What Private Companies Should Know About the New Revenue Recognition Standard

by Lauren Hegg, Jennifer Burns, Amy Groves, Amy Steele, and Kristin Bauer, Deloitte & Touche LLP

Introduction

In May 2014, the FASB issued its final standard on revenue from contracts with customers, ASU 2014-09\(^1\) (codified in ASC 606\(^2\)). Since then, the Board has issued a number of additional ASUs to amend and clarify the guidance in ASC 606, ASC 610-20, and ASC 340-40. The new standard replaces almost all current revenue guidance, including industry-specific requirements, and every company is likely to be affected by it. For private companies, the rules take effect for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019.

Connecting the Dots

As used in this *Heads Up*, a “private company” is an entity that is not any of the following:

- A public business entity (as defined in the ASC master glossary).

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2. For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “*Titles of Topics and Subtopics in the FASB Accounting Standards Codification*.”
A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted in an exchange or an over-the-counter market.

An employee benefit plan that files or furnishes financial statements with or to the SEC.

In response to concerns from commenters regarding costs and complexities that may overburden private companies, the FASB considered the needs of users of such companies’ financial statements throughout the new revenue standard’s development. The Board ultimately concluded that while no specific changes to the recognition and measurement guidance were necessary for private companies, it would be appropriate to modify the required disclosure package and mandatory effective date for such companies. Accordingly, the standard permits private companies to elect not to provide certain of the quantitative and qualitative disclosures required for public companies.

This Heads Up provides a high-level overview of the new five-step model for recognizing revenue under ASC 606 and discusses the standard’s mandatory effective date for private companies. It also outlines the practical expedients available to private companies with respect to certain of the new standard’s disclosure requirements (see Appendix A for a comprehensive summary) and discusses internal control considerations. In addition, the Heads Up provides some observations and lessons learned from the implementation of ASC 606 by public companies.

Effective Date for Private Companies

As discussed above, for private companies, the new revenue standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Private companies may elect to early adopt the new guidance as of the standard’s original effective date for public companies (i.e., annual reporting periods beginning after December 15, 2016). If private companies elect to early adopt the standard, they have the option to either (1) adopt it beginning with interim periods within the first annual reporting period or (2) wait to present interim periods under the new standard until the following annual reporting period.

Connecting the Dots

Effective-date relief to private companies is typically described as a one-year delay. However, the delay is likely to be even greater than one year because of the different adoption requirements for interim periods.

Public companies must adopt the new revenue standard for annual periods beginning after December 15, 2017 (one year earlier than private companies). However, public companies are also required to adopt the new guidance for interim periods within those annual periods. Therefore, a calendar-year-end public company will apply the new revenue standard when presenting its results for the first quarter of 2018 (i.e., the period ending March 31, 2018), which the company is likely to issue in April 2018.

For insights into lessons learned from public companies that have already adopted ASC 606, see Deloitte’s Revenue Recognition Standard for Private Companies: No Free Passes.
By contrast, private companies are not required to adopt the new revenue standard until they report their annual results. For example, a calendar-year-end private company would typically produce the results of its year ended December 31, 2019, in March or April 2020. In addition, if a private company's financial statements for an interim period are required or are otherwise produced, the private company is not required to adopt the new revenue standard for that interim period if such period occurred in the year ended December 31, 2019. However, given that the annual results will be reported on a new basis (i.e., under ASC 606), a private company may find it beneficial to early adopt the standard for interim periods since the company would otherwise be required to revise the accounting for its revenue transactions as presented in its interim financial statements when including full-year results in its year-end reporting.

### High-Level Overview of the Five-Step Model

The graphic below summarizes the five-step model for recognizing revenue under ASC 606.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
</table>
| 1. Identify the contract with a customer | A contract is an agreement between two or more parties that creates enforceable rights and obligations.  
- The parties to the contract have approved the contract.  
- The entity can identify each party’s rights.  
- The entity can identify the payment terms.  
- The contract has commercial substance.  
- It is probable that the entity will collect the amount to which it expects to be entitled. |
| 2. Identify the performance obligations | A performance obligation is the promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct.  
- Distinct goods and services should be accounted for as separate units of account.  
- Entities need to determine whether a good or service (or bundle of goods or services) is “capable of being distinct” and “distinct in the context of the contract.”  
- A series of substantially the same goods or services for which control transfers over time and that have the same pattern of transfer is accounted for as a single performance obligation. |
| 3. Determine the transaction price | The transaction price is the amount the entity expects to be entitled to in exchange for transferring promised goods or services to the customer.  
- The transaction price may include fixed amounts, variable amounts, or both.  
- To determine the transaction price, entities should consider the effects of:  
  - Variable consideration.  
  - The constraint on estimates of variable consideration.  
  - Significant financing components.  
  - Noncash consideration.  
  - Consideration payable to the customer. |
| 4. Allocate the transaction price | The transaction price (from step 3) is allocated to each performance obligation identified (from step 2).  
- On the basis of its specific circumstances, an entity would use one of the following approaches to allocate the transaction price to the performance obligations:  
  - Allocate according to each performance obligation’s stand-alone selling price.  
  - Allocate a discount or variable amount to a specific performance obligation (or bundle of specific performance obligations) if certain criteria are met. |
| 5. Recognize revenue when (or as) performance obligations are satisfied | Requires consideration of:  
- Revenue recognition when (or as) control of the good or service is passed to the customer.  
- The criteria for satisfying performance obligations and recognizing revenue over time.  
- Measurement of progress toward satisfying performance obligations to determine a pattern of revenue recognition over time.  
- Indicators of when performance obligations are satisfied and when to recognize revenue at a point in time. |
Disclosure Requirements for Private Companies

The FASB gave private companies some relief related to applying the new revenue standard by permitting them to elect not to provide certain of the standard’s quantitative and qualitative disclosures. The paragraphs below discuss the disclosure requirements for private companies under ASC 606.

Disaggregation of Revenue

ASC 606-10-50-5 requires public companies to “disaggregate revenue . . . into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.” ASC 606-10-55-91 provides the following examples of categories that public companies may consider when preparing their disaggregated revenue disclosures, including (but not limited to):

- “Type of good or service.”
- “Geographical region.”
- “Market or type of customer.”
- “Type of contract.”
- “Contract duration.”
- “Timing of transfer of goods or services.”
- “Sales channels.”

Private companies may elect not to disclose the disaggregated revenue information required by ASC 606-10-50-5; however, under ASC 606-10-50-7, such companies should, at a minimum, provide revenue information “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 . . . over time).” Further, because private companies are not required to provide segment reporting information, they need not reconcile such data to the disaggregated revenue information.

Contract Balances

Private companies are required to disclose the opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not separately presented or disclosed. However, they may elect not to disclose the other contract balance information required by ASC 606-10-50-8 through 50-10 and ASC 606-10-50-12A. That is, private companies are not required to disclose:

- The amount of revenue recognized in the current period that was previously recognized as a contract liability.
- The amount of revenue recognized that is related to “performance obligations satisfied . . . in previous periods” (e.g., because of changes in the transaction price).
- “[H]ow the timing of satisfaction of its performance obligations . . . relates to the typical timing of payment and the effect . . . on the contract asset and the contract liability balances.”
- “[A]n explanation of the significant changes in the contract asset and the contract liability balances during the reporting period.”
Performance Obligations
ASC 606-10-50-12 requires private companies to disclose information about the nature of their performance obligations, including:

- “When the entity typically satisfies its performance obligations (for example, upon shipment . . . as services are rendered . . .).”
- Significant payment terms, including information about variable consideration and significant financing components.
- “The nature of the goods or services that the entity has promised to transfer,” including arrangements in which the company is acting as an agent.
- “Obligations for returns, refunds, and other similar obligations.”
- “Types of warranties and related obligations.”

Remaining Performance Obligations
ASC 606-10-50-13 requires a public company to disclose the “aggregate amount of the transaction price allocated to the [remaining] performance obligation” and when the company expects to recognize that amount as revenue (either on a quantitative or qualitative basis). Many refer to this requirement as the “backlog” disclosure because a company must describe expected future revenue to be recorded on partially completed contracts.

For example, suppose that a calendar-year-end public company sells a two-year magazine subscription to a customer on April 1, 20X8, for an up-front payment of $24. As of December 31, 20X8, the company has fulfilled nine months of the contract by delivering nine magazines to the customer and has recognized $9 of revenue. In accordance with ASC 606-10-50-13, the company is required to quantitatively disclose for December 31, 20X8, the $15 remainder as the transaction price allocated to the outstanding performance obligations since it expects to fulfill the 15 months left in the subscription and recognize the remaining $15 in revenue in future periods (i.e., in the years ending December 31, 20X9, and December 31, 20Y0).

The FASB decided to permit private companies to elect, as a practical expedient, not to disclose the information required by ASC 606-10-50-13 through 50-15 about their remaining performance obligations.

Significant Judgments
ASC 606-10-50-17 through 50-20 require public companies to disclose information about the significant judgments they used in (1) determining the amount and timing of revenue recognition, including information about the timing of satisfaction of performance obligations; (2) determining the transaction price; and (3) allocating the transaction price to the performance obligations in the contract.

Private companies may elect not to disclose the majority of the information required for public companies; however, at a minimum, they must disclose:

- The methods they used to recognize revenue for performance obligations satisfied over time (e.g., output or input methods).
- The methods, inputs, and assumptions they used to evaluate whether an estimate of variable consideration is constrained.
Contract Costs
ASC 340-40-50-1 through 50-4 require public companies to disclose quantitative and qualitative information about their contract costs, including the closing balances of their capitalized contract costs, the amount of amortization and impairment losses they recognized in the reporting period, certain judgments they made in determining the costs to be capitalized, and the amortization method they used. Private companies, however, may elect not to disclose any information about their contract costs.

Practical Expedients
While ASC 606-10-50-22 requires public companies to disclose their election of practical expedients related to the determination of whether a significant financing component exists and the capitalization of incremental costs to obtain a contract, private companies do not have to disclose whether they have used any of the ASC 606 or ASC 340-40 practical expedients.

Interim Disclosure Requirements for Private Companies
Interim reporting requirements, including those related to disclosure, are outlined in ASC 270. In particular, ASC 270-10-50-1(a) requires public companies to disclose, at a minimum, “[s]ales or gross revenues, provision for income taxes, net income, and comprehensive income.” The new revenue standard amended the interim reporting requirements in ASC 270 to add ASC 270-10-50-1A, under which public companies must provide certain annual revenue disclosures on an interim basis.4

Many private companies are not subject to interim financial reporting requirements and therefore need not comply with those in ASC 270. In addition, ASC 270-10-50-1A applies only to public business entities, not-for-profit entities, and employee benefit plans. Thus, even if a private company produces interim financial information, it is not required to provide the interim disclosures that public companies must provide.

Internal Control Considerations Related to the New Revenue Standard
While the regulatory rules related to internal control may be less stringent for private companies than their public counterparts, internal controls are still an important topic, particularly regarding changes in the accounting, reporting, and disclosure of revenue. Below are some considerations for private companies as they implement ASC 606.

Internal Controls Over the Adoption of New Standards
The unique circumstances and considerations associated with the adoption of a new accounting standard can often result in an increased risk of material misstatement. Private companies should therefore consider circumstances that may be present only during the adoption period and evaluate whether there are any unique risks that require “one-time” internal controls (i.e., controls that operate exclusively during the adoption period). Management should also consider the internal controls, documentation, and evidence it may need to support:

• Entity-level controls such as the control environment and general “tone at the top.”
• Identification of material revenue streams and different contract types within those revenue streams.

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4 ASU 2014-09 amended the interim reporting requirements in ASC 270 to add ASC 270-10-50-1A, which requires public companies to provide the following annual revenue disclosures on an interim basis:
• “[D]isaggregation of revenue.”
• “[O]pening and closing balances of receivables, contract assets, and contract liabilities.”
• “Revenue recognized in the reporting period that was included in the [opening] contract liability balance.”
• “Revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in [prior] periods.”
• Information about the transaction price allocated to the remaining performance obligations.
• Accounting conclusions reached (e.g., as a result of preparing accounting white papers or internal memos memorializing management’s considerations and conclusions), including the effect on other account balances such as costs of sales or services, contract assets and liabilities, and income tax accounts.

• Information used to support accounting conclusions, new estimates, adjustments to the financial statements, and disclosure requirements.

• Identification and implementation of changes to information technology (IT) systems, including the logic of reports.

• The transition approach selected.

• The accounting logic used and journal entries (including the transition adjustments) that record the adoption’s impact.

• Any practical expedients applied and related disclosures.

• Changes to the monthly, quarterly, or annual close process and related reporting requirements (e.g., internal reporting, and disclosure controls and procedures).

See Appendix B for considerations related to additional risks and internal controls.

Risks and Internal Controls Associated With the Five-Step Model
As a result of the new revenue standard’s requirement that companies apply a five-step model for recognizing revenue, it is possible that new financial reporting risks will emerge, including new or modified fraud risks, and that new processes and internal controls will be required. Companies should therefore consider whether they need to modify their internal controls to address such risks.

For example, in applying the five-step model, management will need to make significant judgments and estimates (e.g., the determination of variable consideration and whether to constrain such consideration). It is critical for management to (1) evaluate the risks of material misstatement associated with these judgments and estimates, (2) design and implement controls to address those risks, and (3) maintain documentation that supports the assumptions and judgments that underpin its estimates. Appendix B outlines the five-step revenue recognition model and contains examples of risks and controls for consideration.
Significant Changes in Information and Related Data-Quality Needs

Private companies may need to gather or track new information to comply with the five-step model and related disclosure requirements. Management should consider whether appropriate controls are in place to support (1) the necessary IT changes (including change management controls and, once the IT changes have been implemented, the testing of their design and operating effectiveness) and (2) the accuracy of the information used by the company to recognize revenue and provide the required disclosures. The table below illustrates some potential challenges and examples of internal control practices.

<table>
<thead>
<tr>
<th>Potential Challenge</th>
<th>Example of Internal Control Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Information systems have not been updated to support the new standard's reporting requirements (e.g., annual requirements, including disclosures).</td>
<td>• Management establishes data governance policies for identifying and resolving data gaps and implements processes to verify the quality of information needed for implementation of the new standard.</td>
</tr>
<tr>
<td>• Control expectations have not been considered for new information required under the standard.</td>
<td>• The revenue recognition implementation team meets periodically with the control team (and control owners as appropriate) to share relevant information about the adoption of the new standard so that the control team can prepare and plan accordingly.</td>
</tr>
<tr>
<td>• Internal controls over source data, report logic, or report parameters have not been reconsidered.</td>
<td>• Management takes steps to update and review the appropriate flowcharts, data flow diagrams, process narratives, procedure manuals, and control procedures to reflect the new processes as a result of the standard.</td>
</tr>
</tbody>
</table>

Applying the COSO Principles

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Internal Control — Integrated Framework* provides 17 principles and related guidance that private companies may want to consider in their evaluation and design of controls in response to the new revenue standard. They may also want to consider any evidence and documentation they will need to support the operation of those controls. For further discussion, see Deloitte's May 9, 2017, *Heads Up* on internal control considerations related to adoption of the new revenue standard.
Lessons Learned From Public Companies’ Experiences

The experiences of public companies may prove helpful to private companies as they implement the new revenue standard’s requirements, particularly its recognition and measurement principles. The following graphic illustrates some lessons learned from public companies regarding the implementation process:

- **Training outside of accounting**
  - All employees involved in revenue-producing transactions can benefit from understanding the standard’s changes and their effect on the business.
  - Sales, finance, legal, IT, and tax personnel can work together to determine how the standard affects operations.

- **Budgeting and financial close process**
  - Be aware of how changes to the timing of revenue recognition may affect year-on-year comparisons and current and year-end projected results (including effects on projected commissions and bonuses).
  - Revisit the financial close process to identify and address any ramifications (e.g., process changes and new data needs).

- **Income taxes**
  - Changes in timing of revenue recognition can affect recognition of taxable income, expenses, benefits, and deferrals.
  - Timing changes may also affect state apportionment factors, sales and use tax, and transfer pricing.

- **Governance and legal**
  - Boards, audit committees, and banks will expect detailed plans that address adoption and its effect on revenue trends.
  - Consider planning, timelines, added internal and external costs and headcount, and adequacy of management systems.
  - Contracts may have provisions that need to be revisited in light of ASC 606.

- **Compensation plans**
  - Boards, management, and human resources should consider ways to adapt performance compensation programs to accommodate changes in revenue calculations that are likely to affect bonus plans and other performance-based compensation arrangements.

For a comprehensive discussion of the above lessons learned, see Deloitte’s *Revenue Recognition Standard for Private Companies: No Free Passes.*
Appendix A — Summary of Disclosure Requirements, Including Practical Expedients, for Private Companies

The table below summarizes the disclosure requirements and practical expedients for private companies under the new revenue standard.

<table>
<thead>
<tr>
<th>Category</th>
<th>Disclosure Requirements</th>
<th>Practical Expedient Available to Private Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Disaggregation of revenue</strong></td>
<td>Disaggregate revenue into categories that depict how revenue and cash flows are affected by economic factors.</td>
<td>Yes⁵</td>
</tr>
<tr>
<td></td>
<td>Sufficient information for users to understand the relationship between disaggregated revenue and each disclosed segment’s revenue information.</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Contract balances</strong></td>
<td>Opening and closing balances (receivable, contract assets, and contract liabilities).</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Amount of revenue recognized from beginning contract liability balance.</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Explanation of significant changes in contract balances (using qualitative and quantitative information).</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Performance obligations (including remaining performance obligations)</strong></td>
<td>Qualitative information about (1) when performance obligations are typically satisfied, (2) significant payment terms, (3) the nature of goods or services promised, (4) obligations for returns or refunds, and (5) warranties.</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Amount of revenue recognized from performance obligations satisfied in prior periods (e.g., changes in transaction price estimates).</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| | Transaction price allocated to the remaining performance obligations:  
  - Disclosure of quantitative amounts.  
  - Quantitative or qualitative explanation of when remaining performance obligation amounts will be recognized as revenue. | Yes | Yes |

⁵ At a minimum, a private company must, under ASC 606-10-50-7, disclose “revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers over time).”
<table>
<thead>
<tr>
<th>Category</th>
<th>Disclosure Requirements</th>
<th>Practical Expedient Available to Private Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant judgments and estimates</td>
<td>Qualitative information about determining the timing of:</td>
<td></td>
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<tr>
<td></td>
<td>• Performance obligations satisfied over time (e.g., methods of measuring progress, why methods are representative of the transfer of goods or services, judgments used in the evaluation of when a customer obtains control of goods or services).</td>
<td>Yes⁶</td>
</tr>
<tr>
<td></td>
<td>• Performance obligations satisfied at a point in time — specifically, the significant judgments used in the evaluation of when a customer obtains control.</td>
<td>Yes</td>
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<td></td>
<td>Qualitative and quantitative information about:</td>
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<td></td>
<td>• Determining the transaction price (e.g., estimating variable consideration, adjusting for the time value of money, noncash consideration).</td>
<td>Yes⁸</td>
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<tr>
<td></td>
<td>• Constraining estimates of variable consideration.</td>
<td>Yes</td>
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<tr>
<td></td>
<td>• Allocating the transaction price, including estimating stand-alone selling prices and allocating discounts and variable consideration.</td>
<td>Yes</td>
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<td></td>
<td>• Measuring obligations for returns, refunds, and other similar obligations.</td>
<td>Yes</td>
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<tr>
<td>Contract costs</td>
<td>Qualitative information about:</td>
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<td></td>
<td>• Judgments made in determining the amount of the costs incurred to obtain or fulfill a contract.</td>
<td>Yes</td>
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<td></td>
<td>• The method the entity uses to determine the amortization for each reporting period.</td>
<td>Yes</td>
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<td></td>
<td>Quantitative information about:</td>
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<td></td>
<td>• The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract, by main category of asset.</td>
<td>Yes</td>
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<td></td>
<td>• The amount of amortization and any impairment losses recognized in the reporting period.</td>
<td>Yes</td>
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<tr>
<td>Practical expedients</td>
<td>Disclosure of practical expedients used.</td>
<td>Yes</td>
</tr>
</tbody>
</table>

⁶ At a minimum, a private company must disclose the methods used to recognize revenue for performance obligations satisfied over time.

⁷ This includes the methods, inputs, and assumptions used in an entity's assessment.

⁸ At a minimum, a private company must disclose the methods, inputs, and assumptions used in evaluating whether an estimate of variable consideration is constrained.
# Appendix B — Examples of Risks and Internal Control Considerations Related to Adoption of the New Revenue Standard and the Five-Step Model for Recognizing Revenue

The table below summarizes certain risks associated with a private company's adoption of the new revenue standard's five-step model and examples of related control considerations.

<table>
<thead>
<tr>
<th>Core Considerations</th>
<th>Examples of Risks</th>
<th>Examples of Control Considerations&lt;sup&gt;9&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption period</td>
<td>• All material revenue streams and contract types are not identified.</td>
<td>Internal controls related to:</td>
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<tr>
<td></td>
<td>• Accounting conclusions are not accurate or complete.</td>
<td>• Identifying and evaluating all material contract types.</td>
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<td></td>
<td>• The recording of the adoption of the revenue standard is not accurate or</td>
<td>• Identifying the complete population of contracts to evaluate.</td>
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<td></td>
<td>complete.</td>
<td>• Evaluating whether the data used to record adjustments to the financial statements is accurate and complete.</td>
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<td></td>
<td>• IT logic for reports and journal entries is not accurate.</td>
<td>• Documenting and reviewing accounting conclusions and revised accounting policies.</td>
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<td>• Reviewing the application of the transition method elected.</td>
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<td>• Identifying, developing, and implementing new system requirements, including logic of reports.</td>
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<tr>
<td>Five-Step Model</td>
<td>1. Identify the contract with the customer</td>
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<td></td>
<td>• Revenue is/is not recognized when a contract (as defined by the new revenue</td>
<td>Internal controls related to:</td>
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<td>standard) does not exist/does exist.</td>
<td>• Identifying contracts that meet the criteria defined in the new standard.</td>
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<td>• Side agreements exist that are not known to accounting personnel.</td>
<td>• Reassessing arrangements that do not initially meet the criteria of a contract in accordance with the</td>
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<td>new standard given that significant changes may occur in the underlying facts and circumstances.</td>
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<td></td>
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<td>• Assessing management's commitment and ability to perform under the contract.</td>
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<td>• Ensuring payment terms are properly considered.</td>
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<td>• Assessing the collectibility criterion.</td>
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<td></td>
<td>• Evaluating whether combined contracts meet the various criteria specified in the new standard.</td>
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<td>• Evaluating contract modifications.</td>
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<td></td>
<td>2. Identify the performance obligations</td>
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<td></td>
<td>• Performance obligations are not properly identified.</td>
<td>Internal controls related to:</td>
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<td></td>
<td></td>
<td>• Identifying implied promises.</td>
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<td></td>
<td>• Evaluating whether customer options are material rights.</td>
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<td></td>
<td></td>
<td>• Evaluating whether a warranty is a performance obligation.</td>
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<td>• Evaluating whether the good(s) or service(s) is/are capable of being distinct within the context of the</td>
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<td>contract or if two or more goods or services should be combined.</td>
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<td></td>
<td>• Evaluating whether a series of goods or services should be treated as a single performance obligation.</td>
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<td>3. Determine the transaction price</td>
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<td></td>
<td>• Management's estimates are inaccurate as a result of an inappropriate method</td>
<td>Internal controls related to:</td>
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<td>or inappropriate significant assumptions.</td>
<td>• Estimating the amount to which the entity expects to be entitled including variable consideration and</td>
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<tr>
<td></td>
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<td>constraining variable consideration.</td>
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<td></td>
<td>• Reevaluating the accuracy of judgments and assumptions used in estimates for variable consideration.</td>
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<td>• Determining the fair value of noncash consideration.</td>
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<td></td>
<td>• Determining significant financing components.</td>
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<td></td>
<td></td>
<td>• Determining noncash consideration.</td>
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<tr>
<td></td>
<td></td>
<td>• Determining consideration payable to a customer.</td>
</tr>
</tbody>
</table>

<sup>9</sup> One or more controls may address one or more risks. The number of controls a company may have will vary depending on how the controls are designed to address the company's risks.
### Core Considerations | Examples of Risks | Examples of Control Considerations
--- | --- | ---
4. Allocate the transaction price | • Management's estimates are inaccurate as a result of an inappropriate method or inappropriate significant assumptions. | Internal controls related to:  
• Selecting an approach for determining the stand-alone selling price that maximizes the use of observable data.  
• Estimating the stand-alone selling price.  
• Determining the appropriate transaction price allocation including variable consideration and discounts.  
• Reevaluating the accuracy of judgments and assumptions used in estimates for the determination of the stand-alone selling price.

5. Recognize revenue when (or as) performance obligations are satisfied | • Revenue is recognized before the performance obligation is satisfied. | Internal controls related to:  
• Determining whether performance obligations are satisfied at a point in time or over time.  
• Identifying when control transfers to the customer for a performance obligation satisfied at a point in time.  
• Measuring progress toward complete satisfaction of a performance obligation that is satisfied over time (i.e., the input and output methods).

Licensing | • Licensing revenue is improperly recognized. | Internal controls related to:  
• Determining whether the license is distinct.  
• Identifying the nature of the license (functional vs. symbolic).  
• Determining whether obligations to provide updates to or maintenance of licensed intellectual property are distinct.  
• Accounting for sales- or usage-based royalties.

Contract costs | • Costs incurred with obtaining or fulfilling a contract are inappropriately capitalized. | Internal controls related to:  
• Evaluating whether the cost of obtaining or fulfilling a contract may be capitalized on the basis of the criteria of the new standard.  
• Amortizing capitalized contract costs.

Presentation and disclosure | • Contract assets and liabilities are not presented appropriately.  
• Footnote disclosures are not accurate, complete, or understandable. | Internal controls related to:  
• Evaluating whether to present contract assets and liabilities as current or noncurrent.  
• Determining the level of aggregation or disaggregation of the disclosures.  
• Reviewing the accuracy and completeness of contract disclosures.  
• Reviewing the disclosures of significant judgments and estimates.
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