



Manufacturers will find the new standard may change the timing of revenue recognition. Transfer of control will drive revenue recognition rather than legal title or risks and rewards. This may result in some manufacturers recognizing revenue earlier or later than they had in the past.



This along with the following points warrant further consideration:

#### **TIMING OF REVENUE RECOGNITION**

Current Generally Accepted Accounting Principles (GAAP) treat manufacturing arrangements as product sales, recognized when goods are shipped or delivered to a customer (point in time). The new standard requires goods manufactured to unique customer specifications with no reasonable alternative use, which provide the manufacturer with an enforceable right to payment for work performed, be recognized over time. Alternatively, the new criteria for manufactured goods not meeting the over time criteria will 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.

#### **VOLUME DISCOUNTS**

Volume discounts can be applied towards future purchases or retrospectively. Manufacturers will need to review their sales agreements and any volume based discounts to determine whether a material right exists. Material rights are options provided to a customer only upon entering the contract and represent separate performance obligations under the contract.

#### **SHIPPING AND HANDLING**

Manufacturers will need to determine whether shipping and handling activities occur before or after control has passed to the customer. If before, these activities are considered a fulfillment activity. If after, the manufacturer may elect to treat them as a fulfillment activity or a performance obligation. When treating them as a fulfillment activity after control has passed, it will be necessary to accrue the costs associated with shipping and handling since all revenue will be recognized at the time control transfers to the customer.

#### **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 manufacturers.

#### **RESELLER/DISTRIBUTOR ARRANGEMENTS**

Under current GAAP, manufacturers typically delay recognition of revenue until the reseller has sold the product and the price is fixed and determinable. The new standard will require manufacturers to apply the variable consideration guidelines and recognize revenue when the product is transferred to the reseller (ie, when control has passed).

### **ADDITIONAL RESOURCES**

This is by no means a complete list of the new standard's effect on manufacturing. Please consult your financial partners at Ellin & Tucker or one of our Manufacturing Services team members to review the impact of the new standard on your company. Visit us at [ellinandtucker.com](http://ellinandtucker.com) or call 410.727.5735.

... .. ' — • - < • % - f • † f " † \* a ' † f - †

dZ &]v v ] o }μvŸvP ^š v Ć • } Ć ~ & ^ • -i]•U μ Ā o }μvŸv  
šZ }vĀ ĆP v ]v]Ÿ ŸĀ • }( šZ & ^ v /vš Ćv Ÿ}v o }μvŸv  
Ć μ ]v μ • šĆĆ • % ] . }u%o Ā]Ÿ • U v • Z]L šZ šZ}μPZš %  
% Ć]v ]%o • dZ] • • % % ĆĆ ĆX %o • v ĆoĆ ooX Ā] • ŸvP Ć Ā v  
dZ v Ā • š v Ć Ā]oo P} ]vš} + š ]v o v Ć Ć Ć i i i o (}Ć  
}u%o v] • X /u%o u v š Ÿ}v u Ć o • } + š Ćo] Ć % Ć}] • X

D f ® Ä W Û Ê Ò ® Ý ® Ê Ä Ý

í

/ Ed/&z d, d KEdZ

î

/ Ed/&z d, d[^K ĒdW Z d W Z&KZD E K >/' d  
dZ • Ć šZ ]•Ÿv š P}} • }Ć • ĆĀ] • š} o]Ā Ć X  
• % Ć š o]v ]š u ]v šZ }všĆ š v- ošZ μ•š}X ĆZ R  
• ĆĀ] • • Z}μo v}š %o v }v }Ć • ]Pv]. všoĆ u} ](Ć v}š

ï

d ZD/E d, d/ZKE ^WZ/

dZ šĆ v • Ÿ}v %Ć] ] • šZ u}μvš šZ Ā v }Ć Ā% š •  
o]Ā Ć š} šZ μ•š}u ĆX dZ šĆ v • Ÿ}v %Ć] š l • ]v  
Ā Ć] o v v}v • Z }v} Ć Ÿ}vU • Ā oo • u}μvš • % Ć

ö

>>K d d, d/ZKE ^WZ/ W sZ & KdZ, D E K E >/' d /

dZ š}š o šĆ v • Ÿ}v %Ć] uμ•š oo} š š} šZ ]•Ÿv  
Ć μ u μ o Ÿv-P o šZ %šĆv • }( šZ o]Ā Ć o • v oo}  
% Ć} š • ]•X dZ v}Ću o • oo]vP %Ć] (}Ć- šZ v P %Ć}] Ć  
• μ Z %Ć] } • v}š Ā]•šU • š • Ÿu š v μ • X

ñ

Z K'E / • Z s E h ^ d, ^ Wd Z & K Z ^D dE / ^ & K >/' d

Z Ā v μ ] • Ć }Pv]] • }všĆ}o }( šZ o]Ā Ć o %o • •  
]šZ Ć š %o}]vš ]v Ÿu ~ μĆ]vP PĆ} Ć] • • }Ć }Ā Ć Ÿ  
Z Ā %o • • ĀZ v šZ μ•š}u Ć Z • šZ ]o]šĆ š} μĀ šZ  
šZ] • šĆ v • ( Ć š l • %o š Ću]v • ĀZ šZ Ć Ć }Pv]Ÿ}v

® Ý ' 1/2 Ê Ý Ć Û > Ý

