# Impact of Revenue Recognition Standards

CliftonLarsonAllen



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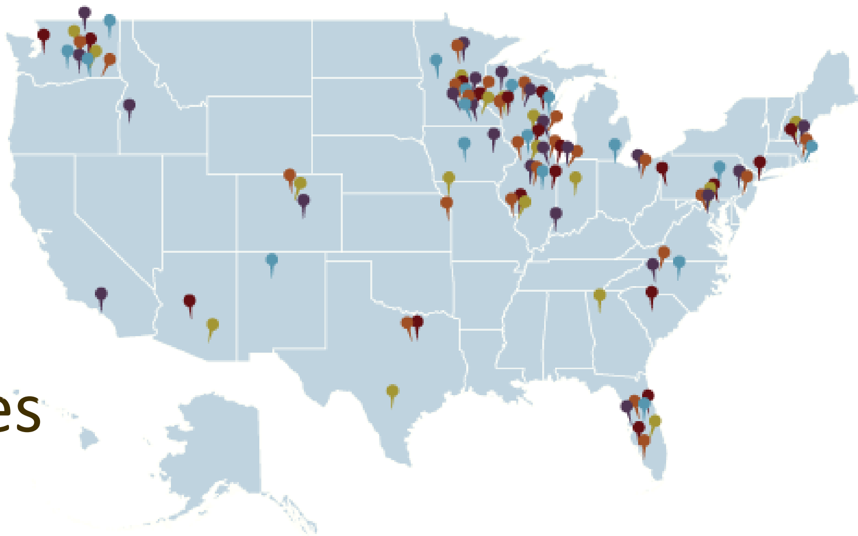
- A professional services firm with three distinct business lines
  - Wealth Advisory
  - Outsourcing
  - Audit, Tax, and Consulting
- More than 4,500 employees
- Offices coast to coast
- Over 60 years of experience, serving more than 6,000 nonprofit clients



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# Speaker Introductions

## Cathy Clarke, CPA

Cathy is the chief assurance officer at CliftonLarsonAllen (CLA) with more than 20 years of experience. Her primary responsibilities include all aspects of A&A quality control, including auditing and other assurance services, ethics, second review and learning. She has experience in conducting training sessions for audit and accounting staff within CLA and for the American Institute of CPAs.

## Michael Johns, CPA

Michael is a principal with CliftonLarsonAllen (CLA) specializing in nonprofit and higher education organizations, including audit, tax and consulting services. He has more than 17 years of experience in public accounting. Michael currently serves on the not-for-profit and ethics committees of the PICPA.

# Learning Objectives

- Describe and understand the core principles of the new revenue recognition standard
- Identify risks, challenges and concerns
- Discuss the steps to prepare for the application of the revenue recognition standard
- Walk through examples of how the standard might be applied

# Agenda

- Overview of Topic 606-Revenue Recognition
- Potential Application Considerations for Nonprofits
- Practical Steps for Implementing ASC 606
- Nonprofit Industry Example Transactions

# Overview of Topic 606 – Revenue Recognition

# Revenue Recognition (Topic 606)

**Objective:** To develop a single, principle-based revenue standard for US GAAP and IFRS

- The revenue standard aims to improve accounting for contracts with customers by:
  - Providing a robust framework for addressing revenue issues as they arise
  - Increasing comparability across industries and capital markets
  - Requiring better disclosure

***Substantially converged with IFRS on major provisions***

# Final U.S. GAAP Model - Scope

- All contracts with customers, except
  - Lease contracts
  - Insurance contracts
  - Financial instruments
  - Guarantees
  - Non-monetary exchanges in the same line of business to facilitate sales to customers
- Certain contracts not with customers are excluded:
  - Contributions
  - Collaborative arrangements

# Final U.S. GAAP Model - Recognition

Core Principle

**Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services**

# Final U.S. GAAP Model - Recognition

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when (or as) a performance obligation is satisfied

# Major Changes in Comparison to Current Guidance



- Focus is on the contract rather than on transactions of certain types or by certain industries
- Variable consideration and constraint on revenue
- Licenses
- Recognition and measurement guidance applies to transfers/sales of nonfinancial assets to non-customers (Topic 610)
- Guidance on accounting for costs to obtain and fulfill a contract with a customer, if not addressed in other topics (Subtopic 340-40)
- Disclosures

# Final U.S. GAAP Model – Implementation Guidance (illustrated in Topic 606)

- Performance obligations satisfied over time
- Methods for measuring progress
- Sale with a right of return
- Warranties
- Principal versus agent considerations
- Customer options for additional goods or services
- Customers’ unexercised rights
- Nonrefundable upfront fees
- Licensing
- Repurchase agreements
- Consignment arrangements
- Bill-and-hold arrangements
- Customer acceptance
- Disclosure of disaggregated revenue

# Step 1: Identify Contract(s) with the Customer

# Identifying the Contract

- Required Contract Criteria
  - Contract has been approved by both parties
  - Both parties are committed
  - Each party's rights regarding goods or services can be identified
  - Payment terms can be identified
  - Contract has commercial substance
  - Collectability of consideration is probable

# Combining Contracts

- Contracts with the same customer should be combined if
  - The contracts are negotiated as a package with a single commercial objective.
  - The amount of consideration paid in one contract is dependent upon the other contract.
  - The goods or services promised in the contract are a single performance obligation.

# Contract Modifications



- Both parties agree to either
  - Change in scope or
  - Change in price (or both)
- Treat as a separate contract if
  - Addition of promised goods and services that are distinct.
  - Price of new obligation is consistent with the stand-alone price of the good or service transferred

# Contract Modifications (continued)

- Adjust current contract if not treated as a separate contract
  - Termination of existing contract
  - Adjust current contract and revise estimates
  - Combination of both

# Step 2: Identify Performance Obligations

# Performance Obligations

- Definition of Performance Obligation:
  - A promise in a contract with a customer to transfer to the customer either:
    - ◊ A good or service (or bundle) that is distinct.
    - ◊ A series of goods or services that are substantially the same and that have the same pattern of transfer to the customer.

# Examples of Performance Obligations

- Constructing, manufacturing, or developing an asset on behalf of a customer
- Granting licenses
- Granting options to purchase additional goods and services

# Distinct Goods and Services



- Two criteria must be met
  - The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and
  - The entity's promise to transfer the good or service is separately identifiable from other promises in the contract
- If goods or services are distinct, account for them as separate performance obligations in the contract
- If not, combine the goods or services with other promised goods or services until they become distinct

# Step 3: Determine the Transaction Price

# Determining Transaction Price

- Use customary business practices.
- Defined as the amount of consideration an entity expects to receive in exchange for transferring promised goods or services, excluding amounts collected on behalf of third parties.
- May consist of
  - Fixed amounts
  - Variable amounts
  - Both

# Transaction Price Considerations



- Variable consideration
- Significant financing component
- Noncash consideration
- Consideration payable to a customer

# Noncash Consideration



- Measure at fair value
- Secondary measure is standalone selling price

# Significant Financing Component

- Revenue recognized is the price a customer would have paid for the goods or services if the customer had paid cash for those goods or services, that is, the cash selling price
- Practical expedient—period between delivery and payment is one year or less

# Consideration Payable to the Customer

- Treat as a reduction of the revenue recognized unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity
- Examples
  - Cash payments to the customer
  - Coupons or other credits that can be applied against amounts owed

# Step 4: Allocate the Transaction Price

# Allocating Transaction Price

- Allocate to each performance obligation
  - In a systematic manner
  - Standalone selling price—most common method.
  - If good or service is not sold separately, estimate the separate price using observable inputs using:
    - ◊ Adjusted market assessment method
    - ◊ Cost plus margin method
    - ◊ Residual value method

# Allocating Discounts

- Allocate discount proportionally to all performance obligations.
- Exception
  - Entity regularly discounts just one of the performance obligations.

# Step 5: Recognize Revenue When (or as) the Performance Obligations are Satisfied

# Satisfaction of Performance Obligations



- Revenue is recognized when a performance obligation is satisfied (asset or service is transferred).
- An asset is transferred when the customer obtains control of the asset

# Control Factors



- Control of an asset refers to
  - Ability to direct the use of, and obtain all of the remaining benefits from the asset.
  - Ability to prevent other entities from directing the use of, and obtaining the benefits from an asset.
- Determine if control of good or services are transferred
  - Over time.
  - At a point in time.

# Recognition when Performance is Satisfied Over Time

- One criteria must be met:
  - Customer simultaneously receives and consumes the benefits as the entity performs.
  - The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or
  - The asset created has no alternative use to the reporting entity, AND the entity has a right to payment for the performance completed to date.

# Measuring Progress

- Performance obligations settled over time
  - Input methods
  - Output methods
  - Described in FASB ASC 606-10-55-16 through 21

# Recognition when Performance is Satisfied at a Point in Time



- Indicators that control has been transferred include:
  - The entity has a present right to payment for the asset.
  - The customer has legal title to the asset.
  - The customer has physical possession of the asset.
  - The customer has the significant risks and rewards of ownership.
  - The customer has accepted the asset.

# Final U.S. GAAP Model – Disclosure



## Disaggregation of revenue

- Qualitative and quantitative* disaggregation of revenue into categories that depict how revenue and cash flows are affected by economic factors

## Information about contract balances

- Opening and closing balances *
- Amount of revenue recognized from contract liabilities *
- Explanation of significant changes in contract balances *

## Remaining performance obligations

- Transaction price allocated to remaining performance obligations *
- Quantitative or qualitative explanation of when amounts will be recognized as revenue *

## Interim requirements

- Quantitative disclosures *

* for public entities only

# Final U.S. GAAP Model – Transition, Effective Date and Early Application



| | | PY2 (2016) | PY1 (2017) | | CY (2018) | CY Footnotes |
|---|---|---|---|---|---|---|
| **Retrospective** (with optional practical expedients) | Cumulative catch-up | Rev rec under new standard | | | | |
| | | | | | | |
| **Cumulative effect at date of application** | | Rev rec under legacy standard | | Cumulative catch-up | Existing* and new contracts under new standard | Existing and new contracts disclosed under legacy standard for CY (2018) |

*contracts for which all (or substantially all) of the revenue has not been recognized under legacy revenue guidance

- Effective dates:
  - Public entities – fiscal years beginning after December 15, 2017
  - Nonpublic entities – fiscal years beginning after December 15, 2018
  - Earlier adoption as of original effective date (fiscal years beginning after December 15, 2016) permitted

# Post-Issuance Activities

- Transition Resource Group (TRG): Specialists (auditors, preparers, regulators, others) and FASB members who discuss interpretations of the principles
- AICPA Revenue Recognition Task Force
  - Tuition and housing revenue
  - Grants
  - Subscriptions and membership dues
  - Bifurcation transactions
  - Contributions
- FASB has issued clarifications on Topic 606 in 2016
  - Licenses and Performance Obligations – ASU 2016-10
  - Narrow Scope Improvements and Practical Expedients (including contract modifications, noncash consideration, collectability, and presentation of sales taxes) – ASU 2016-12
  - Principal versus Agent (reporting revenue gross versus net) – ASU 2016-08

# Potential Application Considerations for Nonprofits

# Potential Application Considerations for Nonprofit-Profits

- Contributions (Out of Scope)
- Bifurcation
- Membership Dues (See Example Transactions)
- Tuition and Fees
- Licenses and Royalties
- Governmental Grants and Contracts

# Contributions (Out of Scope)

- March 30, 2015 meeting - TRG members agreed nonreciprocal contributions are not within the scope of the new revenue standard
  - FASB Board will not amend ASC 606 to clarify the scope exception
  - TRG members agreed with FASB Board member's suggestion that AICPA could evaluate whether to include interpretive clarification in non-authoritative industry guidance

# Bifurcation

- 958-605-55-2:
  - "... A grant, sponsorship, or membership may be entirely a contribution, entirely an exchange, or a combination of the two..."
- 958-605-55-6:
  - "Moreover, a single transaction may be in part an exchange and in part a contribution…See paragraphs 958-720-45-18 through 45-19… 958-225-55-11 through 55-15 for direct benefits provided to donors at special events."

# Bifurcation

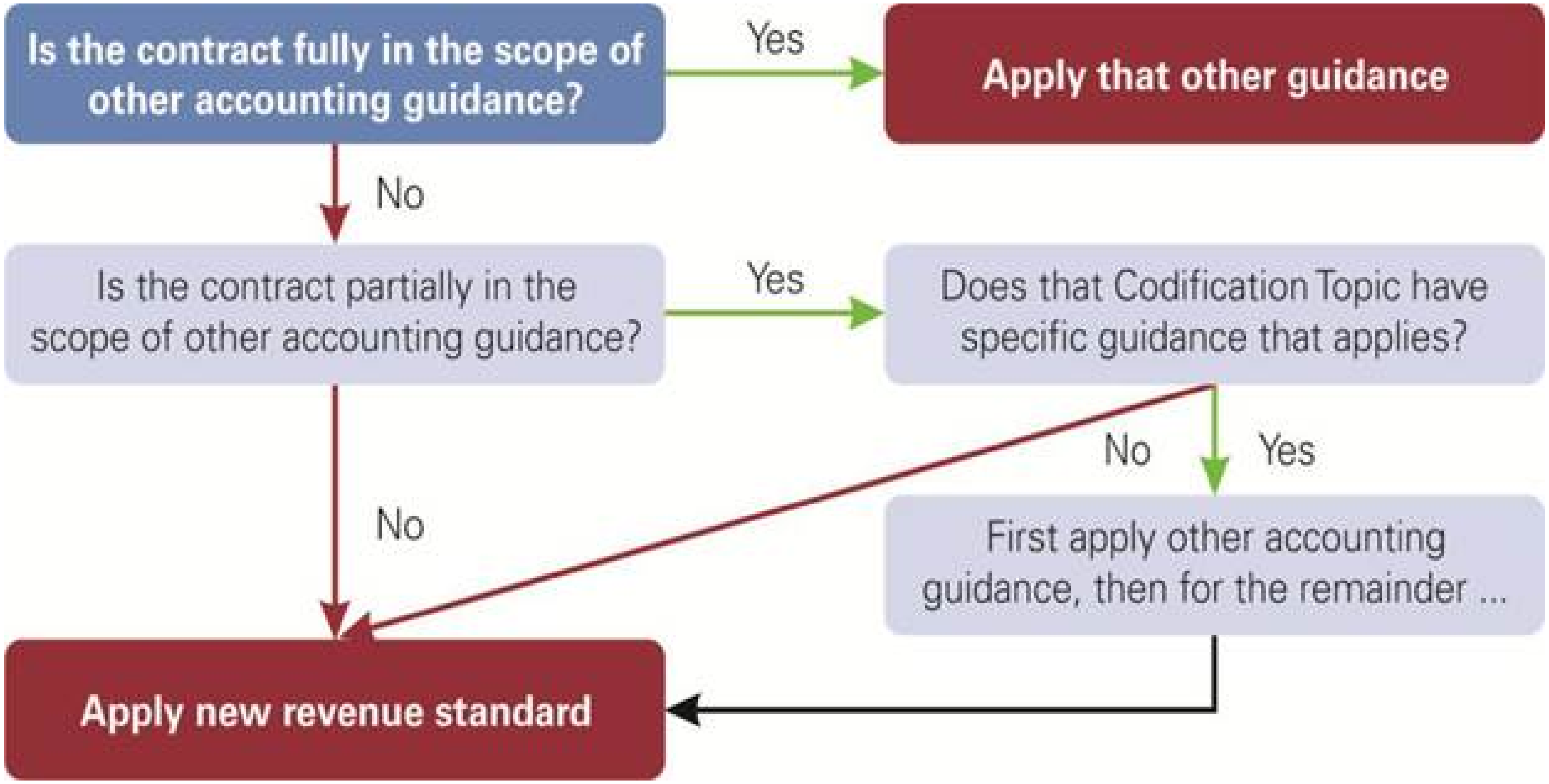
- 958-605 – Contributions
- 606 – Contracts with Customers
- 958-605-55-8:

  The following table contains a list of indicators that may be helpful in determining whether individual asset transfers are contributions, exchange transactions, or a combination of both.

| Indicator | Contribution | Exchange Transaction |
|---|---|---|
| Recipient not-for-profit entity's (NFP's) intent in soliciting the asset [(a)] | Recipient NFP asserts that it is soliciting the asset as a contribution. | Recipient NFP asserts that it is seeking resources in exchange for specified benefits. |
| Resource provider's expressed intent about the purpose of the asset to be provided by recipient NFP | Resource provider asserts that it is making a donation to support the NFP's programs. | Resource provider asserts that it is transferring resources in exchange for specified benefits. |
| Method of delivery | The time or place of delivery of the asset to be provided by the recipient NFP to third-party recipients is at the discretion of the NFP. | The method of delivery of the asset to be provided by the recipient NFP to third-party recipients is specified by the resource provider. |
| Method of determining amount of payment | The resource provider determines the amount of the payment. | Payment by the resource provider equals the value of the assets to be provided by the recipient NFP, or the assets' cost plus markup; the total payment is based on the quantity of assets to be provided. |
| Penalties assessed if NFP fails to make timely delivery of assets | Penalties are limited to the delivery of assets already produced and the return of the unspent amount. (The NFP is not penalized for nonperformance.) | Provisions for economic penalties exist beyond the amount of payment. (The NFP is penalized for nonperformance.) |
| Delivery of assets to be provided by the recipient NFP | Assets are to be delivered to individuals or organizations other than the resource provider. | Assets are to be delivered to the resource provider or to individuals or organizations closely connected to the resource provider. |

(a) This table refers to assets. Assets may include services. The terms assets and services are used interchangeably in this table.

# Bifurcation



# Tuition and Fees



- Tuition Fees and Revenue Accounting:
  - Deposit made before the start of class
  - Student enrolls
  - Student pays tuition bill
  - Institution recognizes liability
  - Institution provides first day of class
  - Student withdrawals after day one
  - Student withdrawal period ends after two weeks
  - Recognize revenue through the end of the semester

# Licenses and Royalties



Current GAAP includes limited, industry specific guidance on revenue recognition for licenses
New guidance includes comprehensive model to be applied to all industries.

## Contractual Provisions

There is a distinction between contractual provisions that:

- Require transfer of control of additional goods or services to customer (**multiple** performance obligations)
- Define attributes of a **single** promised license

## Nature of License: Functional or Symbolic

Operability of "right to use" vs. "right to access" assessment

- Based on **significant standalone functionality**
- Functional: point in time recognition
- Symbolic: over time recognition

## Sales- or Usage-Based Royalties

Scope and applicability of exception to variable consideration constraint guidance

- Applies when royalty completely or predominantly relates to license
- Royalties should not be split into portions to which exception does and does not apply

# Grants and Contracts

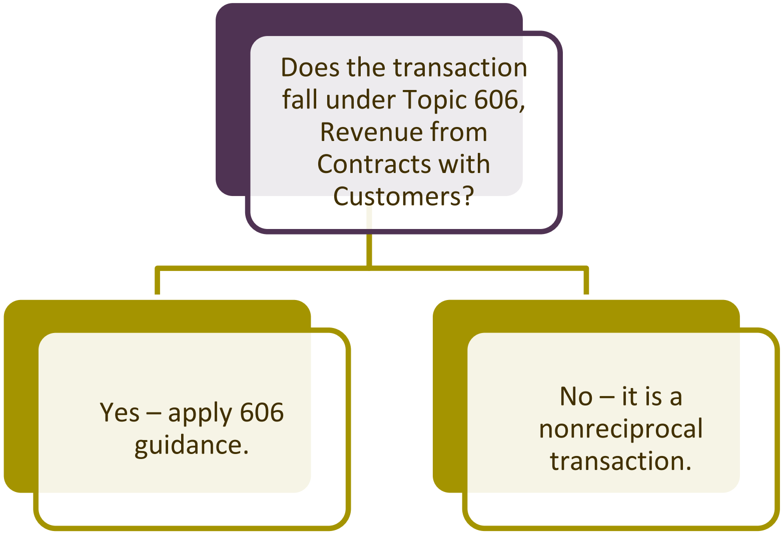


- Unique Nonprofit guidance on contributions, but long-standing diversity in practice in classifying grants and contracts, particularly from governmental entities
- U.S. GAAP focuses on:
  - Issue 1: Exchange vs. Non-exchange (contribution)
  - Issue 2: Conditions vs. Restrictions
- ASU 2014-09, Topic 606 (Revenue from Contracts with Customers)
  - Heightened this issue; raised question as to whether grants and contracts are in scope of that guidance
  - Removed limited exchange guidance and focuses on whether or not the transaction is reciprocal
- Terminology and Transition
  - "Contributions" encompasses both grants and donations
  - A change in classification in connection with enhanced/clarified guidance would not be the correction of an accounting error

# Grants and Contracts (continued)



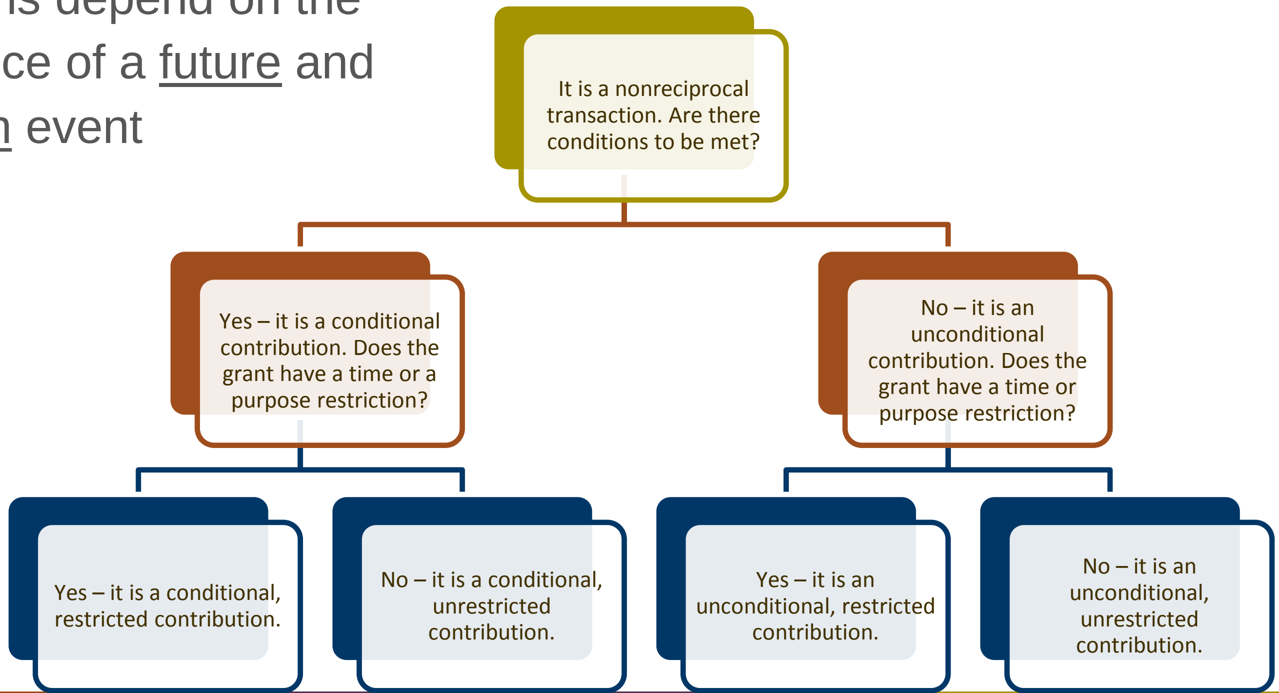
- FASB staff (and some Board members) believe the best path forward is to make the guidance for our current model **better** and **clearer**
  - **Step 1**: Does the transaction fall under Topic 606?
    - Key clarification: benefit to the general public *does not* constitute direct benefit to the government (would not be characterized as a reciprocal transaction under 606)



# Grants and Contracts (continued)

- **<u>Step 2</u>**: If a nonreciprocal transaction, are there conditions associated with the resources received?
  - Conditions depend on the occurrence of a <u>future</u> and <u>uncertain</u> event

- **<u>Step 3</u>**: Is a restriction present?
  - A restriction is a grantor stipulation that only limits the use of the funds (timing or purpose)



# Concerns Leading up to Implementation

- Consistency of agreement language across revenue categories
- Are the performance obligations clearly defined?
- How to allocate the transaction price to each performance obligation (membership dues)
- Disclosure requirements
- How do we get this done with everything else we have going on?

# Practical Steps for Implementing ASC 606

# Practical Steps for Implementing ASC 606

- Read the Standard and all relevant commentary from audit firms, attend related CPE, read TRG materials

- Assign individual staff to become subject matter experts on specific revenue categories or by section to lead a group of staff to understand and implement the new standard. Include relevant staff outside of accounting:  internal audit, legal, etc.

# Practical Steps for Implementing ASC 606



3. Compile a list of all organizational revenues, e.g.
   - Membership Dues
   - Royalties
   - Advertising Revenue
   - Sponsorship Revenue
   - Federal, State, or Private Grants
   - Investment Income
   - Contributions
   - Retail Sales
   - Educational Service Fees
   - Pass-Through Funds
   - Tuition
   - Fee for Service
   - Refunds
   - Miscellaneous
   - For-Profit Affiliate Revenues

# Practical Steps for Implementing ASC 606

4. Develop and document a position paper on each revenue stream
   - Read the standard
   - Document your current process (if applicable)
   - Identify the relevant sections, being as specific as possible when options are presented
   - Support your position with facts, including facts as to why a specific section may not be applicable
   - Document your conclusion on how to recognize revenue
   - Review with your external auditor
   - Finalize and approve new recognition policy

5. Consider discussing issues with similar organizations within your industry

6. If a change is required, is it material?
   - If no, document, discuss impact with auditors (annual passed adjustment?) and continue with prior recognition methodology

# Practical Steps for Implementing ASC 606



7. If a change in recognition is required, consider impact on the following:
   - Are changes in verbiage needed for new related contracts?
   - Recognition processes within the accounting system
   - Technical changes within the accounting or supporting systems
   - Monthly/annual financial close process
   - Internal financial reporting
   - Audited financial statements
   - Forecast and budget processes
   - Dashboard goals

8. Communicate changes to CFO, board, audit/finance committee, senior staff, key programmatic stakeholders, auditors, internal auditors, contract signers, banks, bondholders, etc.

9. Determine requirements to retrospectively adopt the new standard or prepare comparative financial statements (prior year restatement?)

10. Develop a plan for staff training

# Nonprofit Industry
# Example Transactions

# Membership Dues with a Publication



A nonprofit has annual dues of $180. Members receive benefits from their dues such as advocacy efforts, educational opportunities, industry trend information and a quarterly newsletter with a fair value of $60 annually.

- ✓ Step 1: Identify the contract.
- ✓ Step 2: Identify the performance obligation(s).
- ✓ Step 3: Determine the transaction price.
- ✓ Step 4: Allocate the transaction price to the performance obligation(s).
- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

# Membership Dues with a Publication (continued)

- ✓ Step 1: Identify the contract.

  Related to the dues and subscription for the quarterly newsletter

- ✓ Step 2: Identify the performance obligation(s).

  1. The nonprofit is providing membership services and benefits.
  2. Subscription service in the form of quarterly newsletter.

- ✓ Step 3: Determine the transaction price.

  Total bundle of membership and subscription is $180

- ✓ Step 4: Allocate the transaction price to the performance obligation(s).

  $60 is allocated to subscription revenue and $120 to membership service revenue.

- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

  Recognize revenue streams over time since services are provided monthly / quarterly.

# Education and Advocacy Membership



A nonprofit has annual dues of $200 and the only benefit members receive is a monthly newsletter with a fair value of $50.

- ✓ Step 1: Identify the contract.
- ✓ Step 2: Identify the performance obligation(s).
- ✓ Step 3: Determine the transaction price.
- ✓ Step 4: Allocate the transaction price to the performance obligation(s).
- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

# Education and Advocacy Membership (continued)



- ✓ Step 1: Identify the contract.

  Amount paid ($50) for the newsletter is contract with a customer since this is a reciprocal transaction. The remaining $150 is a contribution since, no specific identifiable benefits are provided.

- ✓ Step 2: Identify the performance obligation(s).

  The nonprofit has a obligation to provide the monthly newsletter to the member in return for the payment.

- ✓ Step 3: Determine the transaction price.

  The FV of the newsletter ($50) is the transaction price.

- ✓ Step 4: Allocate the transaction price to the performance obligation(s).

  $50 is allocated to the performance obligation to provide the monthly news letter.

- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

  $50 is recognized as revenue over 12 months as each issue is provided to the member. Remaining $150 is recognized as contribution revenue as received.

# Tuition

A college has a fiscal year end that occurs during the semester. Student A receives an offer to enroll, accepts, and pays a nonrefundable deposit of $1,000. A bill for $9,000 (remaining tuition balance) is generated by College and is due two weeks prior to the start of classes. Student A pays the bill after classed start. The semester spans 100 days. Students are eligible to receive a refund ranging in full to partial tuition paid within the first two weeks of classes. Student A withdraws from one class (with a tuition charge of ($900) within the two week grace period. College A calculates a refund estimate of 10% of tuition (excluding nonrefundable deposits) on a portfolio approach.

# Tuition (continued)



- ✓ Step 1: Identify the contract.

  Related to the tuition for the classes provided.

- ✓ Step 2: Identify the performance obligation(s).

  The College has a obligation to provide educational instruction to Student A in return for the payment.

- ✓ Step 3: Determine the transaction price.

  Tuition charged totaling $10,000 (although not covered in this example, many institutions offer reductions in tuition charged other than in exchange. For example, an institution may offer a scholarship. Such reductions would be accounted for as a reduction of the transaction price and therefore, of revenue.

- ✓ Step 4: Allocate the transaction price to the performance obligation(s).

  $10,000 is allocated to the performance obligation to provide educational services.

- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

  $10,000 is recognized as revenue over the academic period.

# Tuition (continued)



- Journal entry example:
  - Student A pays nonrefundable deposit prior to enrollment:
    - ◊ Dr. Cash $1,000
    - ◊ Cr. Contract Liability $1,000

    (as the student ultimately enrolls, the deposit will be included in the transaction price and revenue recognized as College performs)
  - Student A enrolls and College sends a bill for $9,000.
    - ◊ No entry because revenue recognition has not yet commenced and College does not yet have an unconditional right to consideration given the two week cancellation period.

# Tuition (continued)



- Journal entry example (continued):
  - College provides the first day of class (student has made no payment other than enrollment deposit):
    - ◊ Dr. Contract liability $91
    - ◊ Cr. Revenue $91

    (College adjusts the transaction price based on its estimate of refunds. Revenue is recognized ratably over the 100-day semester ($91 = $10,000 revenue/100 days less refund estimate [$9,000/100 * 10%])

# Tuition (continued)



- Journal entry example (continued):
  - At the end of day one, student partially withdraws by dropping a class and tuition is reduced by $900.
    - ◊ Balance of tuition bill is reduced to $8,100. As no consideration was received, no funds are returned and no journal entry is made.
  - College A reaches it’s fiscal year end.
    - ◊ College A would update its estimate of the transaction price using the portfolio approach. In our example the actual reduction in tuition for the period ($900) equals the allocated portion of the refund estimate under the portfolio approach ($9,000 * 10%); therefore no entry required.

# Tuition (continued)



- Journal entry example (continued):
  - After the end of week two, the withdrawal period has ended:
    - ◊ Dr. Receivable $8,100
    - ◊ Cr. Contract Liability $8,100

    (Receivable recorded for unpaid tuition [net of withdrawal], offsetting contract liability as the contract is now noncancellable)
  - Throughout remainder of the semester:
    - ◊ Dr. Contract Liability $8,190
    - ◊ Cr. Revenue $8,190
  - Student A pays:
    - ◊ Dr. Cash $8,100
    - ◊ Cr. Receivable $8,100

# Grant Research Agreement Payment

The nonprofit will receive a milestone payment upon completion of specific research performed for a U.S. Department of Justice (DOJ). Once the research is provided to the DOJ, the research is the property of the DOJ. The nonprofit has received positive feedback to date from the DOJ office based on interim project reports submitted. Based on the nonprofit's experience with other federal agencies with similar research grants and feedback, Nonprofit has concluded that there is a 90 percent likelihood that it will be entitled to the entire milestone payment.

# Grant Research Agreement Payment (continued)



- ✓ Step 1: Identify the contract.

  The nonprofit has determined that both parties, at the time of the milestone, have received something of equal value. (reciprocal)

- ✓ Step 2: Identify the performance obligation(s).

  The provision to provide the research services represents the performance obligation.

- ✓ Step 3: Determine the transaction price.

  The milestone payment represents a variable amount that should be estimated using the likely amount to estimate transaction price.

- ✓ Step 4: Allocate the transaction price to the performance obligation(s).

  No allocation is necessary since there is just one performance obligation for the milestone.

- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

  Revenue would be recognized as the required research is delivered to DOJ.

# Sponsorship

A trade association gives resources providers (vendors) the opportunity to sponsor a particular event for its member conference. The sponsorship is publicized through placement of the vendor's logo at the event and in any publications connected with the event.

- ✓ Step 1: Identify the contract.
- ✓ Step 2: Identify the performance obligation(s).
- ✓ Step 3: Determine the transaction price.
- ✓ Step 4: Allocate the transaction price to the performance obligation(s).
- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

# Naming Rights

A corporation provides $1 million for the right to name a sports arena of a local college.  The contract provided:  the number of years the arena will carry the name, the location of the sign in relation to the nearby highway, and the right to rename the arena in the event the corporation's name changes.

# Naming Rights (continued)



- ✓ Step 1: Identify the contract.

  This is a reciprocal contract as there is value and rights and obligations related to each party.

- ✓ Step 2: Identify the performance obligation(s).

  The naming of the arena and the prominent display of the corporate name.

- ✓ Step 3: Determine the transaction price.

  The $1million the corporation is paying for their rights.

- ✓ Step 4: Allocate the transaction price to the performance obligation(s).

  Appears to be only one bundled obligation of the naming of the arena and display of name.

- ✓ Step 5: Recognize revenue as each performance obligation is satisfied

  Revenue would be recognized over the term of the agreement.

# Questions?

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