Q&A

IMPLEMENTING THE NEW REVENUE RECOGNITION STANDARD FOR MANUFACTURERS WEBINAR

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BDO

CONTACTS – BDO

CATHY MCNAMARA
Audit Partner, Assurance
248 244-6524 / crozanski@bdo.com

ANGELA NEWELL
National Assurance Partner, Assurance
214 689-5669 / ajnewell@bdo.com

QUESTION #	QUESTION DETAIL	ANSWER
1	Does BDO plan to provide a multiple part webinar for the new leasing standard?	Yes, but it has not yet been scheduled. But you can read our white paper on revenue recognition for manufacturers here. Additionally, you can find resources on revenue recognition on BDO.com by clicking here.
2	If a manufacturer makes the same product that it sells to more than 1 customer and the pricing sold to each customer is different; does the manufacturer have to determine 1 stand-alone selling price for the product being sold and then have to allocate the transaction price in each individual contract with each customer? Doing this would result in an amount recorded to the Balance Sheet (either an Asset or Liability) vs. the Receivable that is recorded based on the price in the individual contract with each customer?	Entities must determine one standalone selling price for each item, although that SSP could be a range (i.e. any price within the range is considered SSP) as long as the range is reasonably narrow. However, it's important to remember that SSP is only used to allocate arrangement consideration among the performance obligations in step 4 of the model. If an arrangement only includes one item (or one type of item), then there's nothing to allocate. Even if there are multiple POs, the fact that one is not priced at SSP doesn't mean that an amount would be recorded to the balance sheet, only that the amount on the invoice for that item may not be the amount of revenue actually recognized when control of that item is transferred to the customer.
3	If you you give your customer annual quotes that ae tiered baed on volumes since these are not in a contract would that sill be considered a variable consideration?	It depends. If the pricing relates to all purchases during the current annual term, then it's probably not a material right or variable consideration.
4	Can you speak to the similarities and differences related to Bill & Hold transactions and revenue recognition under the new revenue standard as compared to existing GAAP and practice?	The bill and hold guidance comes from SAB 104, which is being rescinded with the adoption of ASC 606. However, it is generally agreed that an assessment of the factors in 606-10-25-30 will usually result in the same conclusion that was reached under the bill and hold guidance.
5	Isn't just about everyone on an FOB shipping point basis? Do you expect this to change in very many cases?	Not necessarily. We often see FOB destination, especially with international shipments. But no, we don't expect shipping terms to change as a result of the new standard.
6	Consider example 2, we have similar terms in our standard terms and conditions, which are published on our website. Different from the example, we don't have the wording agreed upon in a master contract; it just comes from reference to our terms and conditions in our PO acknowledgement. Our customers often have wording in their	We would highly recommend that you work with your legal counsel to understand whether your acceptance of the customer's terms and conditions on their PO in essence invalidates your standard terms and conditions. This is important for business purposes, but it will also have a bearing on whether you have a right to payment for cost plus a margin in the event of early termination.

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	POs that reference their own published terms and conditions which do not inlcude such payments. What is the best treatment for this dissenting view about whether the customer is required to pay us for the cost incurred plus margin? From their perpective they wouldn't believe that they would owe us based on their own terms and conditions.	
7	What if you build to customer spec and they cancel. You are able to take it apart and hopefully use as parts for other contracts in the future but not assured They have to pay with a profit margin?	The standard indicates that you assess "alternative use" based on the finished item. Just because the parts could be reused doesn't necessarily mean that you wouldn't meet the "no alternative use" criterion.
8	It would be helpful if you could touch on what matters for middle market companies that do nothing other than shipping widgets. No warranties. Contrats PO's. Terms FOB shipping point, etc. The only question that seems to arise is about when "control" transfers and how to document this sufficiently for auditors.	If it is determined that revenue should be recognized at a point in time, then you should assess the factors in paragraph 606-10-25-30 in order to determine at what point in time control transfers.
9	What about toll processng - What if we process customer-owned material at our plant? They drop off and pick up steel bars and we turn and polish for example. Then customer picks it up. We currenly recognize revenue when our services a done being performed(full order ready to return to customer).	One new aspect of the standard is how to consider customer owned materials. If the customer retains control of the materials, then the second criterion in paragraph 606-10-25-27 might be met. The key part of the analysis is how you define the performance obligation.
10	This may be true in the frozen food industry as well. It is particulary true when you package in the costumers' packaging label and the recipe is from the costumer property.	Agreed.
11	How about service companies that have a long term contracts? How can they recognize revenue?	Service companies follow the same process as manufacturers. In other words, the three over time criteria in 606-10-25-27 are applicable to service companies as well. Usually service companies find that

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		the first criterion is most applicable, but at times the third criterion applies because the service company is creating an asset (a report, a project, a design, etc.) that has no alternative use.
12	Thank you for using manufacturing examples. It is key for this audience.	You are welcome!