

MANUFACTURING AND DISTRIBUTION

Step(s) within Five-step model	Issue	Description and examples
1, 2, 4	Determining the unit of account	Complex manufacturing contracts require careful analysis in order to identify the contract with the customer and the number and nature of performance obligations. Entities must also consider the guidance on contract modifications and combining contracts.
2, 4, 5	Warranties	Warranties that the customer may purchase separately or that provide a distinct service must be treated as a separate performance obligation. Allocation of revenue to these promises could be challenging, and delayed recognition of some revenue may occur.
3	Estimating variable consideration	Entities must estimate variable consideration, apply the constraint on variable consideration and update estimates each reporting period. Examples include volume discounts, rebates, awards, incentives and claims.
5	Contract manufacturing - determining transfer of control (i.e., over time or point in time)	Entities need to evaluate at contract inception whether a performance obligation is satisfied over time or at a point in time. If a performance obligation does not satisfy one of the three criteria to be recognized over time, it must be recognized at a point in time. Revenue recognition under prior GAAP using the percentage-of-completion, completed contract or zero margin method is not necessarily indicative of which pattern (over time or point-in-time) will be required under the new standard.
5	Contract manufacturing -measuring transfer of control	When a performance obligation is recognized over time, an entity must select an appropriate measure of progress. When identifying an appropriate measure of performance in transferring control of goods or services, entities need to consider various factors, including but not limited to: nature of the good or service; ability to track and measure certain inputs and outputs; status of work-in-process; wasted or uninstalled materials; and changes in estimate.
Other	Principal/agent analysis	Entities need to perform a principal/agent analysis to determine whether to present revenue and related expenses on a gross or net basis for certain transactions, including but not limited to reseller and distribution arrangements.