | **180** | **170** |
| **TOTAL REVENUE** | **$ 1,420** | **$ 1,390** | **$ 1,330** |

## NOTE X. CONTRACT ASSETS AND CONTRACT LIABILITIES

Our contract assets and liabilities consist of (in millions):

| **YEAR ENDED DECEMBER 31,** | **20X8** | **20X7** | **20X6** |
|---|---|---|---|
| **ACCOUNTS RECEIVABLE** | | | |
| Accounts Receivable – Retail | $ 5 | $ 4 | $ 4 |
| Accounts Receivable - Wholesale | 40 | 45 | 40 |
| Accounts Receivable – Subscription Services | 60 | 55 | 50 |
| **Total Accounts Receivable** | **105** | **104** | **94** |
| | | | |
| **Contract Assets - Retail** | **2** | **1** | **1** |
| | | | |
| **DEFERRED REVENUE** | | | |
| Deferred Revenue - Retail | 3 | 2 | 1 |
| Deferred Revenue - Subscription Services | 50 | 45 | 40 |
| **Total Deferred Revenue** | **53** | **47** | **41** |