

ASC 606 - Revenue Recognition

August 11, 2017

Overview of new standard

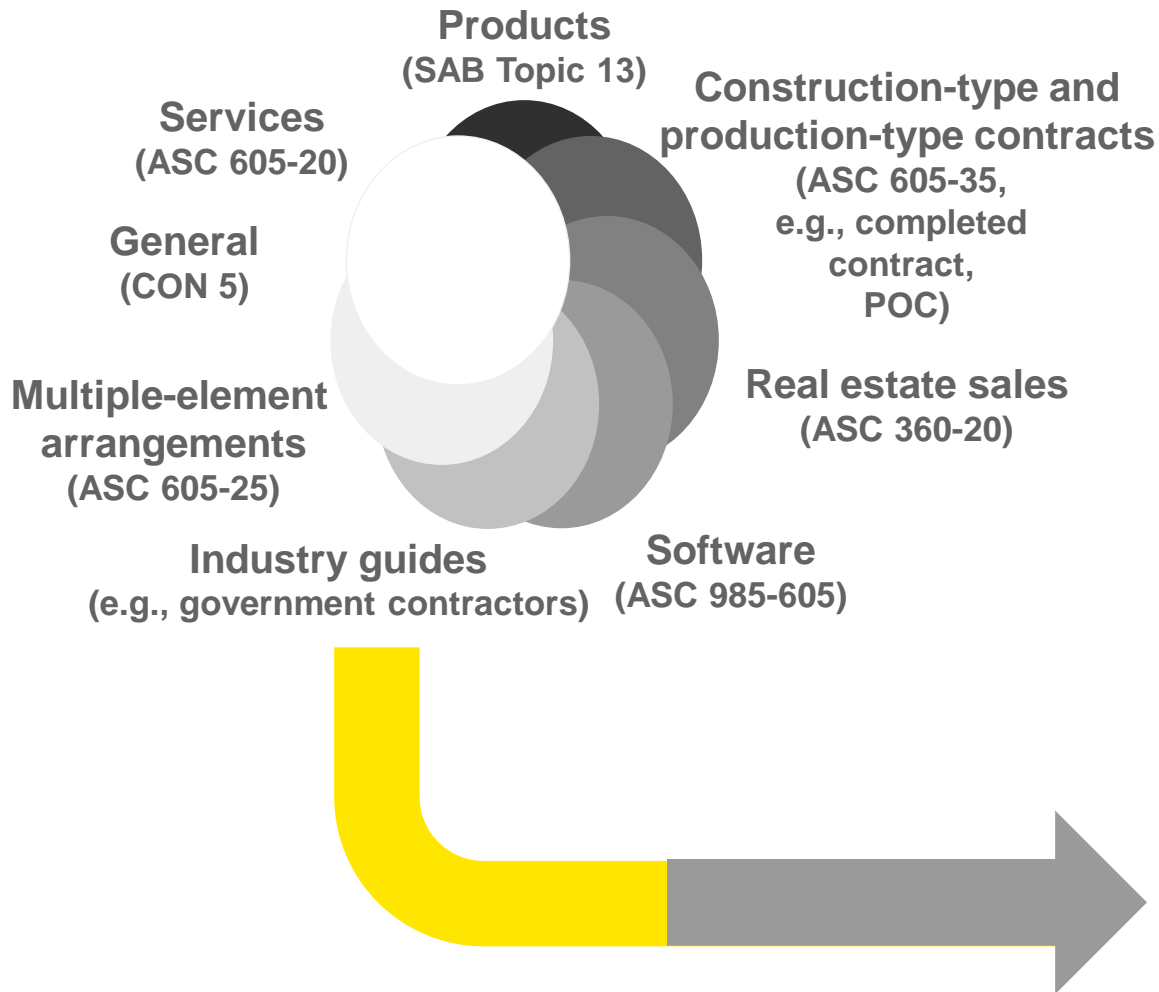


Agenda - Overview of new standard

- ▶ **Overview, effective date and transition**
- ▶ The five-step model

Overview, effective date and transition

What's changing?



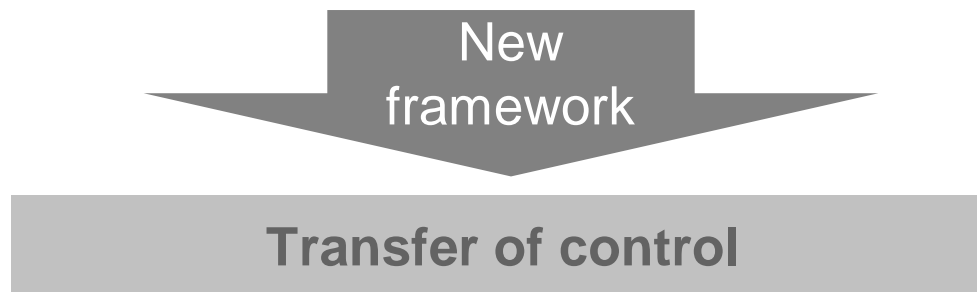
ASC 606 Model

- ▶ Based on transfer of control
- ▶ Single revenue standard for all contracts with customers
- ▶ The standard is more principles-based than current guidance
- ▶ Potential changes:
 - ▶ Differences in the number of performance obligations
 - ▶ Disconnect between billing and revenue recognition
 - ▶ More estimates included in revenue
 - ▶ Change in revenue patterns

Overview, effective date and transition

Objective - Transfer of control

- ▶ To clarify the principles for recognizing revenue and to develop a common revenue standard for US GAAP and IFRS that would:
 - ▶ Remove inconsistencies and weaknesses in existing revenue requirements
 - ▶ Provide a more robust framework for addressing revenue issues
 - ▶ Improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets
 - ▶ Provide more useful information to users of financial statements through improved disclosure requirements
 - ▶ Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer



Overview, effective date and transition

Effective Date and Transition methods⁽¹⁾

Full retrospective

Cumulative catch-up adjustment at 1/1/2017

Financial statements	New GAAP	New GAAP	New GAAP
Footnotes			ASC 250 disclosures
	2017	2018	2019

Modified retrospective

Cumulative catch-up adjustment at 1/1/2019

Financial statements	Legacy GAAP	Legacy GAAP	New GAAP
Footnotes			Legacy GAAP

⁽¹⁾ This slide does not reflect early adoption

Overview, effective date and transition

Transition - Full retrospective

- ▶ Apply new revenue recognition standard to all existing contracts as of 1 January 2017 (for calendar year-end entities who do not adopt early)
 - ▶ Need to inventory all contracts that are not considered completed under both legacy and new guidance as of 1 January 2017
- ▶ Will have to keep two sets of books for FY 2017 and FY 2018 if the standard creates differences
- ▶ Cumulative catch-up adjustment as of 1 January 2017
- ▶ Practical expedients
 - ▶ Need not restate contracts completed before adoption that begin and end within the same annual reporting period
 - ▶ Need not estimate variable consideration for contracts completed before adoption (i.e., use known consideration as of contract completion)
 - ▶ Need not disclose the amount of the transaction price allocated to remaining performance obligations for prior periods presented
- ▶ The FASB clarified that a completed contract is one where all (or substantially all) of the revenue has been recognized under legacy GAAP
- ▶ Disclose which expedients used and a qualitative assessment of their effects

Overview, effective date and transition

Transition - Modified retrospective

- ▶ Apply new revenue recognition standard to all existing contracts as of 1 January 2019 (for entities who do not adopt early)
 - ▶ Need to inventory contracts that are not completed contracts as of 1 January 2018
 - ▶ The FASB clarified that a completed contract is one where all (or substantially all) of the revenue has been recognized under legacy GAAP
 - ▶ Can elect to apply to all contracts, not just completed contracts
- ▶ Cumulative catch-up adjustment as of 1 January 2019 for contracts with performance remaining under current guidance
- ▶ Present comparative periods (2017 and 2018 for calendar year-end entities) under current revenue guidance
- ▶ Required to report in the year of adoption (2019 for calendar year entities) under both the new standard (on the face of the financial statements) and under current guidance (disclosure), requiring two sets of books
 - ▶ Disclose the amount by which each financial statement line item is affected compared with current accounting
 - ▶ Explain significant changes

Overview, effective date and transition

Drivers of complexity

Less complex

More complex



- ▶ Shorter revenue cycle
- ▶ Single line of business
- ▶ Domestic operations only
- ▶ Highly centralized
- ▶ Well-controlled process currently provides revenue estimates
- ▶ No change to existing performance obligations
- ▶ One global ERP
- ▶ Strong organizational change management

- ▶ Long-term contracts
- ▶ Multiple, diverse businesses
- ▶ Global operations
- ▶ Decentralized
- ▶ Limited estimates required by current revenue recognition process
- ▶ Differences in the number of performance obligations
- ▶ Multiple, disparate IT systems
- ▶ Organization struggles to implement change

Agenda - Overview of new standard

- ▶ Overview, effective date and transition
- ▶ **The five-step model**

The five-step model

Scope and exceptions

What is in scope or affected

- ▶ Contracts with customers
- ▶ Sale of some nonfinancial assets that are not an output of the entity's ordinary activities (e.g., property, plant and equipment; real estate; intangible assets)

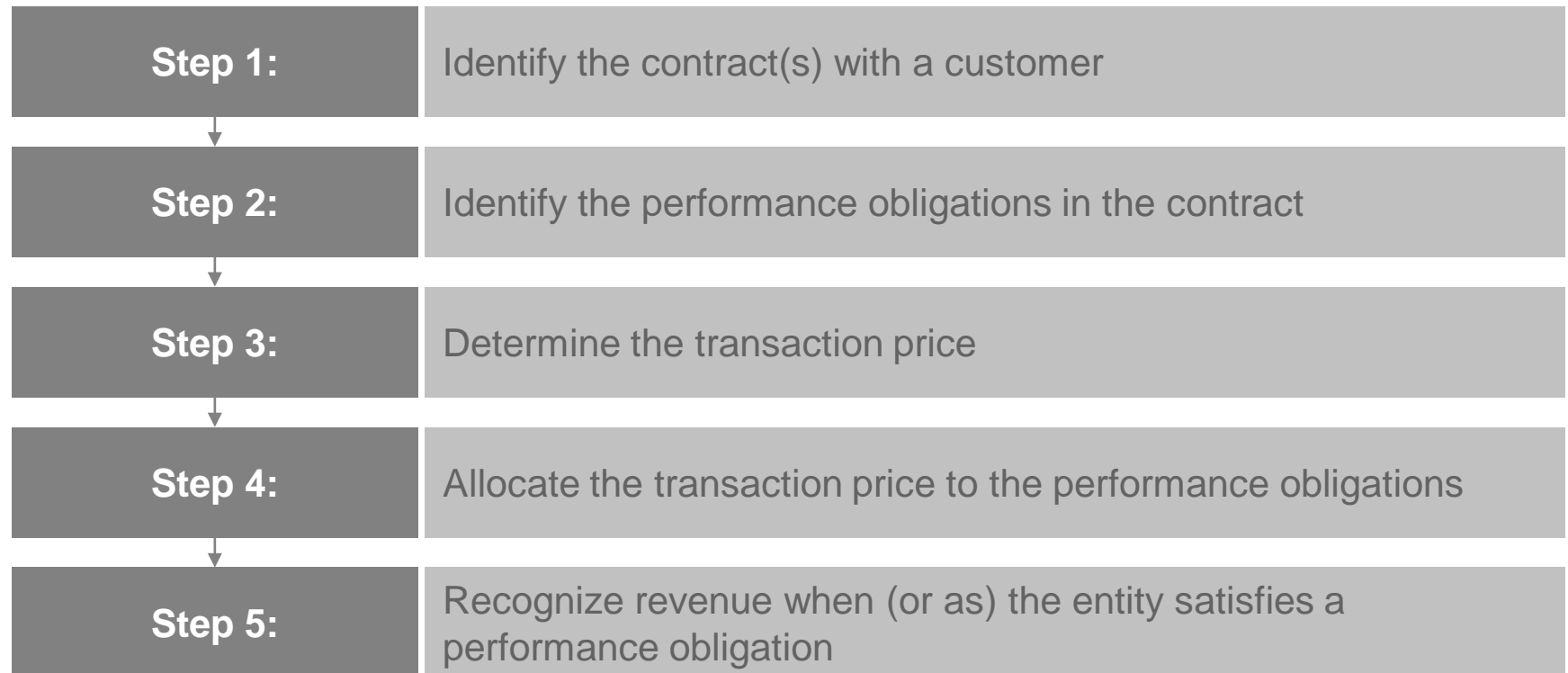
What is not in scope

- ▶ Leasing contracts
- ▶ Insurance and other contracts within the scope of ASC 944
- ▶ Financial instruments contracts
- ▶ Certain nonmonetary exchanges
- ▶ Certain put options on sale and repurchase agreements
- ▶ Guarantees within the scope of ASC 460

The five-step model

Summary of model

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



Step 1: Identify the contract

Definition of a contract

- ▶ A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations
 - ▶ Can be written, oral or implied, but must meet specific criteria
 - ▶ Does not exist if both parties can cancel a wholly unperformed contract without penalty
- ▶ A contract exists only if all the following criteria are met:
 - ▶ Parties have approved the contract and are committed to perform
 - ▶ Each party's rights regarding the goods and services are identifiable
 - ▶ The payment terms for the goods and services are identifiable
 - ▶ Contract has commercial substance
 - ▶ It is probable that the entity will collect substantially all of the consideration it's entitled to in exchange for the transfer of goods/services to the customer
- ▶ These criteria are assessed at the inception of the arrangement
 - ▶ If the criteria are met at inception, reassessment only occurs if there is a significant change in facts and circumstances
 - ▶ If the criteria are not met at inception, continue to assess

Step 1: Identify the contract

Collectability criterion

- ▶ Collectability refers to the customer's intent and ability to pay the amount of promised consideration
- ▶ The term "probable" is consistent with the existing definitions in US GAAP and IFRS
 - ▶ The definition of "probable" has a lower threshold under IFRS
- ▶ If the threshold is not met, the contract should not be accounted for under the model until collectability concern is resolved
- ▶ Collectability assessment relates to the transaction price
 - ▶ The transaction price may be less than the stated contract price if the entity intends to offer a price concession
 - ▶ ASC 606 requires evaluation of the consideration related to goods or services that will be transferred to the customer rather than the total amount promised
 - ▶ ASC 606 clarifies that an entity can consider its ability to manage its exposure to credit risk as a part of the collectability assessment
- ▶ Significant judgment will be required to determine if a partial payment is an implied price concession or an impairment loss

Step 1: Identify the contract

Contract modifications

- ▶ A contract modification is any approved change in the scope or price (or both) of a contract that creates new, or changes existing enforceable rights and obligations of the parties to the contract

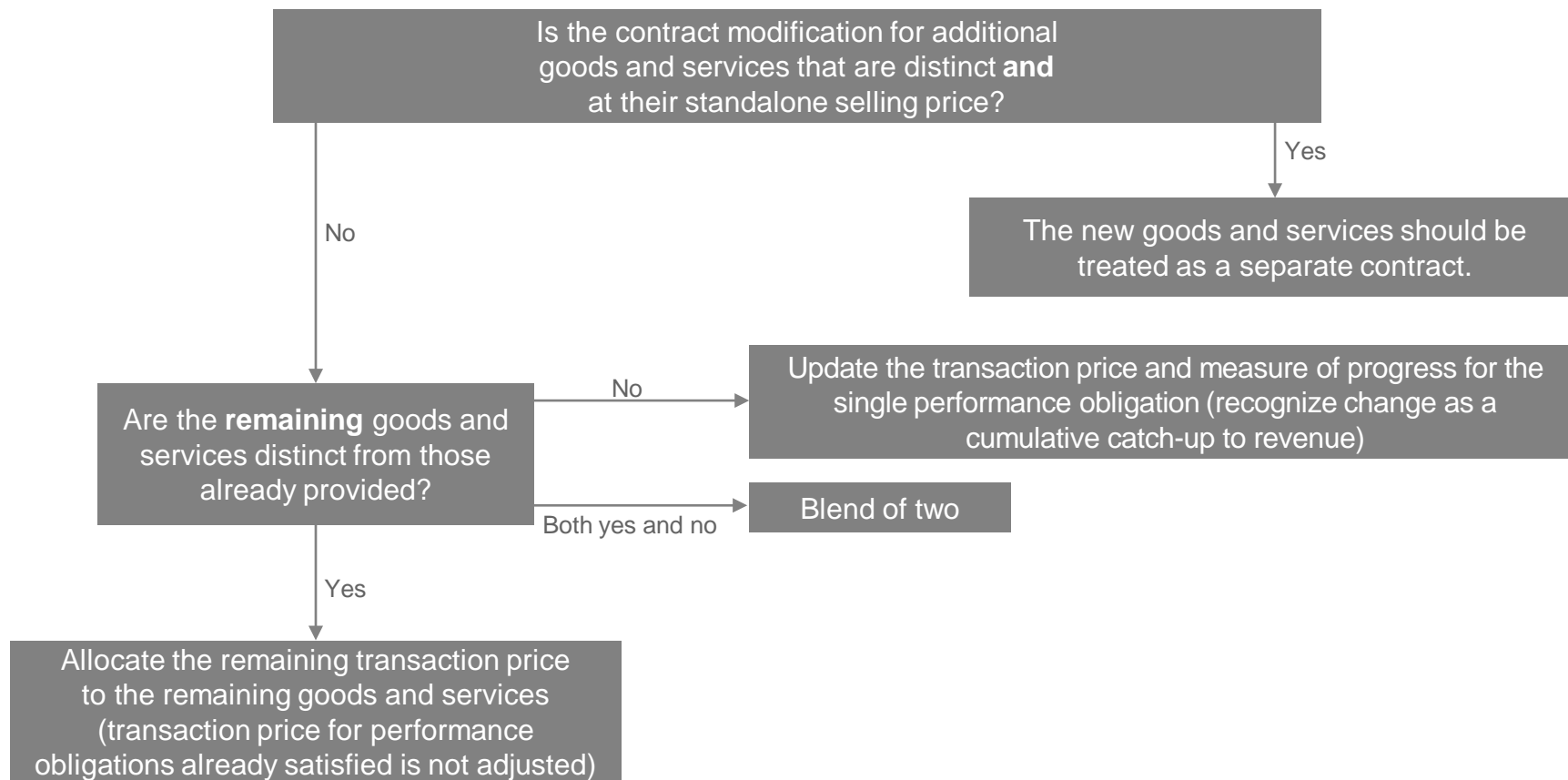


- ▶ Accounting treatment would depend on the nature of the modification

Step 1: Identify the contract

Contract modifications

- ▶ Modifications are accounted for differently, depending on the attributes of the remaining goods and/or services



Step 1: Identify the contract

Contract modifications at transition

- ▶ ASC 606 includes a practical expedient for an entity not to evaluate the effect of each contract modification from contract inception through the beginning of the earliest period presented under the new standard
 - ▶ The entity would determine the transaction price for all satisfied and unsatisfied performance obligations in the contract at the beginning of the earliest period presented under the new standard and perform a single allocation of the transaction price based on their relative standalone selling prices
 - ▶ An entity would be required to apply this practical expedient to all contracts with similar characteristics
- ▶ The IASB issued a similar practical expedient to allow the option to apply it either the same as the FASB expedient or at the beginning of the earliest period presented in the financial statements (regardless of transition method)



Step 2: Identify performance obligations

- ▶ A performance obligation is a promise (explicit or implicit) to transfer to a customer:
 - ▶ A distinct good or service or
 - ▶ A series of distinct goods or services that are substantially the same and have the same pattern of transfer
- ▶ Performance obligations are identified at contract inception and determined based on:
 - ▶ Contractual terms
 - ▶ Customary business practices
- ▶ Incidental obligations or marketing incentives may be performance obligations (e.g., “free” maintenance provided by automotive manufacturers, loyalty points provided by a hotel)
- ▶ Does not include activities that an entity must undertake to fulfill a contract (e.g., setup activities) unless a good or service is transferred

Step 2: Identify performance obligations

Two-step process to identify which goods or services are distinct

Step 1 - Focus on whether the good or service is **capable of being distinct**

Customer can benefit from the individual good or service on its own

OR

Customer can use good or service with other readily available resources

Step 2 - Focus on whether the promise to transfer the good or service is **distinct in the context of the contract**

- ▶ Evaluate whether multiple promised goods or services work together to deliver a combined output(s)
- ▶ Assess whether the good or service is integrated with, highly interdependent on, highly interrelated with, or significantly modifying or customizing other promised goods or services in the contract

Step 2: Identify performance obligations

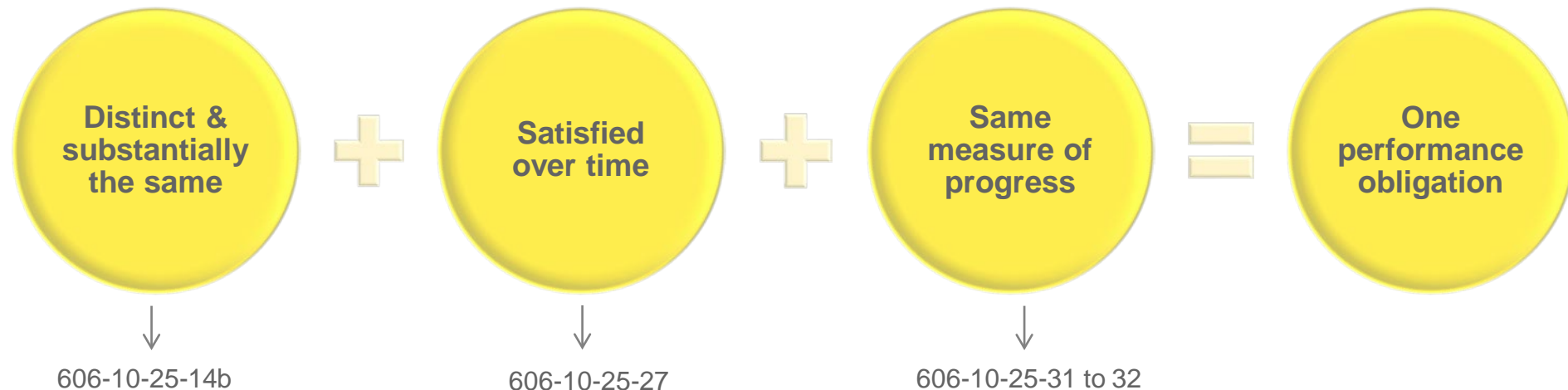
“Separately identifiable from other promises in the contract”

- ▶ The objective of this criterion is to determine whether the nature of the entity’s overall promise is to transfer each promised good or service or to transfer a combined item or items to which the promised goods or services are inputs (i.e., multiple promised goods or services that are working together to deliver a combined output)
- ▶ The standard includes the following indicators that promised goods or services are not separately identifiable:
 - ▶ The entity provides a significant service of integrating the goods or services into a combined item or items (inputs to the combined output or outputs)
 - ▶ One or more of the goods or services significantly modifies or customizes, or is significantly modified or customized by, one or more other promised goods or services
 - ▶ The goods or services are highly interdependent or highly interrelated (each is significantly affected by one or more of the other promised goods or services)

Step 2: Identify performance obligations

Series – overview

- ▶ If a good or service is part of a series of distinct goods or services that are substantially the same and have the same pattern of transfer, the series must be treated as one performance obligation if:
 - ▶ Each distinct good or service in the series would be satisfied over time
 - ▶ The same method of progress is used to measure the transfer of each distinct good or service in the series to the customer
- ▶ The FASB has confirmed that the series guidance is not an optional practical expedient rather than a requirement



Step 2: Identify performance obligations

Customer options for additional goods or services

- ▶ Options to acquire additional goods or services represent separate performance obligations if they provide the customer with a material right that the customer would not otherwise receive
 - ▶ Examples include sales incentives, customer loyalty points and contract renewal options
- ▶ Revenue is recognized when future goods and services are transferred or when the option expires
- ▶ The transaction price is allocated to performance obligations (including the option) based on relative standalone selling prices

What's changing?

- ▶ Similar guidance exists in current software revenue recognition guidance, but this applies to all entities
- ▶ Measurement of revenue allocated to options is now based on standalone selling price

Step 2: Identify performance obligations

Warranties

- ▶ There are two types of warranties: assurance-type warranties and service-type warranties
- ▶ If the customer has the option to separately purchase the warranty, it represents a separate performance obligation
- ▶ If the customer does not have the option to separately purchase the warranty, it would accrue for the expected warranty costs unless the services under the warranty are beyond “quality assurance” services
 - ▶ Such a warranty would be a service-type warranty and a separate performance obligation

Step 2: Identify performance obligations

Principal versus agent considerations

- ▶ Determining whether an entity acts as a principal or an agent for a specified good or service affects the amount of revenue recognized (gross versus net recognition)
 - ▶ Appropriately identifying the entity's performance obligation is fundamental to the principal or agent determination
 - ▶ The unit of account for a principal versus agent assessment is a specified good or service (that is a distinct good or service or distinct bundle of goods or services) and could be a right to a good or service provided by another party

Principal
▶ Provides goods or services itself

Agent
▶ Arranges for another party to provide goods or services

- ▶ An entity is a principal if the entity controls a specified good or service before such promised good or service transfers to a customer
 - ▶ An entity may not be a principal if it obtains legal title only momentarily before the specified good or service is transferred to a customer

Step 2: Identify performance obligations

Principal versus agent considerations

- ▶ When another party is involved in providing goods or services, a principal in the transaction obtains control of any one of the following:
 - ▶ A good or another asset from the other party that it then transfers to the customer
 - ▶ A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide that service to the customer
 - ▶ A good or service from the other party that it then combines with other goods or services in providing the specified good or service
- ▶ An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good or service by another party
- ▶ Indicators that an entity controls a specified good or service and therefore is a principal include:

Gross indicators

Entity is primarily responsible for fulfilling the promise to provide the specified good or service

Entity has inventory risk before or after the specified good or service has been transferred

Entity has discretion in establishing the price for the specified good or service

Step 2: Identify performance obligations

Principal versus agent considerations

Current US GAAP (gross and net indicators)	New model (gross indicators)*
The entity is the primary obligor (gross indicator)/the entity's supplier is the primary obligor (net indicator)	The entity is primarily responsible for fulfilling the promise
The entity has general inventory risk (gross indicator)	The entity has inventory risk
The entity has latitude in establishing price (gross indicator)	The entity has discretion in establishing prices
The entity has credit risk (gross indicator)/the supplier has credit risk (net indicator)	No comparable indicators
The amount the entity earns is fixed (net indicator)	
The entity changes the product or performs part of the service (gross indicator)	
The entity has discretion in supplier selection (gross indicator)	
The entity is involved in the determination of the product or service specifications (gross indicator)	
The entity has physical loss inventory risk (gross indicator)	

*The indicators may be more or less relevant depending on the particular good or service and contract terms (that is, there is no weighting of the indicators)

Step 3: Determine the transaction price

- ▶ Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties
 - ▶ ASC 606 allows entities to make an accounting policy election to present revenue net of certain types of taxes collected from a customer (including sales, use, value-added and some excise taxes)
- ▶ Transaction price reflects the effects of the following:
 - ▶ Variable consideration (including application of the constraint)
 - ▶ Significant financing component
 - ▶ Noncash consideration
 - ▶ Consideration payable to a customer

Step 3: Determine the transaction price

Variable consideration

- ▶ Transaction price may vary because of variable consideration
- ▶ Definition of “variable consideration” is broad

Common types and events that cause consideration to be variable

Bonuses	Incentive payments	Penalties
Refunds	Market-based fees	Discounts
Returns	Money-back guarantees	Price concessions
Volume rebates	Service level agreements	Liquidating damages

Step 3: Determine the transaction price

Variable consideration

- ▶ Variable consideration is estimated using the approach that better predicts the amount to which the entity is entitled based on its facts and circumstances (i.e., not a “free choice”)
- ▶ The approach should be applied consistently throughout the contract and for similar types of contracts

Expected value

- ▶ Sum of the probability-weighted amounts in a range of possible outcomes
- ▶ Most predictive when the transaction has a large number of possible outcomes
- ▶ Can be based on a limited number of discrete outcomes and probabilities

Most likely amount

- ▶ The single most likely amount in a range of possible outcomes
- ▶ May be appropriate when the transaction will produce only two outcomes

Step 3: Determine the transaction price

Constraint on variable consideration

- ▶ An entity should include an amount of variable consideration in the transaction price only to the extent that it is **probable** that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved
 - ▶ Probable threshold for US GAAP
 - ▶ Highly probable threshold for IFRS
- ▶ Specific rule for licenses of intellectual property
 - ▶ Sales- or usage-based royalties should not be recognized until the customer's subsequent sales/usage of a good or service occurs or performance obligation is satisfied
- ▶ “Significant” is relative to cumulative revenue recognized
- ▶ An entity should update its estimate of the transaction price that includes variable consideration at each reporting date

Step 3: Determine the transaction price

Variable consideration – rights of return

- ▶ Rights of return are a form of variable consideration
- ▶ Revenue recognition is limited to amounts for which it is “probable” that a significant reversal will not occur (i.e., it is probable the goods will not be returned)
- ▶ A refund liability is established for the expected amount of refunds and credits to be issued to customers
- ▶ Corresponding asset and adjustment to cost of sales are recorded for items expected to be returned, based on carrying amount of the asset transferred, less costs to recover
 - ▶ Return assets must be recorded separately from inventory
- ▶ Return assets are subject to impairment review

Step 3: Determine the transaction price

Significant financing component

- ▶ An entity adjusts the transaction price for the effects of the time value of money if the timing of the payments provides either party with a significant benefit of financing
 - ▶ Evaluation not required if the entity expects the period between transfer of performance obligations and receipt of payment is one year or less
 - ▶ Considered whether financing is offered to customer or prepayments are made by customer
 - ▶ If the financing component is not significant to the individual contract, the entity is not required to adjust the transaction price
- ▶ When assessing significance, an entity shall consider:
 - ▶ The difference between promised consideration and the cash selling price
 - ▶ Combined effect of:
 - ▶ Expected time between transfer of the promised goods and services and payment from the customer
 - ▶ Prevailing interest rates in the relevant market

Step 3: Determine the transaction price

Significant financing component

- ▶ A contract would not have a significant financing component if any of the following factors exist:
 - ▶ The customer paid in advance and the timing of the transfer of promised goods or services is at the discretion of the customer
 - ▶ A substantial amount of the consideration is variable, and the amount or timing varies based on a future event that is not substantially within the control of the customer or the entity
 - ▶ The difference between the promised consideration and the cash selling price arises for reasons other than the provision of finance to either the customer or the entity, and the amount of the difference is proportional to the reason for the difference
 - ▶ This indicator requires significant judgment
 - ▶ Examples in the standard include protection from risk of non-performance

Step 3: Determine the transaction price

Consideration payable to a customer

- ▶ Entity determines whether amounts paid or payable to the customer (e.g., cash, credit) are:
 - ▶ A reduction of the transaction price and revenue
 - ▶ A payment for distinct goods and services
 - ▶ A combination of the two
- ▶ For an entity to treat the consideration payable to a customer as something other than a reduction of revenue, the goods or services from the customer must be “distinct”
- ▶ Reductions to the transaction price occur at the later of when:
 - ▶ The entity recognizes revenue for the transfer of control of the goods or services to the customer
 - ▶ The entity pays or promises to pay the consideration

Step 4: Allocate the transaction price to performance obligations

- ▶ Transaction price is allocated to each performance obligation in “an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer”
 - ▶ Transaction price generally allocated based on relative standalone selling prices
 - ▶ If certain criteria are met, the new model provides two potential exceptions relating to:
 - ▶ Variable consideration
 - ▶ Discounts

What's changing?

- ▶ Relatively consistent with current multiple element guidance in US GAAP, but the removal of a strict hierarchy could change estimation methods
- ▶ Entities previously applying other guidance may need to estimate standalone selling price for the first time

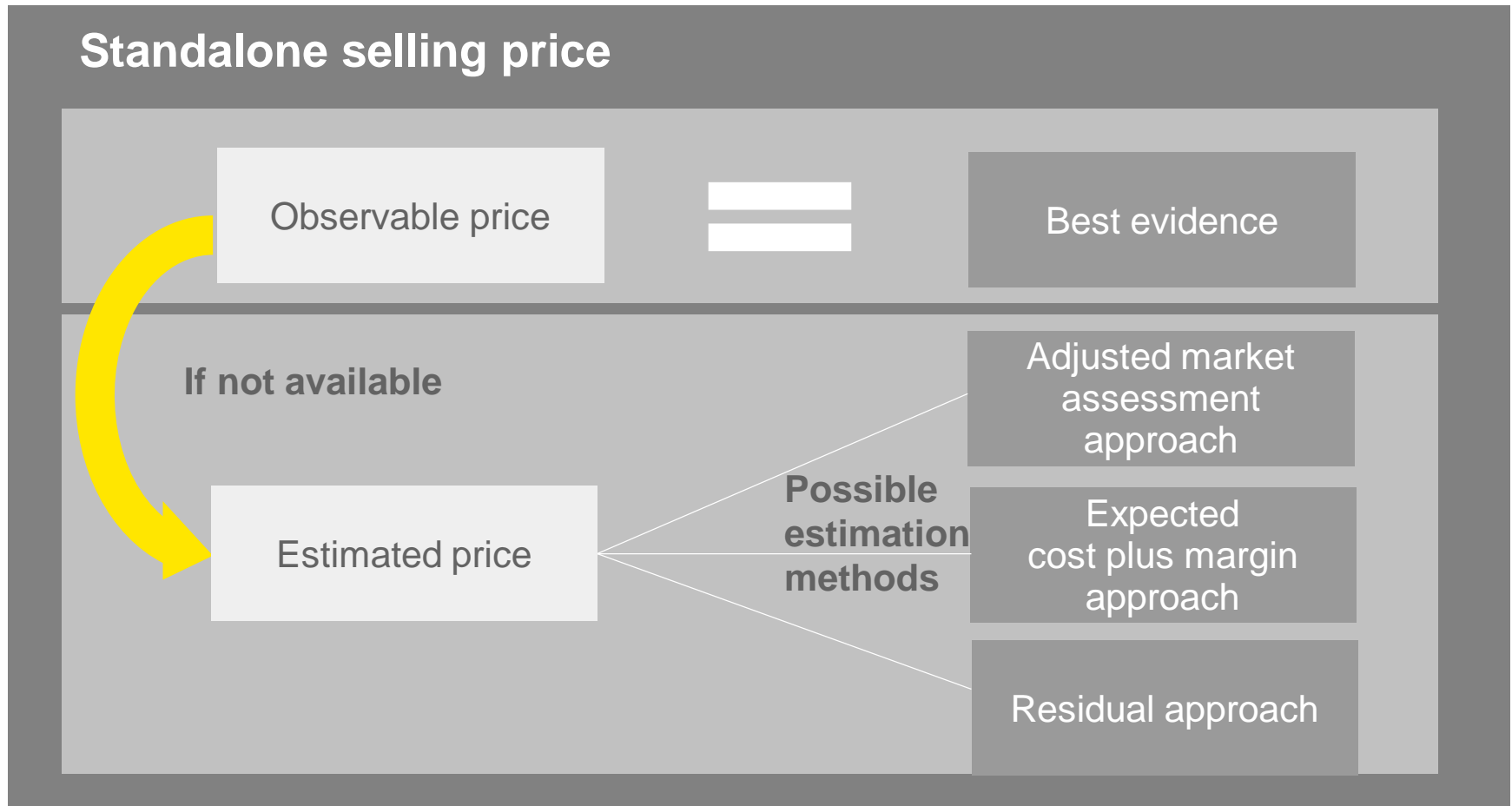
Step 4: Allocate the transaction price

Determine standalone selling price

- ▶ This is the price at which an entity would sell a promised good or service separately to a customer
- ▶ There is no hierarchy like under current multiple element arrangement guidance
- ▶ Best evidence is the observable price in an entity's standalone sales of a good or service
- ▶ When standalone selling price is not observable, entity is required to estimate it
 - ▶ Maximize the use of observable inputs
 - ▶ Apply estimation methods consistently for goods and services and customers with similar characteristics
 - ▶ Use of a residual technique is allowed in **limited** situations
- ▶ Standalone selling prices used to perform the initial allocation are not updated after contract inception

Step 4: Allocate the transaction price

Determine standalone selling price



Step 4: Allocate the transaction price

Exception for variable consideration

- ▶ Variable consideration is required to be allocated to one or more (but not all) performance obligations, if both of the following criteria are met:
 - ▶ The contingent payment relates specifically to the entity's efforts to satisfy that performance obligation
 - ▶ The amount allocated entirely to that performance obligation is consistent with the overall principle for allocating consideration
- ▶ This exception can be applied to a single performance obligation or a combination of performance obligations
- ▶ Subsequent changes in variable consideration should be allocated in a consistent manner

Step 4: Allocate the transaction price

Allocation of a discount

- ▶ An entity is required to allocate a discount entirely to one or more (but not all) performance obligation(s) if all of the following criteria are met:
 - ▶ The entity regularly sells each distinct good or service (or each bundle of goods or services) in the contract on a standalone basis
 - ▶ The entity also regularly sells on a standalone basis a bundle (or bundles) of some of those distinct goods or services at a discount
 - ▶ The discount (when comparing standalone sales of a bundle to standalone sales of the distinct goods or services) is substantially the same as the discount in the contract and provides evidence that the entire discount belongs to one (or some) distinct performance obligation(s)

What's changing?

- ▶ Would be a significant change in practice for many entities
- ▶ May give entities the ability to reflect economics of a transaction, but application will be complex

Step 5: Recognize revenue when (or as) performance obligations are satisfied

- ▶ Model is based on transfer of control
- ▶ Control is the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset
- ▶ Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset
- ▶ Revenue is recognized upon satisfaction of a performance obligation by transferring the promised good or service to a customer
- ▶ Performance obligations are either satisfied over time or at a point in time
- ▶ To help make this determination, the standard includes criteria for determining when control transfers over time
 - ▶ If a performance obligation does not meet any of those criteria, control transfers at a point in time

Step 5: Recognize revenue

Control of goods and services is transferred **over time** if **one** of the following three criteria is met:

The entity creates or enhances an asset that the customer controls as it is created or enhanced

The entity's performance does not create an asset with alternative use, and the entity has an enforceable right to payment for performance completed to date

The customer is receiving and consuming the benefits of the entity's performance as the entity performs

If none of the criteria are met, control transfers at a point in time

Another entity would not have to re-perform work completed to date

- ▶ Disregard potential limitations that would prevent the transfer of a remaining PO to another entity
- ▶ Assume another entity fulfilling the remaining PO would not have the benefit of any asset the entity controls

“Pure service” contracts

Step 5: Recognize revenue

Performance obligations satisfied over time

- ▶ Revenue is recognized over time by measuring progress toward completion
 - ▶ The objective is to depict an entity's performance
 - ▶ Select a single method for a particular performance obligation
 - ▶ Output methods
 - ▶ Input methods
 - ▶ Apply consistent method for similar performance obligations in similar circumstances
- ▶ If unable to reasonably estimate progress, revenue should not be recognized until progress can be estimated
 - ▶ However, if an entity expects to recover the costs, the entity should recognize revenue up to costs incurred

Step 5: Recognize revenue

Measuring progress

- ▶ Measuring progress when multiple (non-distinct) goods or services are combined in a single performance obligation
 - ▶ A single measure of progress should be used
- ▶ Evaluating how control transfers for performance obligations satisfied over time
 - ▶ When a performance obligation is satisfied over time, control cannot be transferred at discrete points in time
 - ▶ An appropriate measure of progress should not result in a material asset that results from an entity's performance (for example, work in process) being recognized by the entity

Example:

- A contract for the construction of multiple units of highly complex, specialized devices determined to be one single performance obligation
- Can the entity use an output method based on milestones reached?

Step 5: Recognize revenue

Measuring progress

- ▶ “Right to invoice” practical expedient for measuring progress toward satisfaction of a performance obligation
 - ▶ Can apply the expedient in contracts with changing rates if the rates correspond directly with changes in value*
 - ▶ Amount invoiced may not correspond directly with the value provided to the customer if there are upfront payments or retroactive adjustments*

Example:

- A 10-year IT outsourcing contract has decreasing rates to reflect decreasing costs and level of effort
- Contract requires periodic benchmarking to market rates
- Do the rates reflect the value to the customer, assuming sufficient evidence exists?

Step 5: Recognize revenue

Transfer of control

When is control of a good or service transferred?

Over time



Select a measure of progress

- ▶ Input method
(e.g., cost incurred)
- ▶ Output method
(e.g., units delivered)

At a point in time



Evaluate indicators of control

- ▶ Present right to payment
- ▶ Transfer of legal title
- ▶ Transfer of physical possession
- ▶ Transfer of significant risks and rewards of ownership
- ▶ Customer acceptance obtained

Step 5: Recognize revenue

Customer acceptance

- ▶ Customer acceptance clauses must be considered when determining whether a customer has obtained control of a good or service
- ▶ If an entity can objectively determine that control has been transferred and the good or service meets contract specifications, it can recognize revenue (assuming all other conditions to recognize revenue have been met)
- ▶ Determination of whether acceptance criteria are subjective and have been met requires professional judgment (consistent with current practice)

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