

ASSESSING MULTIPLE PERFORMANCE OBLIGATIONS

This rule outlines the specific point in time when distinct performance obligations are deemed to be satisfied in a contract with multiple performance obligations.

When a contract contains multiple performance obligations, revenue must be recognized in an amount equal to the fair value of each of the separate performance obligations. The transaction price is only allocated to goods and services that are both distinct and separately identifiable.

IMPORTANT TERMINOLOGY

- ▶ **Satisfaction** = The point in time when control over the goods or services transfers to the customer coincides with the time the customer's ability to obtain potential cash flows associated with the asset that was transferred.
- ▶ **Distinct good or service** = (1) The customer can benefit from the good or service either on its own or with other readily available resources and (2) The promise to transfer the good or service is distinct from the promise to deliver any other goods or services named in the contract.

HOW THIS RULE WORKS

- ▶ **Promised goods and services represent separate performance obligations if**
 - They are distinct either by themselves or as part of a bundle or
 - They are part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer
- ▶ **The performance obligation is not separate if**
 - The contractor provides a significant service of integrated goods or services to provide a combined output;
 - One or more of the goods or services significantly modifies or customizes another good or service in the contract; or
 - The goods or services are either highly integrated or highly independent
- ▶ **The contract's terms, such as its warranty provisions, may help define performance**
- ▶ **Change orders, maintenance agreements, delivery phases and/or multiple units may impact identification of time of delivery/performance**
- ▶ **Immaterial changes do not have to be evaluated under this standard**
 - The option to acquire additional goods or services under the contract may not be considered immaterial
 - The transaction price associated with immaterial changes should be allocated to the identified performance obligation

This determination requires the contractor to use a significant amount of judgment. To avoid making an error, be sure to review your determination with a professional with expertise in ASC 606.

HAVE QUESTIONS?

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