EZ Inflatables Inc. (EZ Inflatables or the “Company”) manufactures and leases inflatable bounce houses to party-planning businesses as well as various third-party customers.

The Company entered into a contract with The Function Junction LLC to be the sole provider of bounce houses for all its events for a period of three years. The Function Junction holds weekly events, with EZ Inflatables providing its inflatable bounce houses for every event. After the initial three-year period, the contract is renewable in one-year increments. The average customer relationship period typically lasts for five years (the initial three-year term plus two one-year renewals). The Company has concluded that the contract does not contain a lease within the scope of ASC 840 [ASC 842], and therefore accounts for the arrangement as a contract with a customer within the scope of ASC 606.

As an incentive to execute new customer contracts, the Company offers its sales representative a one-time $5,000 commission, which is earned and payable to the sales representative as soon as the contract is executed with the customer. No additional commission is paid to the sales representative upon renewal of the contract by the customer.

The sales representative incurred $500 in travel costs to travel to The Function Junction’s headquarters to perform a demonstration.

EZ Inflatables incurred approximately $2,000 in external legal costs to draft the contract executed between the Company and The Function Junction.

Required:

1. Does ASC 606, Revenue From Contracts With Customers, address the treatment of incremental costs of obtaining a contract?

2. Which costs are incremental costs of obtaining the contract, and therefore are required to be capitalized?

3. How should EZ Inflatables determine the appropriate amortization method, and over what period should the Company amortize any capitalized costs?