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The New Revenue Standard — A Look at SEC Feedback in Year 1

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Introduction

Calendar-year-end public business entities (PBEs) adopted the FASB’s new revenue standard (ASC 606¹) in the first quarter of 2018.² While some companies made wholesale changes to their financial statements, the effect of the new requirements was less significant for others. However, all entities were affected by the standard’s new and modified quantitative and qualitative disclosure guidance, which significantly increased the amount of information disclosed about revenue activities and related transactions.

This *Heads Up* (1) provides a brief overview of the disclosure requirements for PBEs under the new revenue standard, (2) highlights some key themes regarding the application of ASC 606 (related to accounting and disclosure requirements) that we noted in our review of approximately 400 SEC staff comments issued to date, and (3) presents examples of those comments. Entities may benefit from evaluating the trends we have observed in our review as they continue to refine the information they disclose. For a comprehensive discussion of the new revenue standard, see Deloitte’s [A Roadmap to Applying the New Revenue Recognition Standard](#) (“Revenue Roadmap”). Also see Deloitte’s July 11, 2018, *Heads Up* for a more detailed discussion of the disclosure requirements under the new revenue standard and related disclosure trends identified. For an overview of the SEC staff’s comment letter review process, see Deloitte’s [A Roadmap to SEC Comment Letter Considerations, Including Industry Insights](#) (“SEC Comment Letter Roadmap”).

¹ FASB Accounting Standards Codification (ASC) Topic 606, *Revenue From Contracts With Customers*.

² The new revenue standard is effective for PBEs reporting under U.S. GAAP for annual reporting periods (including interim reporting periods within those annual periods) beginning after December 15, 2017. Early adoption was permitted as of reporting periods (including interim periods) beginning after December 15, 2016. For non-PBEs, the new revenue standard is effective for annual periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019; early adoption is permitted.



Key Takeaways

- Some notable themes identified through our review of SEC comments are:
 - The disclosure of significant judgments, including the identification of performance obligations, the determination and allocation of the transaction price, and the identification of the measure of progress.
 - The required disclosures related to performance obligations (e.g., the timing of revenue recognition and the principal-versus-agent analysis).
 - The disclosures of the conclusions to capitalize contract costs and the related method of amortization.

Such themes represented, respectively, approximately 40 percent, 20 percent, and 10 percent of the total publicly available ASC 606 comments that we reviewed.

- In many instances, though the written comments specifically inquired about disclosures (and requested more of them), we observed that the underlying reason for the comments was that the accounting position taken by the registrants may not have been clear to the SEC staff upon review of the disclosures provided, or it may have been considered potentially inappropriate.
- On the basis of our review to date, we noted that registrants in the consumer and industrial products industry (which includes consumer products; retail, wholesale, and distribution; automotive; transportation, hospitality, and services; and industrial products and construction) received approximately 45 percent of SEC staff comments, with registrants in the technology, media, and telecommunications (TMT) industry receiving approximately 35 percent. Further, registrants in the life sciences and health care industry and the financial services industry each accounted for approximately 10 percent of the comments issued, while registrants in the energy and resources industry received less than 5 percent. Within certain aspects of ASC 606, we observed that comments were concentrated in particular industries, as discussed below.
- Under ASC 605,³ common subjects of focus of the SEC staff within filing reviews included: (1) disclosures, (2) multiple-element arrangements, (3) principal-versus-agent considerations, and (4) revenue recognition for long-term construction-type and production-type contracts (see Deloitte's [SEC Comment Letter Roadmap](#)). Although the terminology and guidance for these topics have changed as a result of ASC 606, the staff appears to be focusing on similar types of issues under the new revenue standard.

³ FASB Accounting Standards Codification Topic 605, *Revenue Recognition*.

Significant Judgments

Disclosure Requirements

There are many significant judgments and estimates that entities must make and disclose when they adopt the new revenue standard. ASC 606-10-50-17 through 50-20 state:

50-17 An entity shall disclose the judgments, and changes in the judgments, made in applying the guidance in [ASC 606] that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following:

- a. The timing of satisfaction of performance obligations (see paragraphs 606-10-50-18 through 50-19)
- b. The transaction price and the amounts allocated to performance obligations (see paragraph 606-10-50-20).

50-18 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

- a. The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied)
- b. An explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

50-19 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a customer obtains control of promised goods or services.

50-20 An entity shall disclose information about the methods, inputs, and assumptions used for all of the following:

- 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
- b. Assessing whether an estimate of variable consideration is constrained
- c. Allocating the transaction price, including estimating standalone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable)
- d. Measuring obligations for returns, refunds, and other similar obligations.

Feedback From the SEC

To date, approximately 40 percent of the publicly available ASC 606 SEC staff comments relate to disclosures of significant judgments. These comments can be broken into the following four broad categories, which are discussed in the sections below: (1) identification of performance obligations, (2) determination of the transaction price, (3) allocation of the transaction price, and (4) identification of a measure of progress.

Identification of Performance Obligations

The SEC staff recently stated⁴ that it believes it is important for companies to have clear and transparent disclosures regarding the identification of performance obligations and that the SEC is likely to issue a comment if the disclosure is unclear or it appears to conflict with the guidance. In a manner consistent with this statement, many of the staff's comments on significant judgments relate to the identification of performance obligations. These comments include requests for additional disclosure of the significant judgments made in the identification of performance obligations and often question the appropriateness of the identified performance obligations. For example, in at least one case, the staff questioned whether maintenance, support, and warranty services represented a single performance obligation. In addition, we observed that the staff has focused on contracts with promises to provide multiple goods and services to a customer and has questioned the conclusion of whether such goods and services are distinct performance obligations in accordance

⁴ Remarks were made at the 2018 AICPA Conference on Current SEC and PCAOB Developments.

with ASC 606-10-25-19 through 25-22. We also observed that the staff has requested additional information to understand whether an option for additional goods or services was considered a material right. On the basis of our review to date, we observed that registrants in the TMT industry received more than half of the SEC comments related to identification of performance obligations. Examples of such comments are excerpted below.

Examples of SEC Comments

- You state your subscription performance obligations consist of licenses, PCS, and rights to continued delivery of unspecified upgrades, major releases and patches. Please provide us with your analysis as to how you determined it was appropriate to combine these promises into one performance obligation, with reference to ASC 606-10-25-19 through 25-21.
- We note your disclosure regarding three performance obligations under your franchise agreements. It appears that you have concluded that these items are not distinct and therefore are not separate performance obligations given your conclusion that they are highly interrelated. Please revise your disclosure to clarify your conclusions. Reference 606-10-25-22.
- For contracts that require the use of certain equipment in order to receive service, please tell us the significant judgements used in determining if equipment should be considered a separate performance obligation. Please refer to ASC 606-10-25-19 through 25-22.
- Please provide us the following information regarding your contracts that include a perpetual license and hosting services and revise your disclosures as appropriate:
 - Clarify for us whether you have determined if the perpetual license and the hosting service are one combined performance obligation and provide us with your analysis. Reference ASC 606-10-25-21.
 - If the perpetual license and the hosting service are one combined performance obligation, tell us the period of time over which you are recognizing revenue for the combined performance obligation. If this period is longer than your initial hosting period, please explain the basis for this determination.
 - Tell us if you have identified the material right as a separate performance obligation. If you have combined the material right with the perpetual license and hosting service, please tell us how you made this determination. Reference ASC 606-10-55-42.
 - Tell us the period of time over which you are recognizing revenue for your material right. If this period begins prior to the time the additional hosting services are provided or when the material right expires, please explain to us the basis for this determination. Reference ASC 606-10-55-42.

Determination of the Transaction Price

Another topic of significant judgment under the new revenue standard is the determination of the transaction price, and as a result, the SEC staff has focused its attention on disclosures about how such a determination is made, particularly those related to variable consideration. The staff has questioned registrants on multiple types of variable consideration and requested additional information about how, and to what extent, such consideration has been included in the transaction price. Further, the staff has questioned whether variable consideration was constrained and, if so, the significant judgments that went into the determination of the constraint and when the constraint will be removed. Examples of such comments are excerpted below.

Examples of SEC Comments

- We note your disclosure that your solar power system sales include performance guarantees that represent a form of variable consideration and are recognized as adjustments to revenue. Please help us better understand your accounting for these potential bonus payments and/or liquidated damages. In this regard, based on your disclosure, it is unclear to us whether these amounts are included as part of your estimate of your transaction price at the outset of the arrangement and then reassessed at the end of each reporting period. Refer to ASC 606-10-32-5 through 32-10 and ASC 606-10-32-14.

Examples of SEC Comments (continued)

- You state that you do not offer refunds, rebates, credits or other forms of variable consideration; however, you also indicate that the transaction price includes estimates of variable consideration. Please clarify the nature of the variable consideration included in your contracts. Refer to ASC 606-10-32-5 through 32-7 and ASC 606-10-50-20.
- You disclose . . . that every . . . Certified listing carries a 30-day return policy. Please tell us how you have considered this return policy in determining the transaction price in these arrangements. Refer to ASC 606-10-32-5 through 32-9.
- Please provide us with your analysis regarding payments made to partners. Describe in detail the nature of these payments and further clarify when payments are classified as marketing expenses and when payments are recognized as a reduction in revenue. Refer to ASC 606-10-32-25 and 26.
- We note certain advertising contracts have guarantees of audience member views. Please clarify if these guarantees are treated as variable consideration in determining your transaction price. Refer to ASC 606-10-32-5 and 606-10-50-20.
- We note you constrain estimates of variable consideration. Please explain to us the judgments used in assessing whether an estimate of variable consideration is constrained. In this regard, describe to us the factors that resulted in the constraint of variable consideration and how the constraint will be resolved. In addition, tell us how you considered ASC 606-10-50-17 and 50-20 related to disclosures of significant judgments used in determining the transaction price.
- In your Product Revenue disclosure . . . you indicate that you estimate variable consideration using the most likely method. Please tell us why it is appropriate to apply this method rather than the expected value method. See ASC 606-10-32-8. In addition, tell us where you have made the disclosure specified in ASC 606-10-50-12b or your consideration for providing this disclosure.

Further, ASC 606-10-55-65 and 55-65A provide an exception to the inclusion of certain sales- or usage-based royalties in the determination of the transaction price, stating that revenue from a sales- or usage-based royalty related to a license of intellectual property (IP) should be recognized at the later of when (1) the “subsequent sale or usage occurs” or (2) the “performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied),” provided that the license of IP is “the predominant item to which the royalty relates.” We observed that the SEC staff has questioned the application of ASC 606-10-55-65 to certain sales- or usage-based royalty arrangements in which the license of IP is combined with other goods and services and whether, in such arrangements, the license of IP is “the predominant item to which the royalty relates.” The following is an example of such a comment:

Example of an SEC Comment

Tell us if you believe these arrangements contain a functional license of intellectual property and if this is the predominant item to which royalties relate.

Allocation of the Transaction Price

Another focus of the SEC staff’s comments on significant judgments relates to the allocation of the transaction price. The staff has asked registrants to expand their disclosures about the significant judgments, including the “methods, inputs, and assumptions” inherent in the allocation process. For example, the staff has requested that registrants enhance their disclosures to clarify that a performance obligation represents a series and the method used to allocate consideration to each distinct good or service in the series. In addition, the staff has questioned how registrants determined the stand-alone selling price of a good or service, including the application of the residual approach as well as how the registrants considered a range of transactions in determining the stand-alone selling price. Further, registrants in the

TMT industry received approximately 65 percent of the SEC comments related to allocation of the transaction price. Examples of such comments are excerpted below.

Examples of SEC Comments

- We note . . . that your contracts satisfy the allocation requirements in ASC 606-10-32-40. In future filings, please expand your disclosure of the nature of your performance obligation to clarify that your performance obligation is a series and how you allocate variable consideration to each distinct service in the series.
- Please tell us why the standalone selling price of software is typically estimated using the residual approach and how you met one of the criteria in ASC 606-10-32-34(c). To the extent you have determined the selling price for your software is highly variable; please provide a comprehensive, quantitative discussion of such variability to support your conclusions.
- We note the minimum and maximum amounts; however, it is unclear to us how you considered transactions within this range. Please provide us with more details of your analysis. In this regard, please tell us whether a significant number of transactions fell within a smaller portion of this range. Reference ASC 606-10-32-34(c).
- Please disclose the methods, inputs and assumptions used to allocate the transaction service fee charged to the car dealer to the identified performance obligations. Refer to ASC 606-10-50-20c.

Identification of a Measure of Progress

For performance obligations satisfied over time, the SEC staff has reminded registrants to satisfy the requirements in ASC 606-10-50-18 to disclose: (1) “[t]he methods used to recognize revenue” and (2) “[a]n explanation of why the methods used provide a faithful depiction of the transfer of goods or services.” The following are examples of such comments:

Examples of SEC Comments

- [F]or those contracts that do meet the over time recognition criteria please tell us and disclose the nature of the input method you will use to recognize revenue as you produce the specified units. Also, disclose why this method provides a faithful depiction of the transfer of the goods. See ASC 606-10-50-18.
- Revise future filings to disclose why for performance obligations that you satisfy over time the method used provides a faithful depiction of the transfer of goods or services. Refer to ASC 606-10-50-18.

Performance Obligations

Disclosure Requirements

The new revenue standard introduces various quantitative and qualitative requirements related to performance obligations. Under ASC 606-10-50-12, an entity must disclose the following:

- a. 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.
- b. The significant payment terms (for example, when payment typically is 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 in accordance with paragraphs 606-10-32-11 through 32-13).
- c. The nature of the goods or 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).
- d. Obligations for returns, refunds, and other similar obligations.
- e. Types of warranties and related obligations.

In addition, under ASC 606-10-50-12A, an entity must disclose “revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).”

Feedback From the SEC

In addition to comments related to the significant judgments inherent in the identification of performance obligations as discussed above, the SEC staff has also issued comments related to certain disclosure requirements (under ASC 606-10-50-12) for the identified performance obligations. These comments can be categorized into four primary topics: (1) timing of revenue recognition, (2) significant payment terms, (3) significant financing components, and (4) the nature of goods or services, including principal-versus-agent considerations. These topics are discussed below.

Timing of Revenue Recognition

One of the key considerations related to the timing of revenue recognition under the new revenue standard is whether a performance obligation is satisfied at a point in time or over time. For instance, in a scenario in which a registrant is constructing an asset for a customer by using the customer’s specifications, the SEC staff has questioned how the registrant considered the criteria in ASC 606-10-25-27 through 25-29 in determining whether revenue should be recognized at a point in time or over time. Further, the staff has issued comments related to the identification of the appropriate point in time at which to recognize revenue. On the basis of our review to date, we observed that registrants in the TMT industry received more than half of the SEC comments related to timing of revenue recognition. The following are examples of such comments:

Examples of SEC Comments

- For sales made through your indirect distribution channels, please clarify whether the performance obligation of providing software licenses is satisfied upon shipment or when the software is made available for download, to your indirect distribution partners or to the end user. Tell us how you considered the guidance in ASC 606-10-25-30 and ASC 606-10-55-58C in determining the point in time at which you recognize revenue and disclose any significant judgements made in evaluating when control is transferred. Refer to ASC 606-10-50-19.
- We note your disclosure that revenue for OEM serial production contracts requiring customization is generally recognized at a point in time. Please explain to us why you believe these contracts do not meet the criteria for over time recognition, specifically the criteria that they have no alternative use and you have enforceable right of payment. See guidance at ASC 606-10-25-27.

Significant Payment Terms

The SEC staff has requested that registrants disclose significant payment terms (e.g., when payment typically is due, whether the consideration amount is variable, and whether the variable consideration is typically constrained). Examples of such requests are reproduced below.

Examples of SEC Comments

- Revise to disclose significant payment terms for sales of mileage credits to credit card companies, hotels, and car rental agencies pursuant to ASC 606-10-50-12(b).
- Please tell us how you considered and complied with the disclosures requirement outlined in ASC 606-10-50-12(b) with respect to significant payment terms.

Significant Financing Components

The SEC staff has also issued comments requesting that registrants clarify how they reached the conclusion that their contracts did not include a significant financing component, as well as requesting future disclosure if a registrant elected the practical expedient in ASC 606-10-32-18 that permits an entity not to recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less. Examples of such comments are excerpted below.

Examples of SEC Comments

- Given that the majority of your revenue is generated from long-term contracts, please provide us with your analysis on if they contain a significant financing component. If a material portion of your contracts contain a significant financing component, please revise to disclose this information pursuant to ASC 606-10-50-12(b). If you relied upon the practical expedient based pursuant to ASC 606-10-32-18, disclose this pursuant to ASC 606-10-50-22 and confirm the timing between progress payments and transfer of control and payment was not expected to exceed one year.
- Your . . . contracts do not include a significant financing component because the primary purposes of your invoicing terms is to provide customers with simplified and predictable ways of purchasing your products and services, not to receive financing. [Y]ou disclose your . . . contracts entitle you to receive advance payment at the beginning of the contract but you do not typically consider this to be a significant financing component. Please explain to us how you determined that the payment terms of your contracts do not contain a significant financing component under ASC 606-10-32-15 through 32-18. Address how you concluded that the difference between the promised amount of consideration and the cash selling price is proportional to the reasons for that difference.

Nature of Goods or Services, Including Principal-Versus-Agent Considerations

For each identified performance obligation, registrants are required by ASC 606-10-50-12(c) to disclose “[t]he nature of the goods or 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).” The SEC staff has often referenced ASC 606-10-50-12 when commenting that the registrant should provide greater detail of the nature of the goods or services that the registrant has promised to transfer. Further, the staff has requested that registrants clarify whether they are presenting revenue on a gross or net basis and to explain how the conclusion to report revenue on a gross or net basis was reached. There are many significant judgments registrants have to make in reaching a conclusion about whether they are principals or agents. As a result, the staff has stated that registrants should be mindful of the requirement in ASC 606-10-50-17 to “disclose the judgments, and changes in the judgments, made in applying the guidance in [ASC 606] that significantly affect the determination of the amount and timing of revenue from contracts with customers.” Examples of comments related to principal-versus-agent considerations are excerpted below.

Examples of SEC Comments

- We note from . . . your 2017 Form 10-K (Competition) that you provide transportation services to third-party logistics providers that determine both the mode of transportation and the carrier. Please tell us the nature of these arrangements in further detail and explain to us whether you are the principal or agent pursuant to ASC 606-10-55-36 through 55-39. Further, to the extent these arrangements are material, disclose whether you present revenues earned from third-party logistics providers on a gross or net basis pursuant to ASC 606-10-50-12(c).

Examples of SEC Comments (continued)

- We note your description of various goods and services related to your cruise offerings, which may include round-trip airfare and pre-cruise hotel packages. Provide us with your analysis regarding how you determined gross reporting for pre-cruise and post-cruise services was appropriate pursuant to ASC 606-10-55-36 through 39. Please specifically address how you considered the definition of control and how you are directing any third party providers.
- Your disclosure indicates that transaction fees collected from your customers are recognized as revenue on a gross basis because you are the principal in respect of processing payments. Please describe the services provided by each party involved in the payment processing transaction and tell us how you determined you control each service before it is transferred to the customer. Reference ASC 606-10-55-36 through 40.
- We note your disclosure that when more than one party is involved in providing services to a customer, you generally act as the principal and report revenue on a gross basis. Please tell us which arrangements involve third parties and tell us how you determined you control each service before it is transferred to the customer. In addition, we note your disclosure . . . regarding agent commissions. Please help us understand the nature of these agent services. Reference ASC 606-10-55-36 through 40.
- Please explain to us the process by which interchange fees are earned and explain [your] role in the payment processing system. Tell us whether a portion of the interchange fee received by the company is remitted to a third party. If so, tell us whether revenue from these fees is presented net or gross of the amounts remitted to the third party and explain how you arrived at that determination.

Contract Costs

Disclosure Requirements

Under the new revenue standard and in accordance with ASC 340-40,⁵ entities capitalize certain costs associated with obtaining⁶ and fulfilling a revenue contract. These costs are subsequently amortized. Accordingly, entities are required to disclose:

- The judgments used to determine the amount of costs incurred to obtain and fulfill a contract.
- The method used to determine amortization for each reporting period.
- The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract, by asset category.
- The amortization and impairment loss recognized in the reporting period.

Feedback From the SEC

Nearly 10 percent of the SEC staff's publicly available comments on ASC 606 relate to the accounting or disclosure requirements for contract costs. Though we noted instances in which the staff requested that registrants provide additional information in their disclosures about the costs they are capitalizing in accordance with ASC 340-40, the majority of the staff's comments related to the incremental costs to obtain a contract represented requests for additional disclosure about (1) the method being used to amortize the capitalized costs and (2) how the selected amortization period correlates to the period of benefit. We also observed that when additional commissions are paid upon renewal, the staff has questioned (1) whether such commissions are commensurate with the initial commissions and (2) how such renewals are considered in the amortization period. Examples of comments on the amortization of costs to obtain a contract are excerpted below.

Registrants in the TMT industry received approximately 75 percent of the SEC comments related to contract costs.

⁵ FASB Accounting Standards Codification Subtopic 340-40, *Other Assets and Deferred Costs: Contracts With Customers*.

⁶ Entities may elect to use the practical expedient in ASC 340-40-25-4, which permits them to expense incremental costs of obtaining a contract if such costs will be amortized over a period of one year or less (see Deloitte's [Revenue Roadmap](#) for more information).

Examples of SEC Comments

- Please revise to disclose the method by which you amortize the initial commission costs over the five-year period of benefit. Refer to ASC 340-40-50-2.
- It appears that a portion of your sales commissions is expensed upon delivery of the software license and a portion related to services is deferred. If so, please revise to clarify how your amortization expense reflects the transfer of the license and services to your customer. Refer to ASC 340-40-35-1 and 340-40-50-2(b).
- Please tell us, and revise to clarify if appropriate, whether additional sales commissions are paid upon contract renewal and, if so, whether such amounts are commensurate with the initial commissions. Please also disclose how commissions paid for renewals are considered in your five year period of benefit for the initial commission. Finally, please disclose the period of time over which you amortize commission costs related to contract renewals[.] Refer to ASC 340-40-35-1 and 340-40-50-2(b).
- You disclose that deferred commissions paid upon the acquisition of an initial contract and any subsequent renewals are amortized over an estimated period of benefit based upon the weighted-average term of contracts and related product and service delivery periods. Please explain further what you mean by the “weighted average term of contracts and related product and service delivery periods.” In addition, please clarify how you are accounting for commissions paid on renewals. Refer to ASC 340-40-50-2.

Disaggregation of Revenue

Disclosure Requirements

Under the new revenue standard, an entity is required by ASC 606-10-50-5 and 50-6 to disaggregate revenue for disclosure purposes into categories as follows:

- The categories must depict how “revenue and cash flows are affected by economic factors.”
- The disclosures must contain sufficient information to convey the relationship between disaggregated revenue and each disclosed segment’s revenue information.

As discussed in paragraph BC336 of [ASU 2014-09](#),⁷ “because the most useful disaggregation of revenue depends on various entity-specific or industry-specific factors, the Boards decided that Topic 606 should not prescribe any specific factor to be used as the basis for disaggregating revenue from contracts with customers.” Instead, ASC 606-10-55-91 provides examples of categories that may be appropriate for an entity’s disclosures in the financial statements, such as type of good or service, geographical region, market or type of customer, type of contract, contract duration, timing of transfer of the good or service, and sales channels.

When selecting the types of categories for disaggregated revenue, an entity should consider how and where it has communicated information about revenue for various purposes, including (1) disclosures outside the financial statements, (2) information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments, and (3) other information that is similar to the types of information identified in (1) and (2) and that is used by the entity or users of its financial statements for evaluating its financial performance or making decisions about resource allocation.

The SEC has commented specifically on the consistency of the disaggregation disclosures when compared with:

- Reports reviewed by the chief operating decision maker.
- Investor presentations.
- Earnings calls.
- Monthly sales reports.
- MD&A section of Form 10-K.

⁷ FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*.

Feedback From the SEC

The SEC staff has issued comments asking registrants to clarify how they determined that the categories in which they present disaggregated revenue information were sufficient. The staff has reminded registrants that they should consider information disclosed outside the financial statements. Further, the staff has questioned whether the selected categories are appropriate given the registrants' business model and whether the categories depict how revenue and cash flows are affected by economic factors. Registrants in the consumer and industrial products industry received approximately 70 percent of the SEC comments related to disaggregated revenue. Although comments on disaggregation constituted approximately 5 percent of the total publicly available ASC 606 comments, the staff recently stated⁸ that it anticipates that disaggregated revenue disclosures will continue to be a focus in the coming year. The following are examples of such comments:

Examples of SEC Comments

- We note your presentation of disaggregated revenue by major source. . . . With respect to the disclosure requirements of ASC 606-10-50-5, please tell us how you considered the guidance in paragraphs ASC 606-10-55-89 through 55-91 in selecting the appropriate categories to use to disaggregate revenue.
- You present “vehicles, parts, and accessories” as a major source of revenue. Please explain to us why the aggregation of revenue from “parts and accessories” with revenue from “vehicles” is appropriate pursuant to ASC 606-10-50-5. We note from your disclosures that parts and accessories appear to be subject to return from customers, whereas this does not appear to be the case for vehicles. It also appears these categories may have other different characteristics, such as type of good, pricing and dollar magnitude of contribution to margins.
- We note you provide other information outside your financial statements regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from your contracts with customers, including but not limited to:
 - Monthly sales reports which include unit sales by brand, by vehicle type, and between retail and fleet sales. These reports also include a discussion of underlying trends for key vehicles and some information on transaction prices.
 - A Strategic Update . . . which includes a discussion of plans to shift allocation of capital from cars to SUVs and trucks and to expand electric vehicles revenue opportunities.
 - An earnings call . . . which includes a discussion of the strong performance of commercial vehicles as well as consumers moving away from passenger cars and into utilities and trucks and your increasing investments in these areas as a result.

Given the information cited above, it appears other information about your automotive segment's revenue (beyond geographical information) is used by the company and users of your financial statements to evaluate your financial performance or to make resource allocation decisions. In this regard, please tell us how you considered the presentation and use of such information pursuant to ASC 606-10-55-90(c) when determining the appropriate disaggregated revenue categories that depict how the nature, amount, timing and uncertainty of cash flows are affected by economic factors and in the context of meeting the overall disclosure objective of ASC 606-10-50-1.

- Please tell us what consideration you gave to disaggregating revenue by type of customer and timing of revenue recognition. Refer to ASC 606-10-55-91c and f.

⁸ See [footnote 4](#).

Contract Balances

Disclosure Requirements

Under the new revenue standard, in accordance with ASC 606-10-50-8 through 50-10, registrants must disclose the following information about contract balances:

- “The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed.”
- The amount of revenue recognized in the reporting period from the beginning contract liability balance.
- An “explanation of the significant changes in the contract . . . balances during the reporting period” (by using quantitative and qualitative information).
- An explanation of “how the timing of satisfaction of [the entity’s] performance obligations . . . relates to the typical timing of payment . . . and the effect that those factors have on the contract asset and the contract liability balances.”

Feedback From the SEC

The SEC staff has issued comments to registrants asking them to include additional information in their disclosures about how contract balances are derived. Examples of these comments are reproduced below.

Examples of SEC Comments

- Tell us your significant payment terms and how the timing of satisfaction of performance obligations relates to the timing of payment and the effect on the contract asset and liability balances. Disclose the information required by ASC 606-10-50-9 and 50-12(b)^{9]} in future filings.
- You disclose that there are circumstances where customer incentives issued may exceed the reduction of revenue recorded over the contract term, and result in a recorded contract asset. Please provide examples of the types of incentives that would drive the generation of these contract assets and describe how those incentives would exceed the reduction of revenue over the contract term.
- Refer to ASC 606-10-50-8 through 15. Please tell us how you have considered shipments in transit at period-end as contract liabilities and remaining performance obligations. In this regard, if you recognize revenue in both segments based on time based metrics as stated in the first paragraph in this note, it would appear that a portion of revenue for all in-transit shipments would qualify as remaining performance obligations and contract assets/liabilities.

Remaining Performance Obligations

Disclosure Requirements

ASC 606-10-50-13 requires an entity to disclose the following about its remaining performance obligations:

- “The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.”

⁹ Note that ASC 606-10-50-9 discusses how the timing of the satisfaction of an entity’s performance obligations is related to the typical timing of payment and the effect such timing has on the contract asset and the contract liability balances. ASC 606-10-50-12(b) discusses “significant payment terms (for example, when payment typically is 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”

- “An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with [the requirement above], which the entity shall disclose in either of the following ways:
 1. On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations
 2. By using qualitative information.”

Several practical expedients are available for the disclosure of remaining performance obligations (see Deloitte’s [Revenue Roadmap](#) for details). Under ASC 606-10-50-15, if a PBE elects to apply the practical expedients related to the disclosure of remaining performance obligations, it is required to disclose which of the practical expedients it is applying as well as certain other qualitative information.

Feedback From the SEC

We observed instances in which the SEC staff questioned how registrants have complied with the disclosure requirements of ASC 606-10-50-13 through 50-15 regarding information about remaining performance obligations. For instance, the staff has questioned how registrants have complied with the requirement of ASC 606-10-50-13(b) to disclose when the registrant expects to recognize amounts recorded as deferred revenue. Examples of such comments are excerpted below.

Examples of SEC Comments

- Please tell us how you considered the requirements in ASC 606-10-50-13 to 50-15 to disclose information about remaining performance obligations or application of optional exemptions. In that regard, we note that in your Form 10-K for the period ended December 31, 2017 you state that you sell product to your largest customer, representing 22% of total sales for the year, under a long-term contract. You further state that for your other customers you typically sell to them under contracts with one to two year terms.
- Please tell us and disclose the transaction price allocated to the performance obligations that are unsatisfied as of September 30, 2018 and explain when you expect to recognize such amount. Refer to ASC 606-10-50-13. This would appear to include amounts referred to as Other Backlog as provided in the Form 8-K furnished on November 11, 2018. If you are applying the practical expedient in 606-10-50-14 please tell us and disclose. Refer to 606-10-50-15.

Thinking Ahead

The adoption of the new revenue standard has led to a noticeable increase in the amount and type of information entities have disclosed about revenue activities and related transactions. Although we observed some consistency in their disclosures, companies’ interpretations of the requirements and the amount of information to disclose have varied. We encourage registrants to continue to refine their accounting for revenue and the information they disclose as accounting standard setters clarify guidance and regulators issue more comments. We believe that registrants should take this opportunity to revisit their disclosures in advance of quarterly filings in 2019 while keeping in mind that certain disclosures are not required for interim filings in year 2 of adoption (see [Section 14.6](#) of Deloitte’s [Revenue Roadmap](#) for details). In addition, looking ahead to future filing cycles, companies will benefit from moving toward a repeatable and sustainable process of assessing and preparing the new revenue standard disclosures.

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