



OVERVIEW OF ASC 606 REVENUE RECOGNITION FOR GOVERNMENT CONTRACTORS

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AGENDA

- Introductions
- ASC 605 vs 606 - Key terms? Why? Deadline?
- Application of the five-step framework
- Advanced Issues - Principal versus Agent, Licenses of IP & Warranties
- How are you preparing for 606?
- Sample contracts selected for assessment and checklist template
- Common Concerns/Variables
- Key transition steps
- Q&A



KEY TERMS

- Performance Obligations
- Variable Consideration
- Distinct
- Dependent
- Interrelated
- Constraint
- ASC (new acronym for contracts folks!)
- Separately Identifiable
- Functional
- Symbolic
- Transaction Price
- Inputs & Outputs



605 VS 606

- The FASB replaced virtually all revenue recognition guidance with an entirely new standard. Upon the effective date, all guidance in the existing Topic 605 *Revenue Recognition* will be superseded.

OVERVIEW	
Existing Topic ASC 605	Revenue from Contracts with Customers Topic ASC 606
Recognize revenue when it is <u>earned</u> and <u>realizable</u> . Most entities commonly use SAB 13 (SEC guidance) to interpret the meaning of “earned” and “realizable.”	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.



ASC 606 EFFECTIVE DATES

	US GAAP
Public Entities	<p>Annual reporting periods beginning after December 15, 2017, including interim periods therein.</p> <ul style="list-style-type: none">• No requirement to recast the earliest two years in the five-year selected financial data; however, must disclose the basis of presentation and lack of comparability.• Emerging growth companies (EGCs) are permitted to follow the transition guidance for nonpublic entities. EGCs would not be required to reflect adoption in the supplementary quarterly financial data in its 2019 annual report.
Non-Public Entities	<p>Annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.</p>
Early Adoption Permitted?	<p>Yes, but no earlier than annual reporting periods beginning after December 15, 2016.</p>



TOPIC 606: REVENUE FROM CONTRACTS WITH CUSTOMERS

The Five-Step Framework will be used to determine whether the **core principle** of Topic 606 has been achieved.

Identify a contract with a customer

Identify the performance obligations

Determine the transaction price

Allocate the transaction price to the performance obligations

Recognize revenue when/as performance obligations are satisfied

The **core principle** of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange.

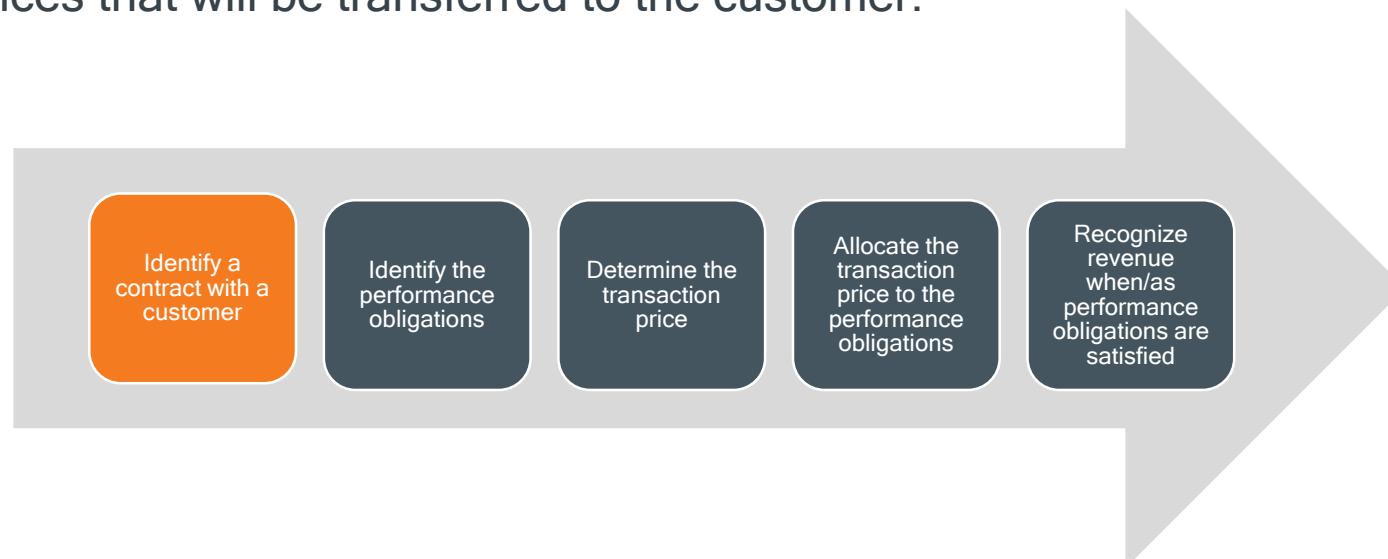
APPLICATION OF THE FIVE-STEP FRAMEWORK





STEP 1: IDENTIFY A CONTRACT WITH A CUSTOMER

1. The parties to the contract have approved the contract and are committed to performing their respective obligations.
2. Each party's rights regarding the goods or services to be transferred can be identified.
3. The payment terms for the goods or services to be transferred are identifiable.
4. The contract has commercial substance.
5. It is probable the seller will collect [the consideration to which it will be entitled] in exchange for the goods or services that will be transferred to the customer.





STEP 1: ACCOUNTING FOR CONTRACT MODIFICATIONS

- A contract modification is accounted for as a separate contract if **both** of the following conditions are present:
 - The scope of the contract increases because of the addition of promised goods or services that are distinct; and
 - The price of the contract increases by an amount of consideration that reflects the entity's standalone selling price of the additional promised goods or services.
- Otherwise, account for the modification as an adjustment to the existing contract, either prospectively or through a cumulative catch -up adjustment depending on the specifics.
- How does a government contractor account for a separate contract? Very carefully!



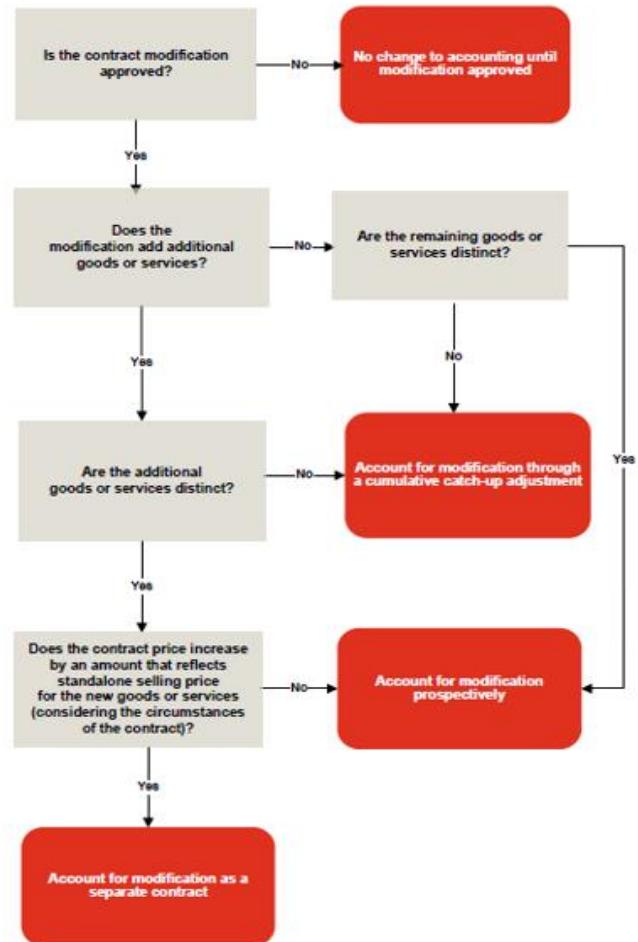
STEP 1: UNFUNDED CHANGE ORDERS “WORKING AT RISK”, CLAIMS, AND OPTIONS

- Some contracts authorize the contractor to proceed with the modifications to the scope of the contract even though the price has not been agreed upon between the parties.
- Claims are sometimes made as a result of customer-caused delays, errors in specifications and designs, contract terminations, change orders in dispute or unapproved concerning both scope and price, or other causes of unanticipated additional costs.
- Revenue related to a modification is not recognized until new enforceable rights and obligations exist or existing enforceable rights and obligations are changed.
- Revenue recognition is precluded for unpriced change orders if the scope of the work has been approved and the entity expects that the price will be approved.



STEP 1:

Contracts Modification Decision Tree





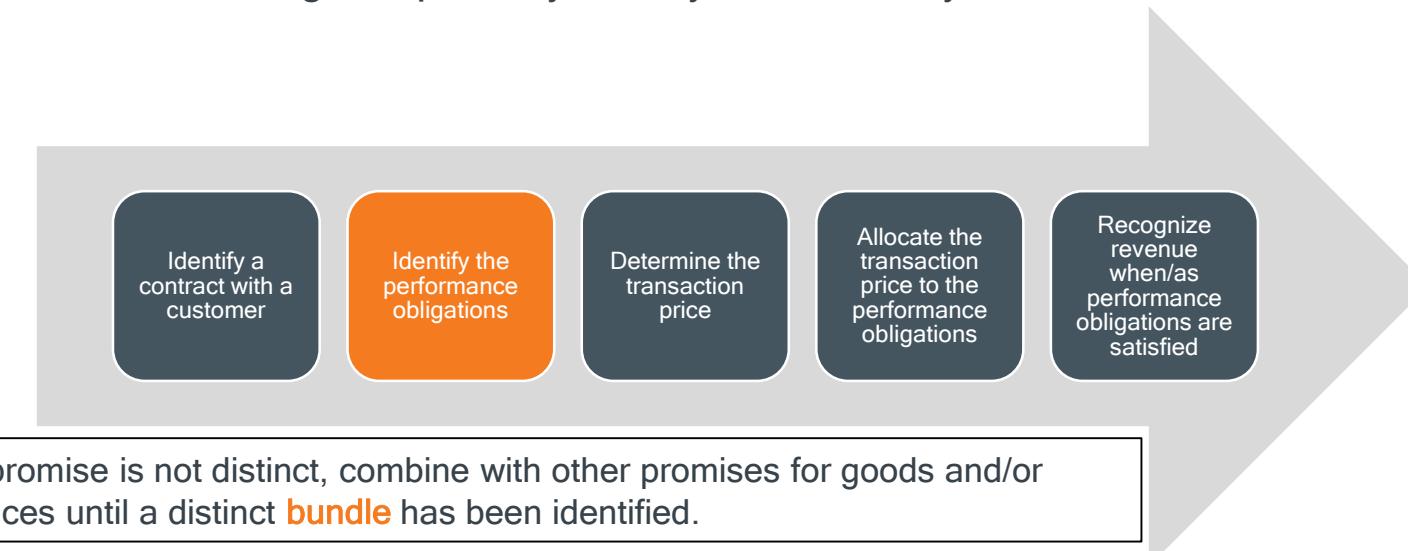
STEP 2: IDENTIFY THE PERFORMANCE OBLIGATIONS

Defining DISTINCT (ASC 606-10-25-19):

A product or service is distinct when both of the following criteria are met:

1. The customer can benefit from the promised good or service **on its own or together with other resources** that are readily available to the customer (it is capable of being distinct).
2. The promised good or service is **separately identifiable** from other goods or services promised in the contract.

Criterion 1 above acknowledges that a customer may only be able to benefit in conjunction with other resources, and that is OK, if those resources can be bought separately or they have already been obtained.





STEP 2: DEFINING DISTINCT

ASC 606-10-25-21

Factors that indicate that an entity's promise to transfer a good or service to a customer is **separately identifiable**... include, but are not limited to, the following:

- The entity **does not provide a significant service of integrating** the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.
- The good or service **does not significantly modify or customize** another good or service promised in the contract.
- The good or service **is not highly dependent on, or highly interrelated** with, other goods or services promised in the contract.

Immaterial items are not required to be assessed as promised goods or services for purposes of identifying performance obligations.



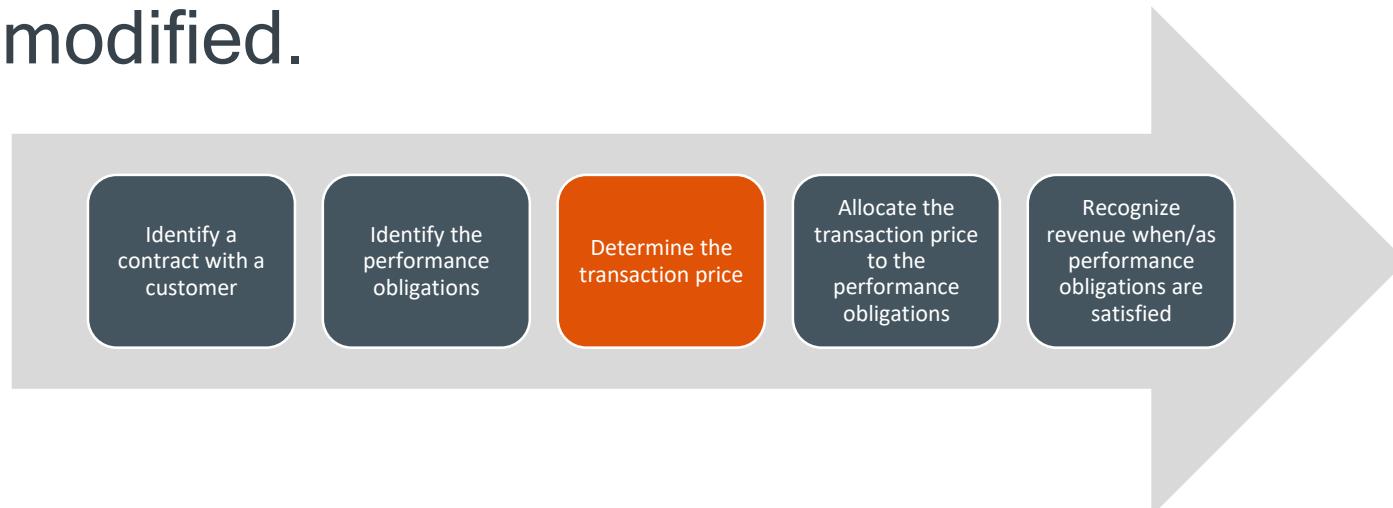
STEP 2: CONSIDERATIONS FOR IDENTIFYING INTERRELATED AND DEPENDENT

- Whether the multiple promised goods or services in the contract are outputs or, instead, are inputs to a combined item.
- Whether two or more promised goods or services each significantly affect the other and, therefore, are highly interdependent or highly interrelated.
- Whether the customer's ability to derive its intended benefit from the contract may depend on the entity transferring each of those goods or services.
- Whether the management and/or integration services is significant (ex. procurement, subcontracting, manufacturing, assembly, and testing).
- Whether significant modification or customization services are required.



STEP 3: DETERMINE THE TRANSACTION PRICE

- Transaction price is the amount of consideration (for example, payment) to which an entity expects to be entitled in exchange for transferring promised goods and services to a customer.
- An entity should assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed, or modified.





STEP 3: DETERMINING VARIABLE CONSIDERATION

- Estimating variable consideration (explicit or implied)
 - Refunds
 - Discounts
 - Rebates
 - Credits
 - Price concessions
 - Incentives
 - Penalties
- Constraining estimates of variable consideration
- The existence of a significant financing component

STEP 3:
Determine the
transaction price

Many factors can affect the amount of consideration to which an entity **expects to be entitled**. Examples of those factors include:
(i) customary business practice; **(ii)** volume based rebates; **(iii)** rights of return; **(iv)** and non-cash consideration.



STEP 3: CONSTRAINING VARIABLE CONSIDERATION

STEP 3:
Determine the
transaction price

WHAT IS THE CONSTRAINT?

The transaction price can include some or all of an amount of variable consideration estimated only to the extent that it is probable that a **significant reversal** will not occur.

Factors that increase the likelihood or the magnitude of a significant reversal:

- The amount of consideration is highly susceptible to factors outside the entity's influence (e.g. volatility in a market)
- Length of time needed to resolve the uncertainty
- Limited predictive value of the company's experience
- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances
- The contract has a large number and broad range of possible consideration amounts



STEP 3: HOW TO ACCOUNT FOR VARIABLES IN PRICING

If the consideration promised in a contract includes a variable amount, the amount of variable consideration should be estimated by using either of the following methods:

- **Expected value-** the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.
- **Most likely amount-** the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes.

Apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration.



TYPES OF VARIABLE CONSIDERATION

Type	Description
Award Fee	<p>(a) A fixed amount that does not vary with performance and (b) An award amount based on performance in areas such as quality, timeliness, ingenuity, and cost-effectiveness.</p> <p>The amount of award fee is based upon a subjective evaluation by the government of the contractor's performance judged in light of criteria set forth in the contract.</p>
Claims	Amounts in excess of the agreed contract price for customer-caused delays; errors in specifications and designs; contract terminations; change orders in dispute or unapproved regarding both scope and price; or other causes of unanticipated additional costs.



TYPES OF VARIABLE CONSIDERATION

Type	Description
Cost Incentive or Penalties	Provides at the outset for a firm target cost, a firm target profit, a price ceiling (but not a profit ceiling or floor), and a formula (based on the relationship that final negotiated total cost bears to total target cost) for establishing final profit and price (for example, 50/50 share of overruns or underruns).
Economic Price Adjustment	Provides for revision of the contract price based on the occurrence of specifically defined economic contingencies, for example, increases or decreases in either material prices or labor wage rates (SCA).
Billing Rate Adjustments or Withholds	Resultant variability due to change in billing rates and associated withhold. For example, use of interim versus final billing rates and the potential effect of pricing or contract based on forward pricing rate proposal or forward pricing rate recommendation rates in absence of forward pricing rate agreement.



TYPES OF VARIABLE CONSIDERATION

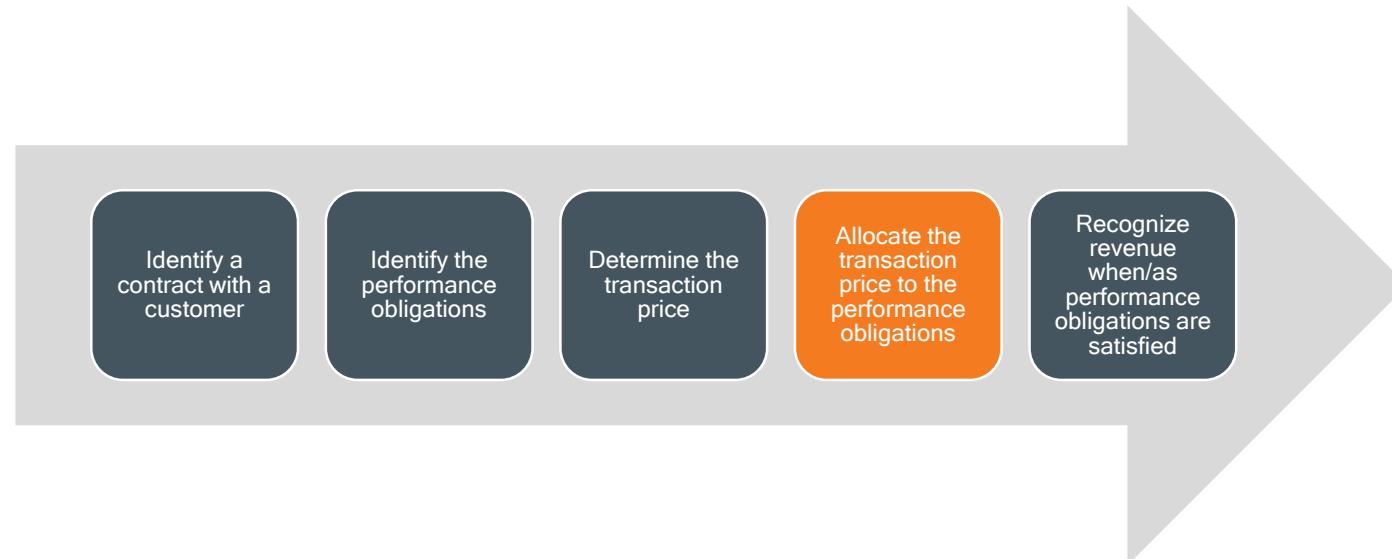
Type	Description
Performance Incentive or Penalties	Incentive to the entity to surpass stated contract or product performance targets by providing for increases in the profit to the extent that such targets (for example, schedule, cost, weight, personnel req, certifications, NIST penalties, etc.) are surpassed and for decreases to the extent that such targets are not met.
Price Adjustment or Redetermination Clauses	Amounts in excess of the agreed contract price for customer-caused delays; errors in specifications and designs; contract terminations; change orders in dispute or unapproved regarding both scope and price; or other causes of unanticipated additional costs.
Unpriced Change Order	An unpriced modification of an original contract and the adjustment to the contract price is negotiated later.



STEP 4: ALLOCATE THE TRANSACTION PRICE TO THE PERFORMANCE OBLIGATIONS

At contract inception, the transaction price is allocated to each distinct good or service based on its **relative stand-alone selling price**.

Relative stand-alone selling prices are based on the observable price of a good or service (i.e. the price at which the entity sells that good or service). *If not directly observable, estimates should be made that maximize the use of observable inputs.*





STEP 4: ALLOCATING THE TRANSACTION PRICE

- The transaction price must be allocated to each performance obligation in proportion to its stand-alone selling price.
 - Performance obligations may be each unit on a PO or an entire PO / work ticket/CLIN/SLINS/ACRNS.
 - If stand-alone pricing is not available (often for custom goods), the unit price recognized must be estimated, such as by using the adjusted market assessment approach or the expected cost plus a margin approach.

Important when there are several types of performance obligations (products & services sold together), and for individual units sold on an order that is not completely fulfilled at the end of a reporting period.



STEP 4: ALLOCATING THE TRANSACTION PRICE

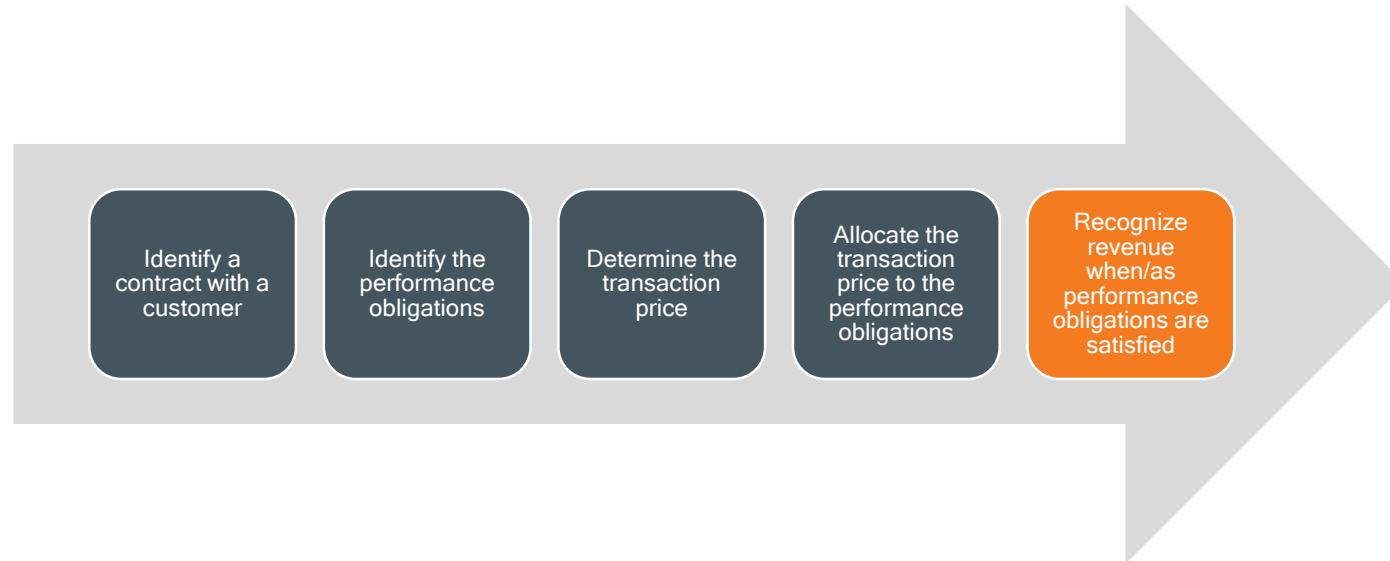
- Under the adjusted market assessment approach, the company would evaluate the market in which it sells goods and estimate the price that a customer in that market would be willing to pay for those goods.
- Under the expected cost plus a margin approach, the company would forecast its expected costs and then add an appropriate margin for that good.
- A discount may be allocated to one or more, but not necessarily all, performance obligations. This applies in cases where the sum of stand-alone selling prices of a bundle of goods or services exceeds the promised consideration in a contract.



STEP 5: RECOGNIZE THE REVENUE WHEN/AS PERFORMANCE OBLIGATIONS ARE SATISFIED

Control over the good or service must be passed to the customer to recognize revenue.

- Control refers to the ability to direct the use of and **obtain substantially all of the remaining benefits** of the asset (representing the good or service).
- Risks and rewards of ownership are now only part of the consideration.
- Determination if control transfers at a **point in time** or **over time**.





OVER TIME RECOGNITION CRITERIA

STEP 5:

Recognize revenue
when / as
performance
obligations are
satisfied



Control transfers over time and, therefore, satisfies a performance obligation **over time if one of the following criteria are met:**

1. The customer simultaneously receives and consumes the benefits provided by the seller's performance as the seller performs.
2. The seller's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
3. The seller's performance does not create an asset with an alternative use to the seller, and the seller has an enforceable right to payment for the performance completed to date.



POINT IN TIME RECOGNITION CRITERIA

STEP 5:
Recognize revenue
when / as
performance
obligations are
satisfied



If a performance obligation does not meet the criteria to be satisfied over time, it is deemed to be satisfied at a point in time. ASC 606 includes several indicators of the transfer of control including:

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



MEASURING PROGRESS OVER TIME

STEP 5:

Recognize revenue
when / as
performance
obligations are
satisfied

Methods for measuring progress of satisfying performance obligations over time:

The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised.

- INPUT METHODS recognize revenue on the basis of the company's efforts or inputs to the satisfaction of a performance obligation.
- OUTPUT METHODS recognize revenue on the basis of direct measurements (such as surveys, milestones, time periods elapsed) of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract.

It is REQUIRED to select the method that best fulfills the objective stated above (rather than select the most efficient method).



INPUT METHODS

Performance Obligation Satisfied Over Time

Measuring Progress: Input Methods

- Objective: To depict the **transfer of control** of the promised good or service.
- Examples of inputs that may be incorporated into an input method:
 - Labor hours expended
 - Costs incurred
 - Machine hours used
- Revenue recognized based on inputs expended in proportion to the total inputs expected to be expended in satisfying the performance obligation.
- A **single measure** must be used for each performance obligation.
- Straight-line revenue recognition could be appropriate in certain situations.



INPUT METHODS

Performance Obligation Satisfied Over Time

Measuring Progress: Input Methods

- Adjustment to an input method may be required.
- Required if inputs are not directly related to transfer of control, such as:
 - Costs incurred do not contribute toward progress.
 - Wasted materials
 - Cost overruns (i.e. inefficiencies)
 - Costs incurred are not proportionate to progress
 - Contracts involving multiple non-distinct services
 - Contracts involving significant uninstalled materials
 - Best depiction may be to recognize revenue to the extent of costs incurred (there are criteria for determining this)



OUTPUT METHODS

Performance Obligation Satisfied Over Time

Measuring Progress: Output Methods

- Objective: To depict the transfer of control of the promised good or service.
- Examples of output methods:
 - Units produced or delivered
 - Amount of time elapsed
 - Milestones reached
- Revenue recognized based on the value of goods or services delivered relative to the remaining promised goods or service in the contract.
- A **single measure** must be used for each performance obligation.
- The “right to invoice” practical expedient (e.g. hourly service contract).

May not always result in the best depiction of an entity's performance if the performance obligation is satisfied over time because a units-of-delivery or a units-of-production method ignores the work in process that belongs to the customer.



OUTPUT METHODS

Performance Obligation Satisfied Over Time

Measuring Progress: Output Methods

- The “Right to Invoice” Practical Expedient:

The “Right to Invoice” Practical Expedient⁶

In certain contracts, an entity has a right to the amount invoiced to the customer. In other words, the consideration to which the entity is entitled from a customer corresponds directly with the value of the entity's performance completed to date. An example would be an hourly service contract in which the customer is billed a fixed amount for each hour of labor. **An entity may elect to use this practical expedient only if it has strong evidence demonstrating that the amount invoiced directly corresponds with the value to the customer of the entity's performance completed to date.** By electing this practical expedient, an entity would recognize revenue in the amount for which it has the right to invoice (i.e. the invoiced amount).

The above is an excerpt from *NAAPL 2017-15*.



PERCENTAGE OF COMPLETION ACCOUNTING

What You Need to Know

Cost to cost (with profit margin) can still be used to determine revenue recognition on contracts in progress. While the thought process and terminology will be different, revenue recognized under the new standard may be similar to the percentage of completion method currently being used.

The new standard allows for the use of input or output methods to determine revenue to be recognized. **This is based on the assumption that most contracts will be treated as having a single performance obligation satisfied over time.**

- 
- # SPECIFIC GUIDANCE FOR:
- PRINCIPAL VS AGENT
 - LICENSES OF INTELLECTUAL PROPERTY
 - WARRANTIES



PRINCIPAL V. AGENT: POTENTIAL ACCOUNTING AND REPORTING CHANGES

Current GAAP	New GAAP
The entity is the primary obligor.	The entity is primarily responsible for fulfilling the promise to provide the specified good or service.
The entity has general inventory risk before the customer order is placed or upon customer return.	The entity has inventory risk before the specified good or service has been transferred to a customer or after the transfer to the customer(right of return)
The entity has latitude in establishing the price	The entity has discretion in setting the price - as this might indicate that the entity has the ability to direct the use of the good or service.
The entity changes the product or performs part of the service.	Not used
The entity has discretion in supplier selection	Not used
The entity is involved in the determination of product or service specifications.	Not used
The entity has physical loss inventory risk after the customer order or during shipping.	Not used
The entity has credit risk	Not used



RECOGNIZING REVENUE FROM A LICENSE (NOT SALE) FOR IP

Licenses of Intellectual Property (IP)

- Identify whether a contract contains a license for intellectual property
- Determine the nature of the license
 - Over a period of time (**a right to access**); or
 - At a point in time (**a right to use**)
- Measuring and recognizing revenue
 - Guidance for licenses (the “license revenue implementation guidance”) should be strongly reviewed and understood by contracts and accounting if your company is licensing software

STEP 5:

Recognize Revenue
when or as the
performance
obligations are
satisfied



SYMBOLIC OR FUNCTIONAL NATURE

Licenses of Intellectual Property (IP)

Determine the Nature of the License for IP

- Nature of the License for IP drives determination of whether the promise is satisfied over time or at a point in time.

STEP 5:

Recognize Revenue
when or as the
performance
obligations are
satisfied

Nature of License for IP	Rights Conveyed Over Time or at a Point in Time	Examples - Licenses for the Use of
Symbolic	Right to access - satisfied over time	<ul style="list-style-type: none">- Sports Team Logo- Brand & Trade Names- Franchise rights
Functional	Right to use (most of the time) - satisfied at a point in time	<ul style="list-style-type: none">- Media content- Software- Drug formulas



IP REVENUE - OVER LICENSE PD OR AS LICENSE IS GRANTED

Licenses of Intellectual Property (IP)

Measuring and Recognizing Revenue from the License for IP

- Revenue from a license for IP cannot be recognized until **both**:
 - A copy of the IP is made available to the customer; **AND**
 - The license period has commenced.
- Revenue recognition:**

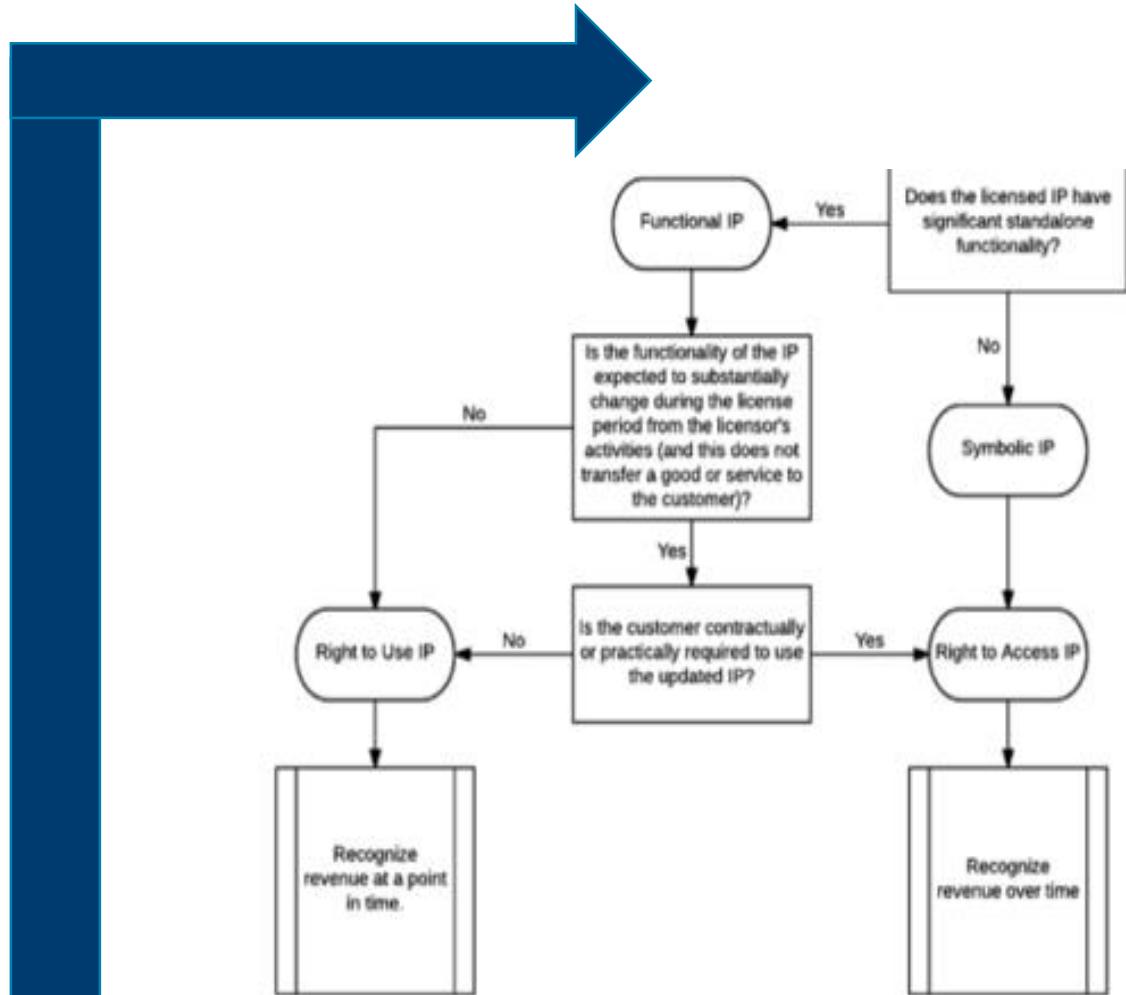
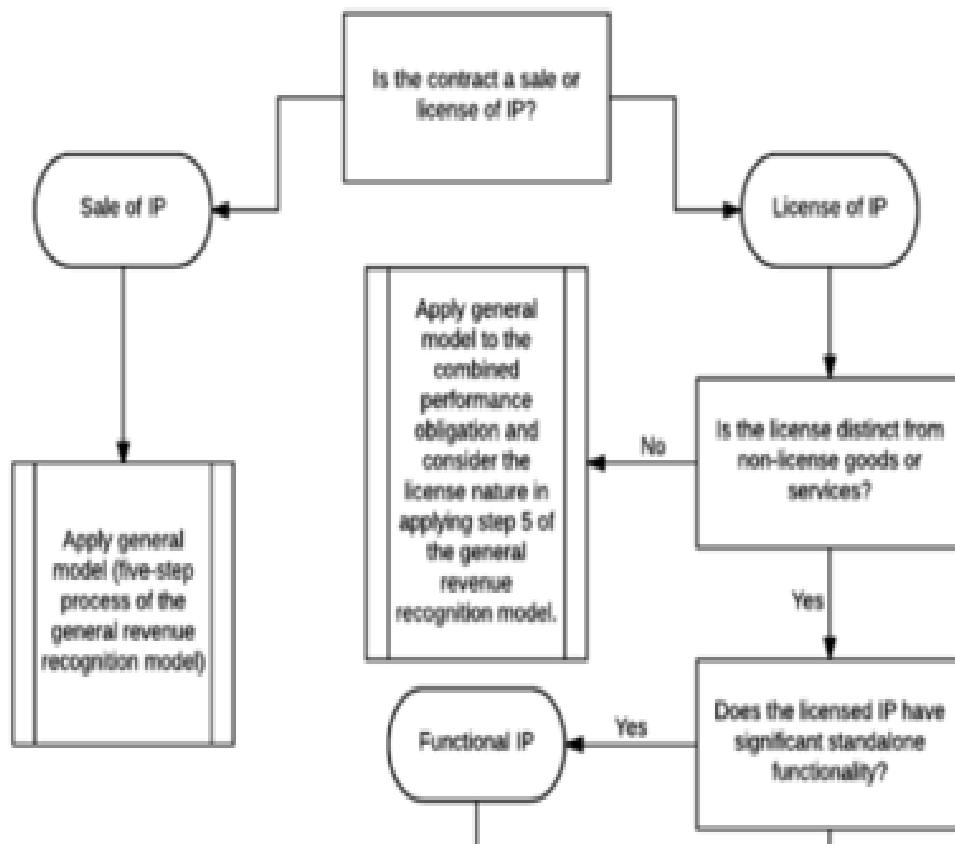
STEP 5:

Recognize Revenue
when or as the
performance
obligations are
satisfied

Nature of License for IP	Rights Conveyed Over Time or at a Point in Time	Revenue Recognition
Symbolic	Right to access - satisfied over time	Over license period (e.g. ratably)
Functional	Right to use (most of the time) - satisfied at a point in time	At time license is granted



IP DECISION TREE





KEY CONSIDERATION FOR SALE OF USE IP

Item to Note

- If functionally of the IP is expected to substantially change during the license period and
- The change is not transferring a good or service, and
- The customer is contractually or practically required to use the updates?

If these three exist then revenue is treated as recognized over time



ACCOUNTING FOR WARRANTIES UNDER 606

The new standard required warranties to be classified into two categories:

1. Assurance Warranty- promises to repair or replace a delivered good or service if it does not perform as expected and does not meet the agreed-upon specifications of product or service performance in the contract (not a separate performance obligation). Revenue recognized at point of sale.
2. Service Warranty- the customer has the option to purchase it separately or it provides service beyond assuring that the product complies with promised specification (is a separate performance obligation). Revenue recognized over period of performance.

It is important to note that a warranty does not have to be sold separately or specifically negotiated to be considered a performance obligation.



ARE YOU READY FOR
606?



READINESS

- Perform an accounting standard readiness test for ASC 606
- Evaluate how the new standards will impact your current revenue recognition policy and performance metrics
- Utilize checklist to perform the documentation & analysis
- Educate accounting, contracts, project control and finance team
- Document results of the initial assessment and checklist for sampled contracts
- Implement new standards internally



CPFF GENERALITIES FOR GOVCON CONTRACTS

CPFF - mostly service agreements providing level of effort like T&M, however, there is a potential for product or subcontractor deliveries so these would be classified moderate risk for other performance obligations to break out.

- Revenue recognized over performance of the contract
- Inputs method on basis of contractors efforts or satisfaction of performance obligation (labor hours, machine hours or material quantities)
- Percentage of completion method acceptable
- No material changes in amount or timing of revenue is expected for CPFF
- Most modifications are an extension of term or increases in funding amounts and would be considered a continuation of the existing contract
- Concerns - product/software and services will create multiple element mix or revenue to be recognized upon delivery



T&M/LOE GENERALITIES FOR GOVCON CONTRACTS

- T&M and T&M LOE - compensating the contractor for efforts expended; classified as **low risk** to be impacted by the change in revenue recognition. Guidance over the timing of revenue is important.
- Customer obtains control of the good or service when transferred.
- Transfer occurs at a point in time/over a period of time or the life of the agreement.
- Customer receives and consumes the benefits of the contractors performance as its performed.
- Performance creates or enhances an asset that is controlled by the customer throughout the POP.
- The customer needs to have control over the asset to recognize revenue ratably over the performance of the contract.
- Most modifications consist of extensions of term or increase in funding and would be considered a continuation of the existing contract.



FP GENERALITIES FOR GOVCON CONTRACTS

- FP - change in revenue recognition is likely for FP contracts so we classify these as **high risk of change**. Many FP contracts include a product or software delivery component; primarily service customization or warranty maintenance agreements.
- Contracts contain both types of elements within the same agreement.
- Revenue recognition may vary depending on the type of FP contract and the specific agreement facts and circumstances.
- Percentage of completion method will mostly be used for timing of revenue recognized for these contracts.
- Inputs and outputs will need to be clearly defined in the contracts.
- Distinct performance obligations may more clear in a FP contract.
- Possible changes in recognition based upon determination of when customer has control of the asset; the level of customization of the asset and the right to payment.



EXAMPLE OF CONTRACT SAMPLING AND SELECTION BY RISK

Total Population of Contracts :

Description	# of Projects	\$\$ of Projects	Risk Ranking
Fixed Price	5	\$ 5,000,000	High Risk
Cost Plus Award Fee	2	\$ 1,500,000	High Risk
Cost Plus Fixed Fee	15	\$ 7,000,000	Moderate Risk
Firm Fixed Price – Level of Effort	4	\$ 2,500,000	Low Risk
T&M	10	\$ 3,000,000	Low Risk
Total	36	\$ 19,000,000	

Sample of Contracts to review 606 requirements:

Description	# of Projects	\$\$ of Projects	Risk Ranking
Fixed Price	2	\$ 2,000,000	High Risk
Cost Plus Award Fee*	1	\$ 750,000	High Risk
Cost Plus Fixed Fee	3	\$ 3,500,000	Moderate Risk
Firm Fixed Price – Level of Effort	1	\$ 1,500,000	Low Risk
T&M	3	\$1,800,000	Low Risk
Total Sample Selection	10	\$ 9,550,000	50%-70%



DOCUMENTATION NEEDS TO INCLUDE:

- Suggested- detailed listing of contract base and option year values in, including breaking out labor from travel/ODC CLINs. Also, list the contract type.
- Obligatory- a detailed description of the services performed in the SOW.
- Labor category qualification requirements can be a variable consideration.
- Discuss listing indirect rate variances for cost reimbursable CLINS as a variable consideration.
- Discuss listing the GSA Industrial Funding Fee (IFF) as a variable consideration. (Do NOT)
- Discuss listing T&M CLINs as output method vs. input method and also time elapsed vs. labor hours expended.
- Discuss hybrid (FFP/T&M) contracts and labor hour charging to specific tasks.



CHECKLIST FORMAT

Documenting Steps for 606

Company Name
ASU 606 Revenue Recognition
Review of Contracts - XXXX

Contract ID XXXX

Contract Summary Step 1	
Sample #	
Contract ID/Contract No.	
Contract Name / Project Name	
Customer:	
Contract Type:	
Contract Risk Attribute:	
Inception Date (effective date)	
Term:	
Price:	
Other Notes:	



CHECKLIST FORMAT (CONTINUED)

Documenting Steps for 606

Performance Obligations- STEP 2	
Identify the contract elements - promised goods or services being provided to the customer:	
Identify the performance obligations:	
Guidance/rationale for determination of performance obligations	



CHECKLIST FORMAT (CONTINUED)

Documenting Steps for 606

Transaction Price- STEP 3 & 4	
Identify the Transaction Price:	
Does transaction price require allocation among performance obligations	
Is there a justification that contract price = allocable price (e.g. was there a bidding process?)	
What method is used to estimate allocation	
Rationale for allocation / use of contract price	
Allocation of price to performance obligations	
Other notes on allocation	
Does the contract include variable consideration	
Can the variable consideration be estimated	
Is the application of constraint appropriate	
Guidance / rationale for conclusions about variable consideration	
Amount / estimate of variable consideration to be recognized	
Factors to consider on periodic re-evaluation	



CHECKLIST FORMAT (CONTINUED)

Documenting Steps for 606

Determine Timing of Revenue Recognition (This section is the same for both performance obligations)- STEP 5	
Is point-in-time recognition or over period of performance appropriate revenue recognition?	
Rationale/guidance for conclusions on timing of revenue recognition	
What method is appropriate to measure progress to completion of performance obligations?	
Document other relevant considerations	
Current Revenue Recognition	
Expected change in Revenue Recognition?	



EXAMPLE ASSESSMENT RESULTS

Sample #	Contract Type	ASC 606 Analysis
1	Multiple Award BPA (FFP)	Discuss separate EAC's for base and each option year for possible change. Perform obligation assessment on TO. Assess ODCs & Travel.
2	GSA Schedule (T&M)	No change on T&M TO as revenue is recognized based on inputs.
3	GSA Schedule (Hybrid T&M/FFP)	No change on T&M TO as revenue is recognized based on inputs. Discuss separate EAC's for base and each option year for possible change on FFP TO.
4	Cost Plus Cooperative Agreement	No change. Variables are Indirect Rate variances. Calculate and document historical rates.
5	OASIS Schedule (FFP)	Discuss separate EAC's for base and each option year for possible change.
6	OASIS Schedule (CPAF)	No change. Variables are Indirect Rate variances and award fee calculations. Calculate and document historical rates met and review award fee calculations.
7	OASIS Schedule (Hybrid T&M/FFP)	No change on T&M TO as revenue is recognized based on inputs. Possible Change on FFP TO. Discuss separate EAC's for base and each option year.



SUGGESTED RESPONSIBILITIES (TBD)

Who will fill out what section of the checklist?

- Performance Obligations - Contracts
- Transaction Price - Project Control
- Allocating Transaction Price - Project Control & Contracts
- Variables - ALL
- Revenue Recognition - Accounting



DISCLOSURE REQUIREMENTS NON-PUBLIC

Quantitative Disclosures

- Disaggregation of revenue
- Contract balance information - receivables, billings in excess and cost in excess
- Remaining performance obligations and information about them
- Contract costs (obtaining and fulfilling), if any capitalized

Qualitative Disclosures

- Assumptions for transaction price, allocation methods, assumptions
- Significant judgments
- Practical expedients used

➤ Discuss prior pd information necessary



DISAGGREGATION EXAMPLES TO CONSIDER

ASC 606-10-55-91 lists the following examples of categories that might be appropriate:

- Type of good or service (for example, major product lines)
- Geographical region (for example, country or region)
- Market or type of customer (for example, government and nongovernment customers)
- Type of contract (for example, fixed-price and time-and-materials contracts)
- Contract duration (for example, short-term and long-term contracts)
- 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)
- Sales channels (for example, goods sold directly to consumers and goods sold through intermediaries)

This list is not all-inclusive. Companies must utilize judgment to determine if different categories of disaggregation would be most appropriate for them in order to satisfy the disclosure objectives of the standard.



DISCLOSURE EXAMPLES - MARISA

KEY TRANSITION STEPS AND QUESTIONS





KEY TRANSITION STEPS FOR 606 IMPLEMENTATION

1	Train personnel which perform revenue recognition calculations and decisions
2	Update narratives/policies & procedures around revenue recognition
3	Management review and approval of policies and procedures and checklist
4	Finalize sample selections of contracts
5	Meet with your auditors to discuss contract types, risks, documentation, check list and any impacts to revenue
6	Commence conversion of all contract documentation
7	Implement and embed new processes to comply on an ongoing basis
8	Determine footnote disclosures



QUESTIONS? CONTACT US



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SOURCE MATERIAL REFERENCES

See below:

1. AICPA “Audit and Accounting Guide- Revenue Recognition” January 1, 2019
2. Revenue Hub “Licenses for Intellectual Property” October 2016, flow chart adapted from ASC 606-10-55-63A and KPMG’s “Revenue Issues In-Depth: Second Edition”
3. Revenue Hub “Warranty Obligations” July 14, 2015
4. Blum Shapiro “Accounting for Warranties Under the New Revenue Recognition Standard” June 11, 2018