

GUIDELINES FOR ESTIMATING POTENTIAL FOR REVERSIBLE REVENUE FOR VARIABLE CONSIDERATIONS

This rule outlines how estimating variable consideration affects transaction price. The result of the new way of reporting variable considerations may result in earlier revenue recognition. Variable considerations associated with contract or performance obligations include claims and pending change orders, unpriced change orders, incentive and penalty provisions, shared savings, price concessions, liquidating damages and unit prices.

HOW THIS RULE WORKS

- ▶ After the transaction price is estimated, all variable costs must be reviewed to assess the:
 - Likelihood of a reversal of revenue
 - How “significant” the reversal will be
- ▶ The variable consideration should be included in the transaction price only to the extent that no significant reversal in the cumulative recognized revenue will occur once the related uncertainty is resolved.
- ▶ Risk of significant reversal may be indicated by:
 - susceptibility to factors outside the contractor’s control
 - level of contractor’s experience with similar types of contracts
 - contractor’s history of offering price concessions, change of terms or consideration
 - factors unique to the contract
- ▶ When a contract includes multiple performance obligations, the assessment of significance must be made at the contract materiality level.

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.

**THE CONTRACTOR'S
EXPERIENCE WITH SIMILAR
TYPES OF CONTRACTS
MAY AFFECT
PREDICTIVE VALUE.**

HAVE QUESTIONS?

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