

TECHNOLOGY AND LIFE SCIENCES

Step(s) within Five-step model	Issue	Description and examples
Scope 1, 5	Reseller and distributor arrangements	Arrangements to sell goods and/or services through resellers or distributors need to be evaluated to determine when control transfers to the customer (i.e., reseller/distributor); revenue should be recognized at that point. The “sell through” method under prior GAAP may not be appropriate. Also consider contract combination and modification guidance (e.g., multiple contracts entered with different regions of an organization at or near the same time may need to be combined).
2, 5	Identifying performance obligations and related revenue recognition (i.e., over time or point in time)	Entities must evaluate all of the promises in a contract to determine whether they meet the definition of distinct. Each distinct promise must be accounted for as a separate performance obligation, each with its own pattern of revenue recognition. Examples include licenses of intellectual property (e.g., software, pharmaceutical compounds), equipment, services, installation, support, renewal options, etc.
3	Estimating variable consideration	Entities must estimate variable consideration, apply the constraint on variable consideration and update estimates each reporting period. Entities that license intellectual property must also consider the exception to the constraint related to royalties and usage-based fees. This could be a change for entities that did not make estimates because the variable consideration was not considered to be fixed or determinable until the uncertainty was resolved. Examples include milestone payments, royalties and usage-based fees, volume discounts, etc.
3	Significant financing component (extended payment terms)	Revenue may need to be adjusted for time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing the transfer of goods or services. This may be a change in practice for many entities.
4	Estimating stand-alone selling prices and allocating transaction price	Vendor specific objective evidence is no longer a barrier to recognition of license revenue. There is no contingent revenue cap under the new revenue standard. This is a change from prior GAAP, which limited the amount allocable to a delivered item to the amount that is not contingent on the delivery of additional units or meeting other specified performance criteria.

Links to Relevant AICPA Task Force:

[Software](#)