

Comply with ASC 606 and IFRS 15 in 5 easy steps

Step 1 | Identify the contracts with a customer

A contract agreement must have:

- Commercial substance
- Approval by all parties
- Identifiable rights for goods or services
- Specific payment terms
- A probability of collection



Step 2 | Define the performance obligations

A performance obligation is an explicit or implied contractual promise to transfer goods or services to the customer.

Step 3 | Determine the transaction price

The transaction price is the amount of consideration that an entity is entitled to for the exchange of goods or services to a customer.

Step 4 | Allocate the transaction price to the contract’s obligations

The transaction price is allocated proportionally based on the standalone selling price of the specific performance obligation in the contract. A standalone selling price is the price at which the entity would sell a promised good or service individually to a customer.

To calculate the allocated transaction price for a performance obligation, the standalone selling price is divided by the total of all performance obligations’ standalone selling prices and then multiplied by the transaction price. The sum of all allocated transaction prices should be equal to the transaction price established during step 3.

Example:

Performance obligation	Standalone selling price	Allocated transaction price
Server	\$3,000	\$2,500 (((\$3,000/\$6,000) * \$5,000)
Printer	\$1,200	\$1,000 (((\$1,200/\$6,000) * \$5,000)
Maintenance	\$1,800	\$1,500 (((\$1,800/\$6,000) * \$5,000)
Total	\$6,000	\$5,000

Step 5 | Recognize revenue as the relevant obligations are satisfied

ASC 606 states: “An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.”

Some indicators that a customer has control:

- 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 significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

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