



PRE-CONTRACT ACTIVITIES

Incremental costs of obtaining a contract are capitalized if they relate to a specific contract (e.g. sales commission), have future benefit (e.g. drawings) and are expected to be recovered. They are amortized to expense over the same basis as revenue is recognized.

TIMING OF REVENUE

Under the new standard, an entity will evaluate criteria at contract inception to determine whether it satisfies the performance obligation over time. An entity will recognize revenue at a point in time only if none of the following over-time criteria are met:

- Customer simultaneously receives and consumes the benefits as the entity performs;
- Customer controls an asset as the asset is created or enhanced; or
- Asset created for a customer has no alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

SHIPPING AND DELIVERY

If an entity must recognize revenue at a point in time, changes from current guidance must be considered. Current Generally Accepted Accounting Principles (GAAP) allows for revenue recognition on product sales when goods are shipped or delivered to a customer (i.e. point in time). The new standard will also use the point in time criteria but will rely on the transfer of control of the goods rather than the transfer of risk and rewards criteria under current GAAP.

RIGHTS OF RETURN

Much of the new standard's requirements for rights of return are similar to current practices. One difference though involves entities now having to present a right of return asset (representing an estimated value of products they expect to receive back) and a refund liability. This will be a change in practice from current GAAP for many entities.

PRINCIPAL VS. AGENT

As with current guidance, proper identification is required of all parties and their roles involved in transactions as principals (parties providing the goods or services themselves) or agents (parties providing services on behalf of another entity). The new standard's focus on which party can transfer control of the product will define whether the parties are principals or agents.

ADDITIONAL RESOURCES

This is by no means a complete list of the new standard's effect on private businesses. Please consult your financial partners at Ellin & Tucker or one of our Audit & Accounting team members to review the impact of the new standard on your company. Visit us at ellinandtucker.com or call 410.727.5735.