

Memorandum

To: Accounting Files

Date: [OPEN], 2018

Re: Disclosure Requirements of ASC 606 – *Revenue from Contracts with Customers*

BACKGROUND

Note: This memo has been converted to US GAAP from an IFRS 15 – Revenue Recognition memo. While the standards are basically converged there may be some differences.

This memo provides a summary and examples of the presentation and disclosure requirements of ASC 606 – *Revenue from Contracts with Customers* (“ASC 606”). ASC 606 is effective for annual reporting periods beginning on December 15, 2017 for public companies or after December 15, 2018 for private companies. Therefore, this memo assumes that all analysis and resulting accounting impact has been performed and focuses solely on the new presentation disclosure requirement of ASC 606. It also assumes a general understanding of all terminology and definitions in ASC 606.

Although the timing and amount of revenue recognized will not change for many entities under the new ASC 606 model, all entities are still subject to the same new revenue recognition presentation and disclosure requirements.

PRESENTATION REQUIREMENTS

Customer Contracts

The fundamental premise of ASC 606 is that upon entering a contract with a customer, an entity obtains rights to receive consideration from that customer while simultaneously assuming an obligation to transfer goods and services to that customer. Specifically, ASC 606 para 606-10-45-1 states:

“When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity’s performance and the customer’s payment. An entity shall present any unconditional rights to consideration separately as a receivable.”

Accordingly, ASC 606 effectively specifies three types of balance sheet line items – (i) contract assets, (ii) contract liabilities, and (iii) receivables. The definition of a receivable has not materially changed under ASC 606. Specifically, an entity recognizes a receivable for the transfer of goods or performance of services when the entity’s right to receive consideration from a customer is unconditional and receipt of payment is subject only to the passage of time (e.g. 30 day payment terms). When this is the case, the entity records revenue in the income statement and a receivable on the balance sheet. The receivable is then subject to impairment and collectability assessment and any resulting impairment loss is recognized as an expense on the income statement and not a reduction in revenue – this is consistent with the previous revenue recognition standard.

A “contract asset” arises when an entity transfers goods or performs services for consideration that is contingent on events other than the mere passage of time (e.g. the customer is required to pay only after other products are delivered by the entity). An entity is required to separate the consideration due that would constitute an actual receivable from the consideration due that would be considered a contract asset and disclose both separately on the balance sheet. However, revenue from both a receivable and a contract asset can be aggregated in the income statement. Note that the term used in the balance sheet to reflect this contract asset