

## In This Issue

- [Introduction](#)
- [Interim Versus Annual Reporting Considerations](#)
- [Description of Population](#)
- [Transition](#)
- [Disaggregation of Revenue](#)
- [Contract Balances](#)
- [Performance Obligations](#)
- [Remaining Performance Obligations](#)
- [Significant Judgments and Changes in Judgments](#)
- [Contract Costs](#)
- [Practical Expedients](#)
- [Thinking Ahead](#)

# ASC 606 Is Here — How Do Your Revenue Disclosures Stack Up?

by Kaycee Dolan, Eric Knachel, and Rob Moynihan, Deloitte & Touche LLP

## Introduction

Calendar-year-end public business entities adopted the FASB's new revenue standard (ASC 606<sup>1</sup>) in the first quarter of 2018.<sup>2</sup> 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* provides insight into our review of the disclosures in the public filings of a sample of companies that adopted the standard as of the first quarter of 2018. Entities may benefit from evaluating the disclosure trends we have observed as a result of this review. For a comprehensive discussion of the new revenue standard, see Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* (the "Revenue Roadmap").

<sup>1</sup> FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

<sup>2</sup> Public business entities reporting under U.S. GAAP are required to adopt the new revenue standard 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 nonpublic entities, the new revenue standard is effective for annual periods beginning after December 15, 2018, and early adoption is also permitted.



## Key Takeaways

- From a big-picture perspective, we observed that in many instances, the revenue disclosures were at least three times as long as the prior-year disclosures.
- Most entities in our sample (over 85 percent) elected to adopt the new revenue standard by using the modified retrospective approach.
- The new revenue standard's requirement to provide more comprehensive disclosures is likely to significantly affect an entity's financial statements regardless of the standard's effect on recognition patterns.
- We observed diversity in the type and amount of information that entities disclosed. While some companies provided robust and thorough disclosures, particularly on the nature of performance obligations and on the significant judgments and estimates involved, others did not.
- Many entities have chosen to add a separate and specific revenue footnote that contains the required disclosures.
- When providing disaggregated revenue disclosures, the majority of entities in our sample used two or fewer categories. The most commonly selected categories presented in tabular disclosure were (1) product lines and (2) geographical regions.
- Most entities in our sample elected multiple practical expedients related to their ASC 606 disclosures, most commonly those related to remaining performance obligations.
- We expect entities to continue to refine the information they disclose as (1) they review peer companies' disclosures, (2) accounting standard setters clarify guidance, and (3) regulators continue to issue comments.

## Interim Versus Annual Reporting Considerations

The new revenue standard requires entities to disclose information on both an interim and an annual basis. While the disclosures discussed in this *Heads Up* must all be considered annually, those related to disaggregated revenue, contract balances, and remaining performance obligations are also required in interim financial statements prepared under U.S. GAAP (at least for public entities).

Even though the new revenue standard specifies that certain disclosures are not required in interim financial statements, SEC registrants must provide both annual and interim disclosures in the first interim period after adopting any new accounting standard and in each subsequent quarter in the year of adoption.<sup>3</sup> Specifically, [Section 1500](#) of the SEC Financial Reporting Manual states:

[SEC Regulation S-X, Article 10,] requires disclosures about material matters that were not disclosed in the most recent annual financial statements. Accordingly, when a registrant adopts a new accounting standard in an interim period, the registrant is expected to provide both the annual and the interim period financial statement disclosures prescribed by the new accounting standard, to the extent not duplicative. These disclosures should be included in each quarterly report in the year of adoption.

Thus, SEC registrants must comply with the new revenue standard's annual and interim disclosure requirements in each quarter of their first year of adoption to the extent that the information they provide is material and not duplicated.

<sup>3</sup> The second year after adoption, entities may exclude annual disclosures from their interim financial statements.

## Description of Population

The statistics in this *Heads Up* are based on the quarterly Form 10-Q filings of 50 Fortune 1000 companies that adopted the new revenue standard as of January 1, 2018. The companies span a wide variety of industries, including automotive, consumer products, financial services, health care, life sciences, oil and gas, power and utilities, retail and distribution, and technology, and consist of large accelerated filers, accelerated filers, nonaccelerated filers, and smaller reporting entities.

---

### Key — Disclosure Categories

---

- Required for all entities.
  - Only required for public entities (nonpublic entities can elect to not disclose).
- 

The sections below summarize key categories of disclosures required under the new revenue standard and identify trends related to the Forms 10-Q that the entities in our sample filed for the first quarter of 2018. In addition, those sections provide, as applicable, (1) disclosure examples reproduced from various SEC registrants' quarterly Form 10-Q filings and (2) examples of SEC comments reproduced from publicly available comment letters issued to SEC registrants.

## Transition

The new revenue standard provides a choice between two methods of transition: (1) the "full retrospective method" and (2) the "modified retrospective method." Under the full retrospective method, the new revenue standard would be applied on a retrospective basis to all prior periods presented in accordance with the guidance on accounting changes in ASC 250.<sup>4</sup> On the other hand, under the modified retrospective method, the new revenue standard would be applied retrospectively with a recorded cumulative adjustment to opening retained earnings in the year of adoption.

## Disclosure Requirements

Entities applying the modified retrospective method are required under ASC 606-10-65-1(i)(1) and (2) to disclose the amount by which each financial statement line item is affected by the application of the new revenue standard in the current period, as well as an explanation of the reasons for any significant changes. In addition, under ASC 606-10-65-1(h), entities applying the modified retrospective method are required to disclose "whether [they have] applied this guidance to all contracts at the date of initial application or only to contracts that are not completed at the date of initial application."

Under both the full retrospective and modified retrospective methods, entities must disclose whether they have applied any of the transition practical expedients provided for in ASC 606-10-65-1(f), as well as a qualitative assessment (to the extent reasonably possible) of the estimated impact of applying each of the practical expedients. See [Practical Expedients](#) below for further details regarding the transition practical expedients.

Under ASC 606-10-65-1(e), an entity that elects to use the full retrospective method is required to disclose information about a change in accounting principle upon initial adoption of the new revenue standard in accordance with the guidance in ASC 250-10-50-1 and 50-2 (see [Section 15.2.1](#) of the [Revenue Roadmap](#) for further discussion), except that it does not need to disclose the effect of the changes on the current period as it otherwise would be required to do under ASC 250-10-50-1(b)(2). In addition, the entity is required to disclose the effect of the changes on any prior periods that have been retrospectively adjusted.

<sup>4</sup> FASB Accounting Standards Codification Topic 250, *Accounting Changes and Error Corrections*.

## Insights

Over 85 percent of the entities in our sample adopted the new revenue standard by using the modified retrospective method. Of the entities in our sample that used the modified retrospective method of adoption, approximately half disclosed electing the practical expedient provided by ASC 606-10-65-1(h) to apply the standard only to contracts not completed as of the transition date.

Just over half of the entities in our sample that used the modified retrospective method disclosed that a monetary cumulative catch-up adjustment to retained earnings was recognized as a result of adoption of the new revenue standard. Of those entities, approximately 60 percent chose to break down the impact of adoption on retained earnings in a tabular format by presenting either the cumulative impact on individual financial statement line items or the aggregate cumulative impact on total assets and liabilities. Most of the entities that provided this tabular disclosure opted to break down the impact on retained earnings by individual financial statement line item.

In accordance with the guidance in ASC 606-10-65-1(i)(1) that requires entities using the modified retrospective method to disclose the monetary impact of adopting the new revenue standard on each financial statement line item in the current reporting period, approximately 40 percent of the entities in our sample that used this transition method disclosed such a monetary impact in their first-quarter 2018 financial statements. Of those entities, approximately 70 percent elected to comply with the disclosure requirements of ASC 606-10-65(i)(1) by using a tabular format. The remaining entities in our sample that disclosed a monetary impact in their first-quarter 2018 financial statements elected to satisfy the disclosure requirements of ASC 606-10-65(i)(1) in a narrative format.

Disclosure Examples 1 and 2 below demonstrate the use of a tabular format to disclose the impact on each financial statement line item in the current period under the modified retrospective method. We observed that many entities in our sample used a heading such as "As Reported" to refer to the balances reported on the current-period (i.e., the period ended March 31, 2018) balance sheet or income statement.

### Tabular Disclosure of the Impact of Adopting the New Revenue Standard on Line Items of Consolidated Balance Sheet

<b>Disclosure Example 1</b>			
The impact of the adoption of ASC 606 on our consolidated balance sheet as of March 31, 2018 was as follows . . . :			
	<b>As Reported</b>	<b>Adjustments</b>	<b>Balance Without ASC 606 Adoption</b>
<b>Assets</b>			
Accounts receivable	\$ [XXX]	\$ [XXX]	\$ [XXX]
Other current assets	[XXX]	[XXX]	[XXX]
Total Current Assets	[XXX]	[XXX]	[XXX]
Other long-term assets	[XXX]	[XXX]	[XXX]
Total Assets	[XXX]	[XXX]	[XXX]

**Disclosure Example 1 (continued)**

	As Reported	Adjustments	Balance Without ASC 606 Adoption
<b>Liabilities and Stockholders' Equity</b>			
Accrued liabilities	[XXX]	[XXX]	[XXX]
Total Current Liabilities	[XXX]	[XXX]	[XXX]
Deferred credits and other long-term liabilities	[XXX]	[XXX]	[XXX]
Total Liabilities	[XXX]	[XXX]	[XXX]
Retained earnings	[XXX]	[XXX]	[XXX]
Total Stockholders' Equity	[XXX]	[XXX]	[XXX]
Total Liabilities and Stockholders' Equity	[XXX]	[XXX]	[XXX]

**Tabular Disclosure of the Impact of Adopting the New Revenue  
Standard on Line Items of Consolidated Income Statement**

**Disclosure Example 2**

The impact of the adoption of ASC 606 on our consolidated income statement for the three months ended March 31, 2018 was as follows . . . :

	As Reported	Adjustments	Balance Without ASC 606 Adoption
Managed care and other	\$ [XXX]	\$ [XXX]	\$ [XXX]
PBM[*]	[XXX]	[XXX]	[XXX]
Total net revenue	[XXX]	[XXX]	[XXX]
Income before income taxes	[XXX]	[XXX]	[XXX]
(Benefit) provision for income taxes	[XXX]	[XXX]	[XXX]
Net income	[XXX]	[XXX]	[XXX]
Net income attributable to [the Company]	[XXX]	[XXX]	[XXX]

[\* Pharmacy benefit management.]

Although the new revenue standard does not explicitly require entities to disclose the cumulative effect on individual financial statement line items composing the opening retained earnings adjustment, approximately 40 percent of the entities in our sample that disclosed an impact attributable to the adoption of the new revenue standard elected to disclose the cumulative effect on those individual line items to satisfy the requirement to disclose the reasons for the significant changes that resulted in the cumulative adjustment. Below is an example of such a disclosure.

## Cumulative Effect on Line Items Composing the Opening Retained Earnings Adjustment

### Disclosure Example 3

The cumulative effect of changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09<sup>51</sup> [was] as follows . . . :

	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
<b>Assets</b>			
Other current assets	\$ [XXX]	\$ [XXX]	\$ [XXX]
Total Current Assets	[XXX]	[XXX]	[XXX]
Deferred income taxes	[XXX]	[XXX]	[XXX]
Other long-term assets	[XXX]	[XXX]	[XXX]
Total Assets	[XXX]	[XXX]	[XXX]
<b>Liabilities and Stockholders' Equity</b>			
Accrued liabilities	[XXX]	[XXX]	[XXX]
Total Current Liabilities	[XXX]	[XXX]	[XXX]
Deferred credits and other long-term liabilities	[XXX]	[XXX]	[XXX]
Total Liabilities	[XXX]	[XXX]	[XXX]
Retained earnings	[XXX]	[XXX]	[XXX]
Total Stockholders' Equity	[XXX]	[XXX]	[XXX]
Total Liabilities and Stockholders' Equity	[XXX]	[XXX]	[XXX]

## Disaggregation of Revenue

### Disclosure Requirements

Under the new revenue standard, an entity is required to disaggregate revenue 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.

A nonpublic entity may elect not to apply the two requirements above; however, in accordance with ASC 606-10-50-7, it must still disclose, "at a minimum, revenue disaggregated according to the 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 to customers over time) and qualitative information about how economic factors . . . affect the nature, amount, timing, and uncertainty of revenue and cash flows."

As discussed in paragraph BC336 of [ASU 2014-09](#), "because the most useful disaggregation of revenue depends on various entity-specific or industry-specific factors, the Boards decided that [ASC] 606 should not prescribe any specific factor to be used as the basis for disaggregating

<sup>51</sup> FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers (Topic 606)*.

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.

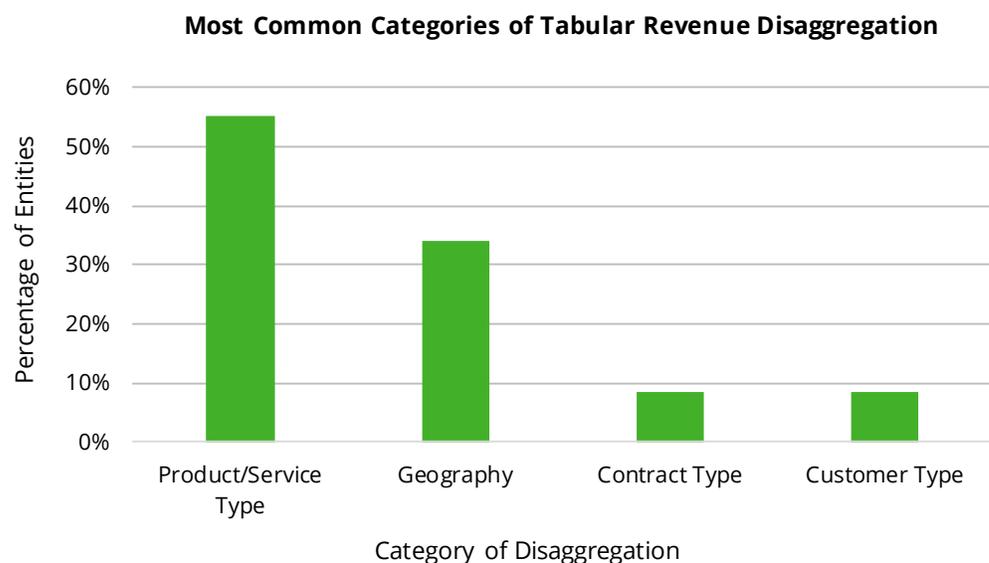
When selecting the types of categories for disaggregated revenue, an entity should consider how and where it has communicated information about revenue for various purposes, including (1) disclosures outside the financial statements, (2) information regularly reviewed by the chief operating decision 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.

## Insights

Approximately 95 percent of the entities in our sample used a tabular format to disclose disaggregated revenue by category. Further, roughly 60 percent of the entities in our sample disclosed disaggregated revenue by category in a newly incorporated revenue footnote, while slightly over 20 percent disclosed such information in the segment footnote (which eliminates certain duplicative information), and approximately 20 percent disclosed it as part of their footnote for newly adopted accounting pronouncements or another location. Regardless of the location of the disclosures in the financial statements, the entities’ disaggregation of revenue provided was significantly more granular than the information they disclosed in footnotes before adopting the new standard.

ASC 606 contains an illustrative example<sup>6</sup> (Example 41) of a disaggregated revenue disclosure, which includes a reconciliation of disaggregated revenue to the segment disclosures. At the November 7, 2016, meeting of the FASB’s transition resource group (TRG) for revenue recognition, the FASB staff clarified that although a tabular reconciliation is not required under ASC 606-10-50-6, entities should disclose enough information to permit a financial statement user to understand the relationship between disaggregated revenue and the revenue disclosed by reportable segment. Approximately 65 percent of the entities in our sample elected to provide their disaggregated revenue disclosure in the format provided by Example 41, in which columns or rows are included to reconcile directly to each reportable segment. Very few used a tabular format to disclose information about the timing of transfers; instead, they often presented such information in narrative form as part of the description of each revenue stream.

The graph below depicts the most common categories that entities in our sample used in their tabular disclosures of disaggregated revenue.



<sup>6</sup> ASC 606-10-55-296 and 55-297.

As the graph illustrates, in the tabular disaggregation within the footnotes, more than half of the entities in our sample disaggregated by product/service type, and many disaggregated by geographical region. We observed that many entities also disaggregated revenue by product/service type through their segment disclosures or income statement presentation. In addition, a variety of other categories were used to depict the nature, amount, and uncertainty of revenue recognition, not all of which have been reflected in the graph. While ASC 606-10-55-91 states that “contract duration” and “sales channels” are examples of appropriate disaggregation categories, we did not observe entities in our sample choosing to use them.

We also analyzed how many different disaggregation categories each of the entities considered relevant. Not including pattern of recognition (i.e., recognition at a point in time vs. recognition over time), we found that most adopters (approximately 90 percent) appeared to use two or fewer categories of tabular disaggregation.

Disclosure Examples 4 and 5 below use the tabular format suggested by Example 41 in ASC 606-10-55-296 and 55-297 to disaggregate revenue into categories. Disclosure Example 5 illustrates practices employed by several entities in our sample — specifically, the inclusion of a column (or row) for intersegment eliminations, as well as a qualitative (rather than tabular) disclosure that the majority of the entity’s business is conducted in a certain geographical region, which provides additional high-level disaggregation information. Note that Disclosure Examples 4 and 5 are intended to illustrate format only, and entities should carefully consider all relevant facts and circumstances in determining the categories that are relevant.

### Tabular Disclosure of Revenue Disaggregated by Contract Type

<b>Disclosure Example 4</b>				
The following tables present our revenue disaggregated into various categories. . . .				
Revenue by contract type was as follows . . . :				
<b>For the three months ended March 31, 2018</b>				
<b>Segment</b>	<b>Fixed-price</b>	<b>Unit-price</b>	<b>Cost reimbursable<sup>[*]</sup></b>	<b>Total</b>
[Segment 1]	\$ [XXX]	\$ [XXX]	\$ [XXX]	\$ [XXX]
[Segment 2]	[XXX]	[XXX]	[XXX]	[XXX]
[Segment 3]	[XXX]	[XXX]	[XXX]	[XXX]
[Segment 4]	____ [XXX]	____ [XXX]	____ [XXX]	____ [XXX]
Total	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>
[*] Includes time and material and cost reimbursable plus fee contracts.				

**Qualitative Geographical Disclosure and Tabular Disaggregation of Revenue by Service Line, Customer Type, and Timing of Revenue Recognition**

**Disclosure Example 5**

Virtually all of the Company's revenues are derived from business in North America. The following table disaggregates our revenue by major service line, type of customer and timing of revenue recognition . . . :

	<b>Three months ended March 31, 2018</b>			
	<b>[Segment 1]</b>	<b>[Segment 2]</b>	<b>Elimination</b>	<b>Total</b>
<b>Major Service Lines</b>				
Commercial				
Risk-based, non-EAP <sup>[*]</sup>	\$ [XXX]	\$ [XXX]	\$ [XXX]	\$ [XXX]
EAP risk-based	[XXX]	[XXX]	[XXX]	[XXX]
ASO <sup>[**]</sup>	[XXX]	[XXX]	[XXX]	[XXX]
Government				
Risk-based, non-EAP	[XXX]	[XXX]	[XXX]	[XXX]
EAP risk-based	[XXX]	[XXX]	[XXX]	[XXX]
ASO	[XXX]	[XXX]	[XXX]	[XXX]
PBM, including dispensing	[XXX]	[XXX]	[XXX]	[XXX]
Medicare Part D	[XXX]	[XXX]	[XXX]	[XXX]
PBA <sup>[***]</sup>	[XXX]	[XXX]	[XXX]	[XXX]
Formulary management	[XXX]	[XXX]	[XXX]	[XXX]
Other	[XXX]	[XXX]	[XXX]	[XXX]
Total net revenue	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>
<b>Type of Customer</b>				
Government	\$ [XXX]	\$ [XXX]	\$ [XXX]	\$ [XXX]
Non-government	[XXX]	[XXX]	[XXX]	[XXX]
Total net revenue	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>
<b>Timing of Revenue Recognition</b>				
Transferred at a point in time	\$ [XXX]	\$ [XXX]	\$ [XXX]	\$ [XXX]
Transferred over time	[XXX]	[XXX]	[XXX]	[XXX]
Total net revenue	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>	<u>\$ [XXX]</u>

[\* Employee assistance plan.]

[\*\* Administrative services only.]

[\*\*\* Pharmacy benefit administration.]

## Feedback From the SEC

The SEC staff has issued comments to registrants asking them to clarify how they determined the categories in which to present disaggregated revenue information. Two examples of such comments are provided below. In addition, we are aware that the SEC staff may look to earnings calls and investor presentations when evaluating a registrant's chosen categories of disaggregation.

### 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.

## Contract Balances

### Disclosure Requirements

Under the new revenue standard, companies must disclose the following information about contract balances:<sup>7</sup>

- Opening and closing balances (receivables, contract assets, and contract liabilities), 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 significant changes in 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."<sup>8</sup>

Because the new revenue standard does not prescribe a specific format for disclosures about contract balances, entities can present them in tabular or narrative form. Whether a rollforward of contract balances should be included in the disclosures was discussed at the FASB's November 7, 2016, TRG meeting. Although such a rollforward is not required under ASC 606-10-50-8, the FASB staff noted that it may be an effective means of helping users understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, which is consistent with the overall objective of the new revenue standard.

### Insights

There was diversity in how the entities in our sample chose to meet the contract balance disclosure requirements. We observed that approximately 60 percent of the entities in our sample disclosed that they had significant contract balances. Of those, 55 percent chose to present the disclosures in a tabular format, with the remainder providing the disclosures in a narrative format. Of the entities that disclosed the contract balances in a tabular format, approximately 30 percent included a rollforward.

<sup>7</sup> See Sections 13.2 and 13.3 of Deloitte's [Revenue Roadmap](#) for more information about contract liabilities and contract assets, respectively.

<sup>8</sup> Quoted from ASC 606-10-50-9.

Disclosure Examples 6 through 8 below demonstrate several ways in which entities in our sample complied with the contract balance disclosure requirements. Disclosure Example 6 illustrates the narrative format, Disclosure Example 7 illustrates a combined tabular and narrative format, and Disclosure Example 8 illustrates a rollforward.

### Narrative Disclosure of Contract Balances

#### Disclosure Example 6

Our clients are billed based on fee schedules that are agreed upon in each customer contract. Receivables from customers were \$[X] billion at Jan. 1, 2018 and \$[X] billion at March 31, 2018. An allowance is maintained for accounts receivables which is generally based on the number of days outstanding. Adjustments to the allowance are recorded in other expense in the consolidated income statement. A provision of \$[X] million was recorded in the first quarter of 2018.

Contract assets represent accrued revenues that have not yet been billed to the customers due to certain contractual terms other than the passage of time and were \$[X] million at Jan. 1, 2018 and \$[X] million at March 31, 2018. Accrued revenues recorded as contract assets are usually billed on an annual basis. There were no impairments recorded on contract assets in the first quarter of 2018.

Both receivables from customers and contract assets are included in other assets on the consolidated balance sheet.

Contract liabilities represent payments received in advance of providing services under certain contracts and were \$[X] million at Jan. 1, 2018 and \$[X] million at March 31, 2018. Contract liabilities are included in other liabilities on the consolidated balance sheet. Revenue recognized in the first quarter of 2018 relating to contract liabilities as of Jan. 1, 2018 was \$[X] million.

Changes in contract assets and liabilities primarily relate to either party's performance under the contracts.

### Combined Tabular and Narrative Disclosure of Contract Balances

#### Disclosure Example 7

Accounts receivable, contract assets and contract liabilities consisted of the following . . . :

	January 1, 2018	March 31, 2018	\$ Change	% Change
Accounts receivable	\$ [XXX]	\$ [XXX]	\$ [XXX]	[XX]%
Contract assets	[XXX]	[XXX]	[XXX]	[XX]%
Contract liabilities — current	[XXX]	[XXX]	[XXX]	[XX]%
Contract liabilities — long-term	[XXX]	[XXX]	[XXX]	[XX]%

Accounts receivable, which are included in accounts receivable, other current assets and other long-term assets on the consolidated balance sheets, increased by \$[X] million, mainly due to timing. Contract assets, which are included in other current assets on the consolidated balance sheets, decreased by \$[X] million, mainly due to items that became fully earned during the period and shifted to accounts receivable, partially offset by the timing of accrual of certain performance incentives. Contract liabilities — current, which are included in accrued liabilities on the consolidated balance sheets, increased by \$[X] million, mainly due to the timing of receipts related to April 2018 revenues and the timing of material rights generated for some of the Company's government contracts. Contract liabilities — long-term, which are included in deferred credits and other long-term liabilities on the consolidated balance sheets, increased by \$[X] million, mainly due to receipts for which recognition will be long-term.

During the three months ended March 31, 2018, the Company recognized revenue of \$[X] million that was included in current contract liabilities at January 1, 2018. The estimated timing of recognition of amounts included in contract liabilities at March 31, 2018 are as follows: 2018 — \$[X] million; 2019 — \$[X] million; 2020 — \$[X] million; 2021 and beyond — \$[X] million. During the three months ended March 31, 2018, the revenue the Company recognized related to performance obligations that were satisfied, or partially satisfied, in previous periods was not material.

### Disclosure Example 7 (continued)

The Company's accounts receivable consists of amounts due from customers throughout the United States. Collateral is generally not required. A majority of the Company's contracts have payment terms in the month of service, or within a few months thereafter. The timing of payments from customers from time to time generate contract assets or contract liabilities, however these amounts are immaterial.

### Contract Balance Rollforward

#### Disclosure Example 8

Deferred revenue for customer contracts, excluding Dry Leasing contracts, represents amounts collected from, or invoiced to, customers in advance of revenue recognition. The balance of Deferred revenue will increase or decrease based on the timing of invoices and recognition of revenue. Significant changes in our Deferred Revenue liability balances during the three months ended March 31, 2018 were as follows:

	<b>Deferred Revenue</b>
Balance at beginning of period	\$ [XXX]
Revenue recognized	[XXX]
Amounts collected or invoiced	____ [XXX]
Balance at end of period	<u>\$ [XXX]</u>

### 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. An example of these comments is reproduced below.

#### Example of an SEC Comment

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)<sup>[9]</sup> in future filings.

## 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:

- “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.”
- “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 [ASC] 606-10-32-11 through 32-13).”

<sup>9</sup> 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 (e.g., 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).

- “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).”
- “Obligations for returns, refunds, and other similar obligations.”
- “Types of warranties and related obligations.”

In addition, under ASC 606-10-50-12A, an entity must disclose:

- “[R]evenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).”<sup>10</sup>

## Insights

Given the unique nature of a company’s goods and services and the many significant judgments it needs to make in applying the new standard, its disclosures about performance obligations may be the most detailed and time-consuming to prepare. Each company we observed tailored its disclosures, and the type of information disclosed was not necessarily consistent across industries. In addition, a narrative (rather than tabular) format was most commonly used for these disclosures. Disclosure Examples 9 through 11 below illustrate disclosures about performance obligations.

### Narrative Disclosure of Performance Obligations by Revenue Type

#### Disclosure Example 9

[Revenue Type A]: We sell third-party . . . licenses based upon a customer purchase order, shipping a certificate of authenticity (“COA”) to satisfy this single performance obligation. These shipments are also subject to limited return rights; historically, returns have averaged less than one-quarter of one percent. In accordance with Topic 606, we will continue to recognize revenue from third-party products at the time of shipment when the customer accepts control of the COA.

[Revenue Type B]: We sell our . . . products to customers under a contract or by purchase order. . . . In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract at contract inception. Performance obligations that are not distinct at contract inception are combined. Contracts that include . . . customization may result in the combination of the customization services with the . . . license as one distinct performance obligation. The transaction price is generally in the form of a fixed fee at contract inception. Certain . . . contracts also include variable consideration in the form of royalties earned when customers meet contractual volume thresholds. We allocate the transaction price to each distinct performance obligation based on the estimated standalone selling price for each performance obligation.

<sup>10</sup> If a nonpublic entity elects under ASC 606-10-50-11 to omit the information in ASC 606-10-50-12A, the entity would instead provide the disclosure required by ASC 606-10-50-8(a) related to contract balances.

## Narrative Disclosure of a Single Performance Obligation Involving the Sale of a Good and Services

### Disclosure Example 10

[T]he sale of a [system] when combined with [services] represents a single performance obligation for the development and construction of a single generation asset. For such sales arrangements, we recognize revenue using cost based input methods, which recognize revenue and gross profit as work is performed based on the relationship between actual costs incurred compared to the total estimated costs for the contract, after consideration of our customers' commitment to perform [their] obligations under the contract, which is typically measured through the receipt of cash deposits or other forms of financial security issued by creditworthy financial institutions or parent entities. For sales of . . . systems in which we obtain an interest in the project sold to the customer, we recognize all of the revenue for the consideration received, including the fair value of the noncontrolling interest we obtained, and defer any profit associated with the interest obtained through "Equity in earnings of unconsolidated affiliates, net of tax."

In applying cost based input methods of revenue recognition, we use the actual costs incurred relative to the total estimated costs (including . . . costs) to determine our progress towards contract completion and to calculate the corresponding amount of revenue and gross profit to recognize.

## Narrative Disclosure of Warranties

### Disclosure Example 11

Warranties are classified as either assurance type or service type warranties. A warranty is considered an assurance type warranty if it provides the consumer with assurance that the product will function as intended. A warranty that goes above and beyond ensuring basic functionality is considered a service type warranty. The Company offers certain limited warranties that are assurance type warranties and extended service arrangements that are service type warranties. Assurance type warranties are not accounted for as separate performance obligations under the revenue model. If a service type warranty is sold with a product or separately, revenue is recognized over the life of the warranty. The Company evaluates warranty offerings in comparison to industry standards and market expectations to determine appropriate warranty classification. Industry standards and market expectations are determined by jurisdictional laws, competitor offerings and customer expectations. Market expectations and industry standards can vary based on product type and geography. The Company primarily offers assurance type warranties.

## Feedback From the SEC

The SEC staff has issued comments to registrants asking them to include additional information in their disclosures about performance obligations, as illustrated by the example below.

### Example of an SEC Comment

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.

## 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."

- “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.”

## Practical Expedients Related to Remaining Performance Obligations

Several practical expedients are available for the disclosure of remaining performance obligations (see [Practical Expedients](#) below). Under ASC 606-10-50-15, however, if an entity elects to apply the practical expedients related to the disclosure of remaining performance obligations, the entity is required to disclose which of the practical expedients it is applying.

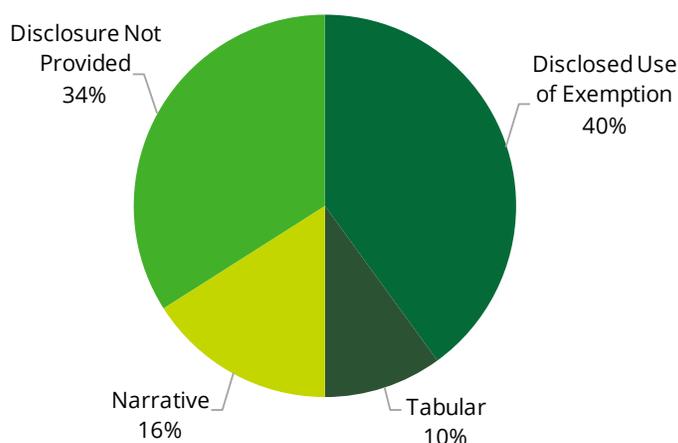
ASC 606-10-50-15 also states the following:

In addition, an entity applying the optional exemptions in [ASC] 606-10-50-14 through 50-14A shall disclose the nature of the performance obligations, the remaining duration (see [ASC] 606-10-25-3), and a description of the variable consideration (for example, the nature of the variability and how that variability will be resolved) that has been excluded from the information disclosed in accordance with [ASC] 606-10-50-13. This information shall include sufficient detail to enable users of financial statements to understand the remaining performance obligations that the entity excluded from the information disclosed in accordance with [ASC] 606-10-50-13. In addition, an entity shall explain whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with [ASC] 606-10-50-13. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see [ASC] 606-10-32-11 through 32-13).

## Insights

As illustrated in the pie chart below, approximately three-quarters of the entities in our sample did not disclose remaining performance obligations and when they are expected to be satisfied. There are various reasons an entity would not disclose its remaining performance obligations in a filing (e.g., it may have elected one or more practical expedients, or performance obligations are satisfied primarily at a point in time). Approximately 40 percent indicated that they used one or more practical expedients. While there was diversity in the format they chose to use, of those that provided the disclosures, most preferred a narrative presentation. In addition, their disclosures were relatively broad and generally specified the total amount of revenue to be recognized over the next one to two years as opposed to breaking down the remaining performance obligations by revenue categories or some other level of detail.

**Remaining Performance Obligation Disclosure Format**



Disclosure Examples 12 through 14 below illustrate (1) the application of the practical expedients related to disclosure of the remaining performance obligations and (2) disclosure of the remaining performance obligations.

### Application of Practical Expedients in ASC 606-10-50-14 and 50-14A

#### Disclosure Example 12

In accordance with ASC 606-10-50-13, the Company is required to include disclosure on its remaining performance obligations as of the end of the current reporting period. Due to the nature of the contracts in the Company's PBM and Part D business, these reporting requirements are not applicable. The majority of the Company's remaining contracts meet certain exemptions as defined in ASC 606-10-50-14 through 606-10-50-14A, including (i) performance obligation is part of a contract that has an original expected duration of one year or less; (ii) the right to invoice practical expedient; and (iii) variable consideration related to unsatisfied performance obligations that is allocated entirely to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation, and the terms of that variable consideration relate specifically to our efforts to transfer the distinct service, or to a specific outcome from transferring the distinct service. For the Company's contracts that pertain to these exemptions: (i) the remaining performance obligations primarily relate to the provision of managed healthcare services to the customers' membership; (ii) the estimated remaining duration of these performance obligations ranges from the remainder of the current calendar year to three years; and (iii) variable consideration for these contracts primarily includes net per member per month fees associated with unspecified membership that fluctuates throughout the contract.

### Estimated Deferred Revenue and Customer Advances Related to Unfulfilled Performance Obligations

#### Disclosure Example 13

The estimated amount of deferred revenue and customer advances equals the transaction price allocated to unfulfilled performance obligations for the period presented[,] and the amount [that] is expected to be recognized in the future is as follows . . . :

	<b>March 31, 2018</b>
Deferred revenue and customer advances expected to be recognized:	
In one year or less	\$ [XXX]
In 13–24 months	[XXX]
In 25 months and beyond	____ [XXX]
Total	<u>\$ [XXX]</u>

### Expected Revenue From Remaining Performance Obligations Related to Subscription Contracts

#### Disclosure Example 14

As of April 30, 2018, approximately \$[X] billion of revenue is expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenue on approximately two thirds of these remaining performance obligations over the next 24 months, with the balance recognized thereafter.

## Significant Judgments and Changes in 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 the following:

- “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 [ASC] 606-10-50-18 through 50-19) ●
  - b. The transaction price and the amounts allocated to performance obligations (see [ASC] 606-10-50-20).” ●
- “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.” ■
- “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.” ■
- “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.” ■

### Insights

Disclosures about significant judgments and estimates in the application of revenue recognition guidance are expected to increase as entities adopt ASC 606. We observed that many entities in our sample included such disclosures in the significant accounting policies or the management estimates section of their footnotes, or as part of the revenue footnote. In addition, given the unique nature of the goods and services companies provide as well as the significant judgments they must make in applying the new standard, their disclosures were tailored and were not necessarily consistent across industries. Further, the extent of disclosures related to judgments depended substantially on whether performance obligations were satisfied at a point in time or over time. The disclosures of entities that satisfy

performance obligations over time were generally more extensive (e.g., methods of measuring progress and why the methods provide a faithful depiction of the transfer of goods or services). Along with explaining the timing of revenue recognition, the disclosures must outline the various assumptions used to support this judgment. Some entities also disclosed that they exercised significant judgment in connection with the principal-versus-agent analysis, and others referred to judgments they applied when evaluating costs to complete projects under a cost-based input method of revenue recognition.

Disclosure Examples 15 through 17 below illustrate disclosures about significant judgments and estimates associated with the above requirements.

### **Process for Reviewing Progress and Execution of Performance Obligations**

#### **Disclosure Example 15**

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and cost at completion (the process described below in more detail) is complex, subject to many variables and requires significant judgment. It is common for our long-term contracts to contain award fees, incentive fees, or other provisions that can either increase or decrease the transaction price. . . .

We have a Company-wide standard and disciplined quarterly Estimate at Completion (EAC) process in which management reviews the progress and execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g., the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g. to estimate increases in wages and prices for materials and related support cost allocations), execution by our subcontractors, the availability and timing of funding from our customer and overhead cost rates, among other variables.

### **Use of Cost-Based Input Methods to Recognize Revenue Over Time**

#### **Disclosure Example 16**

We generally recognize revenue for sales of [systems or services] over time using cost based input methods, in which significant judgment is required to evaluate assumptions including the amount of net contract revenues and the total estimated costs to determine our progress towards contract completion and to calculate the corresponding amount of revenue to recognize.

### **Determination of Distinct Performance Obligations and Stand-Alone Selling Prices**

#### **Disclosure Example 17**

There are two items involving revenue recognition on . . . contracts that require us to make more difficult and subjective judgments: the determination of which performance obligations are distinct within the context of the overall contract and the estimated standalone selling price of each performance obligation. In instances where our . . . contracts include significant customization or modification services, the customization and modification services are generally combined with the . . . license and recorded as one distinct performance obligation. We estimate the standalone selling price of each performance obligation based on either a cost plus margin approach or an adjusted market assessment approach. In instances where we have observable selling prices for professional services and support and maintenance, we may apply the residual approach to estimate the standalone selling price of . . . licenses.

## Feedback From the SEC

The SEC staff has issued comments to registrants asking them to include additional information in their disclosures about significant judgments related to performance obligations. Examples of such comments are reproduced below.

### Examples of SEC Comments

- 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.
- 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.

## Contract Costs

### Disclosure Requirements

Under the new revenue standard and in accordance with ASC 340-40,<sup>11</sup> entities capitalize certain costs associated with obtaining<sup>12</sup> 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.

### Insights

Disclosures about contract costs generally apply only to companies that incur material costs to acquire or fulfill revenue contracts. We observed that approximately 55 percent of the entities in our sample did not appear to incur material costs to obtain or fulfill revenue contracts, and approximately 20 percent disclosed that they elected to use the practical expedient described below related to incremental costs of obtaining a contract. Accordingly, neither group disclosed detailed information about contract costs. Most of the approximately 25 percent of entities that did capitalize and disclose information about contract costs appeared to amortize them on a straight-line basis. We observed that very few of the entities in our sample had incurred material capitalized costs to fulfill a revenue contract.

<sup>11</sup> FASB Accounting Standards Codification Subtopic 340-40, *Other Assets and Deferred Costs: Contracts With Customers*.

<sup>12</sup> 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 [Practical Expedients](#) for more information). The entities in our sample used this practical expedient most often in connection with sales commission expenses.

The example below illustrates a disclosure related to costs incurred to obtain and fulfill a revenue contract.

### Capitalization and Amortization of Costs Incurred to Obtain and Fulfill Contracts

#### Disclosure Example 18

Incremental costs for obtaining contracts subject to the scope of Accounting Standards Codification (“ASC”) 606, Revenue From Contracts With Customers that are deemed recoverable are capitalized as contract costs. Such costs result from the payment of sales incentives, primarily in the Wealth Management business, and totaled \$[X] million at March 31, 2018. Capitalized sales incentives are amortized based on the transfer of goods or services to which the assets relate and typically average nine years. The amortization of capitalized sales incentives, which is primarily included in staff expense, totaled \$[X] million in the first quarter of 2018.

Costs to fulfill a contract are capitalized when they relate directly to an existing contract or specific anticipated contract, generate or enhance resources that will be used to fulfill performance obligations and are recoverable. Such costs generally represent set-up costs, which include any direct cost incurred at inception of a contract which enables the fulfillment of the performance obligation and totaled \$[X] million at March 31, 2018. These capitalized costs are amortized on a straight line basis over the expected contract period which generally range[s] from seven to nine years. The amortization is included in other expense and totaled \$[X] million in the first quarter of 2018.

There was no impairment recorded on capitalized contract costs in the first quarter of 2018.

### Feedback From the SEC

The SEC staff has issued comments to registrants asking them to include additional information in their disclosures about the costs they incurred to obtain a contract. Examples of such comments are reproduced below.

#### 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.
- 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).
- 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).

### Practical Expedients

As noted throughout this *Heads Up*, entities can elect to use a number of practical expedients as part of adopting the new revenue standard. Many are from ASU 2014-09, and others were added in subsequent ASUs, including [ASU 2016-10](#),<sup>13</sup> [ASU 2016-12](#),<sup>14</sup> and [ASU 2016-20](#).<sup>15</sup>

### Disclosure Requirements

Entities are generally required to disclose and explain the practical expedients they used under the new revenue guidance. Although the standard does not dictate where they should present these disclosures, entities in our sample typically included them in their “Significant Accounting Policies” disclosure or in the revenue footnote.

<sup>13</sup> FASB Accounting Standards Update No. 2016-10, *Identifying Performance Obligations and Licensing*.

<sup>14</sup> FASB Accounting Standards Update No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*.

<sup>15</sup> FASB Accounting Standards Update No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue From Contracts With Customers*.

The following practical expedients are available for application (source literature provided in parentheses):

- *Remaining performance obligations:*
  - If the original expected duration of the contract is one year or less, the remaining performance obligation disclosure requirements in ASC 606-10-50-13 do not need to be disclosed. (See ASC 606-10-50-14.)
  - If consideration is variable and revenue from the satisfaction of the performance obligation is recognized in the amount invoiced in accordance with ASC 606-10-55-18, an entity does not need to disclose information about its remaining performance obligations that would otherwise be required under ASC 606-10-50-13. (See ASC 606-10-50-14.)
  - “An entity need not disclose the information in [ASC] 606-10-50-13 for variable consideration for which either of the following conditions is met:
    - a. The variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property accounted for in accordance with [ASC] 606-10-55-65 through 55-65B.
    - b. The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with [ASC] 606-10-25-14(b), for which the criteria in [ASC] 606-10-32-40 have been met.”  
(See ASC 606-10-50-14A.)
  - If the full retrospective transition method is adopted, “an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations” for the reporting periods presented before the date of initial adoption. (See ASC 606-10-65-1(f)(3).)
- *Contract costs* — Incremental costs of obtaining a contract may be expensed if they will be amortized over a period of one year or less. (See ASC 340-40-25-4.)
- *Determining the transaction price:*
  - An entity may exclude certain taxes from the transaction price (e.g., sales, use, value added, and some excise taxes). This practical expedient does not apply to taxes on an entity's total gross receipts or those imposed during the inventory procurement process. (See ASC 606-10-32-2A.)
  - “[A]n entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that 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 will be one year or less.” (See ASC 606-10-32-18.)
  - “If shipping and handling activities are performed after a customer obtains control of the good, then the entity may elect to account for shipping and handling as activities to fulfill the promise to transfer the good. The entity shall apply this accounting policy election consistently to similar types of transactions. An entity that makes this election would not evaluate whether shipping and handling activities are promised services to its customers. If revenue is recognized for the related good before the shipping and handling activities occur, the related costs of those shipping and handling activities shall be accrued.” (See ASC 606-10-25-18B.)

- *Transition:*
  - *Modified retrospective method:*
    - An entity may elect to apply the new guidance only to contracts that are not completed as of the date of initial application (i.e., not to all revenue contracts).
    - Under the modified retrospective method, an entity may also apply the transition practical expedient related to contract modifications in ASC 606-10-65-1(f)(4).

(See ASC 606-10-65-1(h).)

- *Full retrospective method:*
  - “An entity need not restate contracts that begin and are completed within the same annual reporting period.” (See ASC 606-10-65-1(f)(1).)
  - “For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.” (See ASC 606-10-65-1(f)(2).)
  - An entity does not need to restate contracts for contract modifications that occurred before the beginning of the earliest period presented. “Instead, an entity shall reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented . . . when:
    - i. Identifying the satisfied and unsatisfied performance obligations
    - ii. Determining the transaction price
    - iii. Allocating the transaction price to the satisfied and unsatisfied performance obligations.”

(See ASC 606-10-65-1(f)(4).)

## Insights

Most entities in our sample used more than one practical expedient (depending on the facts and circumstances). The most common practical expedients used were those related to disclosures about remaining performance obligations.

Disclosure Examples 19 through 21 below illustrate how entities have disclosed management’s election of practical expedients under the new revenue standard. We observed that in disclosing their use of the practical expedient related to the incremental costs of obtaining a contract, many entities in our sample simply stated that such costs were expensed because the amortization period would be one year or less.

### Exclusion of Taxes Collected Concurrently With Revenue-Producing Activities

#### Disclosure Example 19

Sales, value add, use and other taxes we collect concurrent with revenue-producing activities are excluded from revenue.

### Treatment of Shipping and Handling Activities as Fulfillment Costs

#### Disclosure Example 20

The Company has elected to treat shipping and handling activities after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, the Company will accrue all fulfillment costs related to the shipping and handling of consumer goods at the time of shipment.

## Exclusion of Effects of Significant Financing Component for Short-Term Contracts

### Disclosure Example 21

The Company generally has payment terms with its customers of one year or less and has elected the practical expedient applicable to such contracts not to consider the time value of money.

### 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. However, we expect diversity in practice to lessen as more entities adopt the standard and as entities evaluate their peers' filings. Further, as accounting standard setters clarify guidance and regulators issue more comments, entities will continue to refine the information they disclose.

## **Dbriefs for Financial Executives**

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Financial reporting.
- Tax accounting and provisions.
- Controllership perspectives.
- Governance, risk, and compliance.
- Transactions and business events.
- Driving enterprise value.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk.

## **Subscriptions**

To subscribe to *Dbriefs*, or to receive accounting publications issued by Deloitte's Accounting Services Department, please register at [My.Deloitte.com](https://www.deloitte.com).

## **DART and US GAAP Plus**

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, IASB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's *FASB Accounting Standards Codification Manual*, and can also elect to receive *DART Weekly Roundup*, a weekly publication that highlights recent additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit [dart.deloitte.com](https://dart.deloitte.com).

In addition, be sure to visit [US GAAP Plus](https://www.deloitte.com/us/about), our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and those of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee. Check it out today!

*Heads Up* is prepared by the National Office Accounting Services Department of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see [www.deloitte.com/us/about](https://www.deloitte.com/us/about) for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.