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Revenue Recognition Refresher

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MFC Buckets by FASB ASC Topic

Rank	FASB ASC Topic	%	Change from 2024
1	606- Revenue from Contracts with Customers	25%	-
2	842- Leases	12%	-
3	958- Not-for-Profit Entities	10%	-
4	230- Statement of Cash Flows	8%	-
5	326- Financial Instruments- Credit Losses	6%	NR
6	210- Balance Sheet	4%	-1
7	470- Debt	4%	-1
8	855- Subsequent Events	3%	-
9	820- Fair Value Measurements	3%	-2
10	740- Income Taxes	2%	-

CPEA Report May 20, 2026

MFC Specific to Topic 606

FASB ASC 606 MFC Issue	%
No disclosure of opening balance of accounts receivable and/or contracts assets/liabilities (if applicable) for earliest year presented	49%
Failure to make more than two of the required disclosures under FASB ASC 606-10-50-1 to 50-23	29%
Did not disaggregate revenue as required by FASB ASC 606-10-50-5 to 50-7	9%
Failure to adopt/consider FASB ASC 606	6%
Failure to make required disclosures related to performance obligations under FASB ASC 606-10-50-12	5%
Did not disclose revenue recognition policy	2%
Inadequte testing/consideration of revenue recognition and measurement	1%

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Opening Balance Disclosure

- FASB ASC 606-10-50-8
  - An entity shall disclose all of the following: the opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers

FASB ASC 606-10-50-8

	December 31 2023	December 31 2024	December 31 2025
Accounts receivable	XXX	XXX	XXX
Contract assets	XXX	XXX	XXX
Contract liabilities - current	XXX	XXX	XXX
Contract liabilities – long term	XXX	XXX	XXX

Beginning of year, January 1, 2025 and 2024, deferred revenue related to contracts with customers were $164,098 and $137,903, respectively. End of year December 31, 2025 and 2024 deferred revenue related to contracts with customers were $136,678 and $164,098, respectively.

Two or More Required Disclosures

- FASB ASC 606-10-50-1 through 23
  - Qualitative and quantitative information
  - Significant judgements and changes in the judgements
  - Any assets recognized from the costs to obtain or fulfill a contract with a customer
  - Separate disclosure of revenue recognized and credit losses from contracts with customers

Two or More Required Disclosures

- FASB ASC 606-10-50-1 to 50-23 (cont.)
  - Disaggregate revenue by nature, amount, and timing
  - Opening and closing balances
  - Performance obligations
  - Significant changes in the contract assets and contract liability balances

Did Not Disaggregate Revenue

- FASB ASC 606-10-50-5 to 50-7
  - Disaggregate revenue by nature, amount, and timing
  - An entity, that is not a public business entity, may elect not to apply the quantitative disaggregation disclosure guidance in paragraphs 606-10-50-5 through 50-6.

Did Not Disaggregate Revenue

- FASB ASC 606-10-50-7
  - If an entity elects not to provide those disclosures, the entity shall disclose, at a minimum, revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time) and qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.

Other Peer Review Comments

- Failure to consider impact of Topic 606
- Failure to make required disclosures related to performance obligations
- Did not disclose revenue recognition policy
- Inadequate testing/consideration of revenue recognition and measurement

Revenue Recognition

Topic 606

ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*

- Effective for periods beginning after December 15, 2018 (12/31/19 and 6/30/20 year ends)
- This amendment provides guidance for revenue recognition related to contracts with transfer of promised goods or services to customers and related disclosures

Revenue Definition

Transfer of promised goods and services to a customer in an amount that reflects the consideration to which the entity expects to be entitled

Not Included in Topic 606

- Lease contracts
- Insurance contracts
- Financial instruments
- Guarantees
- Nonmonetary exchanges in the same line of business to facilitate sales to customers
- Contributions
- Collaborative arrangements

Topic 606 NFP Areas of Focus

- Membership dues
- Subscriptions
- Tuition
- Fees for service
- Retail sales
- Licensing
- Potentially some government grants and contracts

How the Revenue Recognition Standard Works

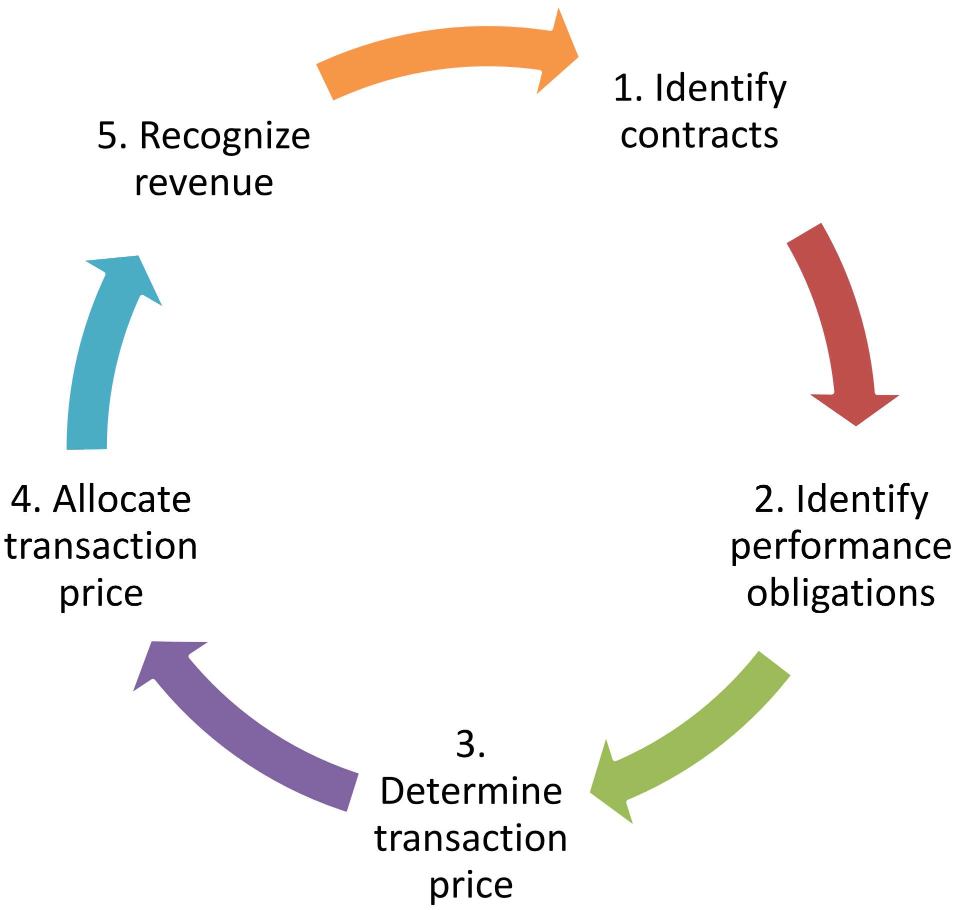
- The standard adds a degree of complexity to the revenue recognition process

- Instead of revenue simply being recognized when earned or as the earning process is completed, revenue is recognized *after certain steps or hurdles have been cleared*

How the Revenue Recognition Standard Works

- The core principle of the guidance is that an entity should 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
- To achieve that core principle, an entity should apply a five-step process

Steps to Apply Revenue Recognition



Step 1: Identifying the Contract with a Customer

- When the revenue recognition standard refers to a **contract** with a customer, it does not have to be a written contract
- A contract may be oral or even implied by the entity’s customary business practices, but it needs to create rights and obligations that are legally enforceable against the parties

When a Contract Does Not Exist

- A contract does not exist if each party to the contract has the unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties) ***or*** the collectability threshold is not met.
  - A contract is wholly unperformed if the entity has not yet transferred any promised goods or services to the customer and the entity has not yet received, ***and*** is not yet entitled to receive, any consideration in exchange for the promised goods or services.
  - To meet the collectability threshold, an entity must conclude that it is probable that it will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.
- Note: Determining whether a contract is *wholly unperformed* and whether *collectability threshold* has been met will be a bigger challenge for some NFPs (e.g. universities with tuition and housing revenues) than others.

Contract with a Customer

- An entity shall account for a contract with a customer that is within the scope of Topic 606 only when all of the following criteria are met:
  - The parties to the contract have approved the contract and are committed to perform their obligations
  - The entity can identify each party's rights
  - The entity can identify the payment terms
  - The contract has commercial substance
  - It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer

Example of Step 1:

- Zoo X offers memberships to its supporters. The annual membership is $250 each. Zoo X has determined that $100 of this amount is a contribution and that $150 is an exchange transaction for benefits that members receive
- In applying the 1st step, Zoo X will likely conclude that the $100 portion of the membership that is a contribution is not subject to the new revenue recognition standard and the $150 portion of the membership that is an exchange transaction (i.e. a contract) is subject to the new revenue recognition standard

Step 2: Identifying the Performance Obligations in the Contract

- A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- At the inception of a contract, the entity will assess the goods or services promised to be transferred to the customer and identify as a performance obligation (possibly multiple performance obligations) each promise to transfer the customer either:
  - A good or service, or a bundle of goods or services that is distinct; OR
  - A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
- A good or service that is not distinct will be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct. In some situations, that would result in the entity accounting for all the goods or services promised in a contract as a single performance obligation.

Example of Step 2:

- The annual memberships at Zoo X go for $250 each. Zoo X has determined that $100 of this amount is a contribution and that the remaining $150 is a contract for the benefits that members receive (i.e. the performance obligations).
- In Step 2, Zoo X will identify the specific performance obligations and their characteristics. For example, Zoo X determines that the benefits provided consist of:
  - An annual pass to Zoo X
  - A monthly newsletter
  - Attendance at the annual Zoofest Gala

Step 3: Determining the Transaction Price

- The transaction price is the amount of consideration (fixed or variable) that the entity expects to be entitled to in exchange for transferring the promised goods or services to the customer
- An entity should consider the terms of the contract and its customary business practices in determining the transaction price

Example of Step 3:

- Zoo X determines that the benefits provided (i.e. the annual pass to Zoo X, the monthly newsletter, and the attendance at the annual Zoofest Gala) are valued at $150.

Step 4: Allocating the Transaction Price to the Performance Obligations in the Contract

- The transaction price is allocated to separate performance obligations in proportion to the stand-alone selling price of the promised goods or services
- When a contract has only one performance obligation, the entire transaction price is attributed to that performance obligation
- If the contract has more than one performance obligation, the transaction price will be allocated among the individual performance obligations. That allocation is done based on the stand-alone selling prices of each of the distinct goods or services underlying the performance obligations. Note: An entity should estimate a stand-alone selling price if it is not directly observable.

Example of Step 4:

- Zoo X determines that the $150 exchange transaction (i.e. contract) component of the membership consists of:
  – An annual pass to Zoo X valued at $50
  – A monthly newsletter valued at $25
  – Attendance at the annual Zoofest Gala valued at $75

Step 5: Recognizing Revenue When (or as) Each Performance Obligation is Satisfied

- The 5th step in the new recognition standard is to recognize revenue
- The revenue recognized when the transfer of the promised good or service to a customer is equal to the amount allocated to the satisfied performance obligation, which may be satisfied at a point in time or over time
- A good or service is transferred when (or as) the customer obtains control of that good or service

Example of Step 5:

- In the example of Zoo X, the annual pass to the Zoo and monthly newsletter would likely be recognized as revenue over the 12 months and the amount allocated to the annual Zoofest Gala would be recognized after the event

Significant Disclosure Requirements

- There are significant disclosure requirements in Topic 606. An entity will disclose qualitative and quantitative information about:
  - Contracts with customers (including revenue recognized, disaggregation of revenue, and information about contract balances and performance obligations); AND
  - Significant judgements and changes in judgements affecting the amount of revenue and assets recognized (determining the timing of satisfaction of performance obligations and determining the transaction price and amounts allocated to performance obligations).

Significant Disclosure Requirements

- Disclosure requirements include disaggregation of revenue, information about contract asset and liability balances, and information about an entity's performance obligations.
- Requires disclosure of (or presentation in the statement of activities) the amount of revenue recognized from contracts with customers separately from other sources of revenue.
- Requires disclosure of credit losses from contracts with customers separately from other credit losses if they are not separately presented in the statement of activities.

Contributions

ASU 2018-08, *"Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)"*

- Effective for periods beginning after December 15, 2018 (12/31/19 and 6/30/20 year-ends)
- This amendment provided guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions

Contribution Definition

An unconditional transfer of cash or other assets (including a promise) to an entity in a voluntary non- reciprocal transfer

Exchange Transaction vs Contribution

- Considerations to be Made:
  - A benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider
  - Execution of the resource provider's mission shall not constitute commensurate value received
  - Expressed intent by both parties to exchange resources
  - If the resource provider has full discretion in determining the amount of the transferred assets, the transaction is indicative of a contribution
  - If the penalties for nonperformance exceed the amount of assets transferred, the transaction is indicative of an exchange

Exchange Transaction vs Contribution

- The following are *not* contributions:
  - Transfers of assets that are in substance purchases of goods or services
  - Transfers of assets in which the reporting entity acts as an agent, trustee, or intermediary
  - Transfers of assets from government entities to business entities
  - Transfers of assets that are part of an existing exchange transaction between a recipient and an identified customer
    - Example: Medicare, Medicaid

Exchange Transaction vs Contribution

- For contributions, an entity should follow guidance in Subtopic 958-605
- For exchange transactions, an entity should follow other guidance (for example, Topic 606, *Revenue from Contracts with Customers*)

Conditional vs Unconditional Contributions

- Donor-imposed condition must have both:
  - **A right of return to the contributor for assets transferred** (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities)
  - **One or more barriers** that must be overcome before a recipient is entitled to the assets transferred or promised

Examples: Measurable Barriers vs. "Best Efforts" Metrics

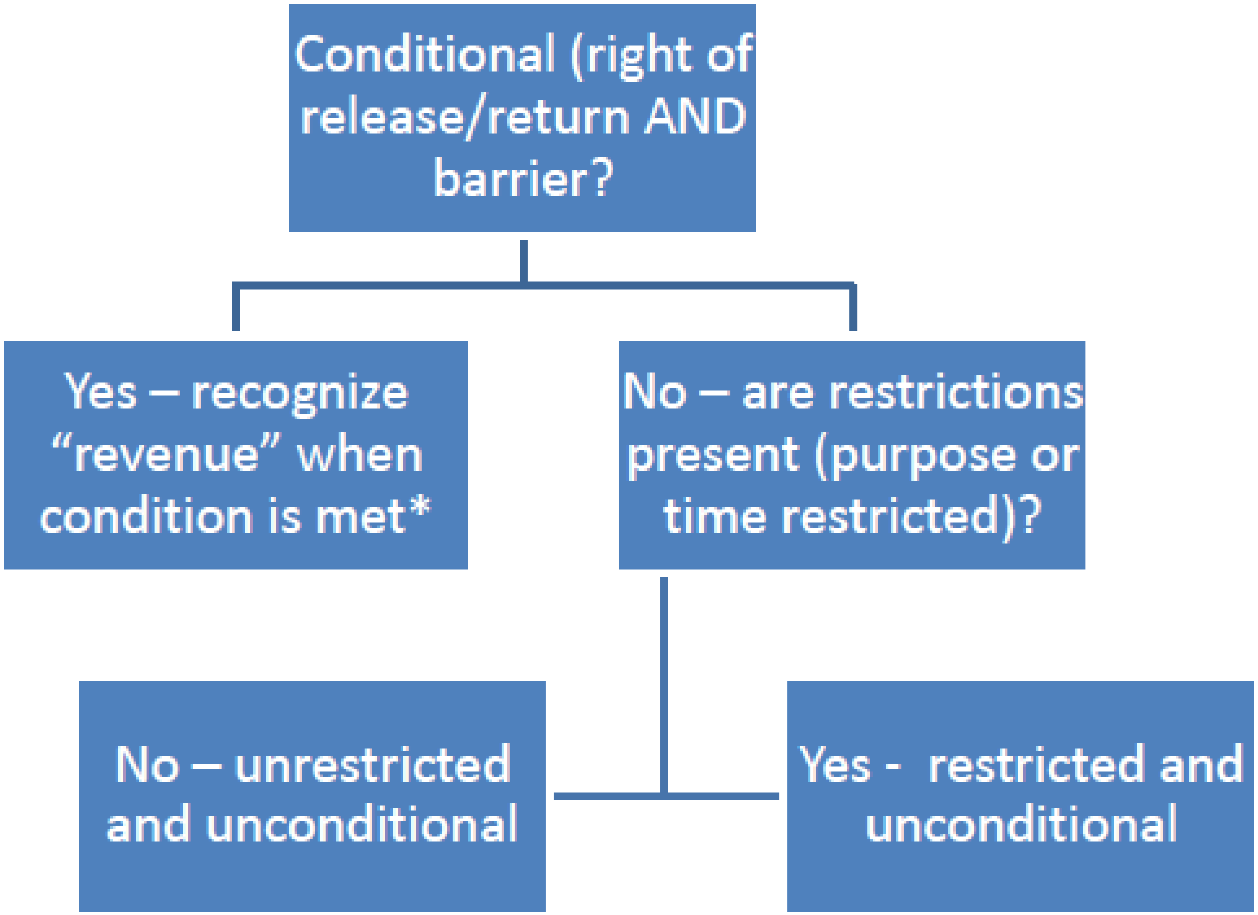
- Two examples in the Codification:
  - Both grants that contain right of return/release for funds not spent on the program
- Measurable Barriers (accounted for as **conditional**):
  - Foundation grant for career training to disabled veterans
  - A specified level of service (with specific minimum targets that must be met) is a barrier on which entitlement depends
  - The likelihood of serving those minimums is not considered
- "Best Efforts" Metrics (account for as **unconditional**):
  - Foundation grant for a recreational organization's tennis program
  - Consistent with grant proposal, contains guidelines, with metrics, about how to use funds towards the program
  - However, entitlement is not dependent upon meeting those guidelines, as long as the funds are used toward the program

Note: Barriers exclude trivial and administrative stipulations

Contributions Received

- A contribution made and a corresponding contribution received generally are recognized by both the donor and the receiver at the same time, that is, when made or received, respectively. If conditional, the contribution is recognized when the barrier is overcome.
- After a contribution has been deemed not to contain a donor-imposed condition, an entity shall consider whether the contribution includes a donor-imposed restriction, which includes the consideration about how broad or narrow the purpose of the agreement is and whether the resources can be used only after a specified date.

Contributions Received



Contribution Disclosures

- Guidance includes disclosures for unconditional and conditional promises to give
- For conditional promises to give, recipients are required to disclose:
  - The total of the amounts promised
  - A description and amount for each group of promises having similar characteristics

Contribution Disclosures

- Not intended to be a laundry list disclosure
- Consider key attributes of the barriers such as:
  - Subject to matching
  - Incurring qualifying expenses
  - Measurable performance barrier

AICPA Resources

- FASB ASU Topic 606
- AICPA Center for Plain English Accounting May 20, 2026 Report

Questions? Contact Me!

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