Financial reporting developments

A comprehensive guide

Gains and losses from the derecognition of nonfinancial assets (ASC 610-20)

September 2026

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To our clients and other friends

We are pleased to provide you with this Financial reporting developments (FRD) publication, *Gains and losses from the derecognition of nonfinancial assets (ASC 610-20)*. This publication addresses the guidance in Accounting Standards Codification (ASC or Codification) 610-20, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets*.

ASC 610-20 provides guidance on the recognition of gains and losses on transfers of nonfinancial assets and in substance nonfinancial assets (including partial sales) to counterparties that are not customers. This includes the sale of intangible assets and property, plant and equipment, including real estate, as well as materials and supplies.

ASC 610-20 requires entities to apply certain recognition and measurement principles of ASC 606, *Revenue from Contracts with Customers*. Accordingly, it may be helpful to review our FRD, ***Revenue from contracts with customers (ASC 606)***, in conjunction with this publication.

We expect to periodically update our guidance as application issues are identified for new and emerging transactions. Appendix A summarizes significant changes since the previous edition.

Ernst + Young LLP

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Contents

1 Overview 1
1.1 Overview 1
2 Scope 3
2.1 Scoping decision tree 6
2.2 Counterparty is a customer 8
2.3 Transfer of a business or nonprofit activity 8
2.4 Transfer of financial assets, including equity method investments (consideration of ASC 860) 9
2.4.1 When the transfer of financial assets is in the scope of ASC 610-20 12
2.4.2 Acquisition, development and construction arrangements 14
2.5 Other scope exceptions 15
2.5.1 Sale and leaseback transactions 15
2.5.2 Nonmonetary exchanges 16
2.6 Contracts containing (1) nonfinancial assets or (2) nonfinancial assets and in substance nonfinancial assets (ISNFAs) 17
2.6.1 Accounting for the sale of real estate 31
2.7 Contracts partially in the scope of other guidance 31
2.8 Examples 36
3 Derecognizing a nonfinancial asset or an in substance nonfinancial asset (ISNFA) 39
3.1 Step 1: determining whether the entity has a controlling financial interest 41
3.1.1 Variable interests 42
3.1.2 Variable interest entities 44
3.1.3 Determining the primary beneficiary (i.e., control of a VIE) 46
3.1.4 Control of a voting interest entity 49
3.1.5 Accounting when the entity does or does not retain a controlling financial interest 49
3.2 Step 2: determining whether control of the nonfinancial asset or ISNFA has transferred 55
3.2.1 Determining the existence of a contract 55
3.2.1.1 Assessing collectibility 57
3.2.1.2 Accounting for consideration received when the contract criteria are not met (updated September 2026) 60
3.2.2 Identifying the distinct nonfinancial assets or ISNFAs 64
3.2.3 Transferring control of the nonfinancial asset or ISNFA 68
3.2.3.1 Transferring control of nonfinancial assets held in a legal entity 73
3.2.3.1.1 Entity retains or receives a noncontrolling interest in the legal entity that holds the nonfinancial assets (i.e., a partial sale) 74
3.2.3.1.2 Entity does not retain or receive a noncontrolling interest in the legal entity that holds the nonfinancial assets 75
3.2.3.2 Repurchase agreements (updated September 2025) 77
3.2.3.2.1 Forward or call option held by the entity 78
3.2.3.2.2 Put option held by the counterparty 82
3.2.4 Accounting when control of an asset has not transferred under ASC 606 84
3.3 Examples 84

4 Measuring the gain or loss ... 87
4.1 Determining the transaction price ... 87
4.1.1 Variable consideration ... 89
4.1.1.1 Forms of variable consideration ... 90
4.1.1.1.1 Implicit price concessions ... 91
4.1.1.2 Estimating variable consideration ... 92
4.1.1.3 Constraining estimates of variable consideration ... 93
4.1.1.4 Reassessment of variable consideration ... 98
4.1.2 Significant financing component ... 100
4.1.2.1 Significant financing component examples ... 104
4.1.3 Noncash consideration (updated September 2026) ... 107
4.1.3.1 Noncash consideration in the form of noncontrolling interests received or retained ... 110
4.1.3.2 Share-based noncash consideration (after the adoption of ASU 2025-07) (updated September 2026) ... 113
4.1.4 Consideration paid or payable to a counterparty (updated September 2026) ... 116
4.1.5 Liabilities assumed or relieved ... 121
4.1.6 Changes in transaction price after contract inception ... 122
4.2 Intra-entity profits on transactions with equity method investees or joint ventures ... 123
5 Allocating the consideration to more than one distinct nonfinancial asset or ISNFA ... 127
5.1 Determining standalone selling prices ... 128
5.1.1 Factors to consider when estimating the standalone selling price ... 130
5.1.2 Possible estimation approaches ... 131
5.2 Applying the relative standalone selling price method ... 133
5.3 Allocating variable consideration ... 135
5.4 Allocating a discount ... 136
6 Presentation and disclosure ... 138
6.1 Presentation (updated September 2025) ... 138
6.1.1 Other presentation considerations ... 141
6.2 Disclosure (updated September 2026) ... 141
A Summary of important changes ... A-1
B Index of ASC references used in this publication ... B-1
C Guidance abbreviations used in this publication ... C-1
D Glossary ... D-1

Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

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1 Overview

1.1 Overview

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Overview and Background

610-20-05-1

This Subtopic provides guidance on the recognition of gains and losses on transfers of nonfinancial assets and **in substance nonfinancial assets** to counterparties that are not **customers**. Although the guidance in this Subtopic applies to **contracts** with noncustomers, it refers to revenue recognition principles in Topic 606 on **revenue** from contracts with customers.

610-20-05-2

The term *transfer* in this Subtopic is used broadly and includes sales and situations in which a **parent** transfers ownership interests (or **variable interests**) in a consolidated **subsidiary** or other changes in facts and circumstances that result in the derecognition of nonfinancial assets or in substance nonfinancial assets that do not constitute a business. For example, an entity may lose control of nonfinancial assets or in substance nonfinancial assets because of the expiration or termination of an existing contractual arrangement, a dilution event, a government action, or upon default of a subsidiary's nonrecourse debt. An entity also may lose control of nonfinancial assets or in substance nonfinancial assets by contributing those assets to a **joint venture** or other noncontrolled investee.

ASC 610-20 (or the standard) provides guidance on the sale of nonfinancial assets or in substance nonfinancial assets to noncustomers, including partial sales, that are not an output of an entity's ordinary activities and are not a business, as defined in ASC 805. The standard requires entities to apply certain recognition and measurement principles in ASC 606 when they derecognize nonfinancial assets and in substance nonfinancial assets. Nonfinancial assets include intangible assets and property, plant and equipment (PP&E), including real estate, as well as materials and supplies.

The standard describes the term "in substance nonfinancial asset" as "a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets."[1] That is, an in substance nonfinancial asset (which we refer to as an ISNFA throughout this publication) only exists when a financial asset is sold as part of a group of assets and substantially all of the fair value of the assets is concentrated in nonfinancial assets. The standard provides guidance on how to apply the concept of an ISNFA, including guidance on how entities evaluate the sale or transfer of an ownership interest in one or more consolidated subsidiaries, which is discussed further in sections 2.1 and 2.6.

The term "sale" in this publication also refers to a transfer of a nonfinancial asset or an ISNFA or any other transaction in which an entity loses control of a nonfinancial asset or an ISNFA (e.g., expiration of a contractual agreement, dilution event, default on debt).

[1] ASC 610-20-15-5.

Examples of transactions in the scope of ASC 610-20 include:

- Sales of PP&E or intangible assets to noncustomers
- Transfers to noncustomers of nonfinancial assets held in a subsidiary that is not a business or nonprofit activity
- Most transactions involving transfers of real estate to noncustomers
- Contributions of nonfinancial assets that are not a business or a nonprofit activity to a joint venture or other noncontrolled investee in exchange for equity of that entity or other consideration

ASC 610-20 requires entities to apply certain recognition and measurement principles of ASC 606. That is, the accounting for a contract that includes the sale of a nonfinancial asset to a noncustomer will generally be consistent with that of a contract to sell a nonfinancial asset to a customer. However, there are some differences related to the elimination of intra-entity profit in downstream transactions (e.g., a transfer of a nonfinancial asset to a joint venture or equity method investee in exchange for cash or other assets) (see section 4.2) and financial statement presentation and disclosure. Entities that sell nonfinancial assets to customers will present revenue and expense, while those that sell nonfinancial assets to noncustomers will present net gains or losses following the guidance in ASC 360 (see section 6).

ASC 610-20 also includes guidance for a partial sale of (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs held in a legal entity. In this context, the term "partial sale" generally refers to the sale of an entity's controlling financial interest in a subsidiary that holds nonfinancial assets (or nonfinancial assets and ISNFAs) when the entity retains a noncontrolling interest in the former subsidiary. The term partial sale also may refer to a seller's transfer of (1) a nonfinancial asset or (2) a nonfinancial asset and an ISNFA to an entity that is owned or newly formed by a third party in exchange for a noncontrolling interest in that entity.[2] In these situations, ASC 610-20 requires an entity to determine whether it has a controlling financial interest in the other entity using the guidance in ASC 810 (see section 3.1).

[2] A sale of a partial interest in a nonfinancial asset (e.g., an undivided interest (see ASC 970-323); ownership of a portion of the ownership rights to an asset, such as a mineral right) is not addressed in ASC 610-20.

2 Scope

ASC 610-20 applies to the sale of nonfinancial assets and ISNFAs, but it does not apply if the sale is to a customer, as defined in ASC 606 (see section 2.2). The guidance also does not apply to the sale of a business, as defined in ASC 805, or nonprofit activity (see section 2.3). These and other scope considerations are described further below.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Scope and Scope Exceptions

Entities

610-20-15-1

The guidance in this Subtopic applies to all entities.

Transactions

610-20-15-2

Except as described in paragraph 610-20-15-4, the guidance in this Subtopic applies to gains or losses recognized upon the derecognition of nonfinancial assets and **in substance nonfinancial assets**. Nonfinancial assets within the scope of this Subtopic include **intangible assets**, land, buildings, or materials and supplies and may have a zero carrying value. In substance nonfinancial assets are described in paragraphs 610-20-15-5 through 15-8.

610-20-15-3

The guidance in this Subtopic applies to a transfer of an ownership interest (or a **variable interest**) in a consolidated **subsidiary** (that is not a **business** or **nonprofit activity**) only if all of the assets in the subsidiary are nonfinancial assets and/or in substance nonfinancial assets.

610-20-15-4

The guidance in this Subtopic does not apply to the following:

a. A transfer of a nonfinancial asset or an in substance nonfinancial asset in a **contract** with a **customer**, see Topic 606 on **revenue** from contracts with customers

b. A transfer of a subsidiary or group of assets that constitutes a **business** or **nonprofit activity**, see Section 810-10-40 on consolidation

c. Sale and leaseback transactions within the scope of Subtopic 842-40 on leases

d. A conveyance of oil and gas mineral rights within the scope of Subtopic 932-360 on extractive activities—oil and gas

e. A transaction that is entirely accounted for in accordance with Topic 860 on transfers and servicing (for example, a transfer of investments accounted for under Topic 320 on investments—debt securities, Topic 321 on investments—equity securities, Topic 323 on investments—equity method and **joint ventures**, Topic 325 on investments—other, Topic 815 on derivatives and hedging, and Topic 825 on financial instruments)

f. A transfer of nonfinancial assets that is part of the consideration in a business combination within the scope of Topic 805 on business combinations, see paragraph 805-30-30-8

g. A nonmonetary transaction within the scope of Topic 845 on nonmonetary transactions

h. A lease contract within the scope of Topic 842 on leases

i. An exchange of takeoff and landing slots within the scope of Subtopic 908-350 on airlines—intangibles

j. A contribution of **cash** and other assets, including a promise to give, within the scope of Subtopic 720-25 on other expenses—contributions made or within the scope of Subtopic 958-605 on not-for-profit entities—revenue recognition

k. A transfer of an investment in a venture that is accounted for by proportionately consolidating the assets, liabilities, revenues, and expenses of the venture as described in paragraph 810-10-45-14

l. A transfer of nonfinancial assets or in substance nonfinancial assets solely between entities or persons under common control, such as between a **parent** and its subsidiaries or between two subsidiaries of the same parent.

An entity must determine whether a contract that includes the sale of nonfinancial assets is in the scope of ASC 606, ASC 610-20, ASC 810 or other guidance. If the contract is with a customer (i.e., a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration), ASC 606 applies.[3] If the contract transfers a subsidiary or group of assets that constitutes a business or nonprofit activity to a noncustomer, ASC 810 generally applies.[4] When determining whether the transaction involves a business, entities are required to apply the definition of a business in ASC 805. See section 2.1.3 of our FRD, ***Business combinations***, for more guidance on the definition of a business.

The following table summarizes some types of transactions that may fall into each derecognition standard described above:

ASC topic	When applied?	Possible transactions
ASC 606, *Revenue from Contracts with Customers*	▸ Sales to customers of nonfinancial assets, regardless of whether they also meet the definition of a business	▸ Sales of heavy equipment by the equipment manufacturer ▸ Sales of homes by homebuilders
ASC 610-20, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets*	▸ Sales or transfers to noncustomers of (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs that do not meet the definition of a business	▸ Sales of commercial properties (e.g., office buildings, hotels, manufacturing facilities) by non-real estate entities ▸ Sales of commercial properties by real estate investment trusts that do not consider selling real estate to be part of their ordinary activities

[3] If an entity sells a nonfinancial asset to a counterparty that is not an output of its ordinary activities and also sells goods or services to the counterparty that are the output of its ordinary activities, we believe the counterparty is considered a customer for the goods or services but not for the sale of the nonfinancial asset. See section 2.2 for further details.

[4] Certain types of transactions (e.g., spin-offs, split-offs, conveyances of oil and gas mineral rights) are excluded from the scope of ASC 810, as stated in ASC 810-10-40-3A and 40-5, because they are addressed by other guidance. See section 19.3 of our FRD, ***Consolidation***, for more guidance.

ASC topic	When applied?	Possible transactions
ASC 810-10, *Consolidation – Overall*	▸ Sales or transfers of businesses to noncustomers ▸ Sales or transfers of subsidiaries that do not contain solely (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs if no other US GAAP applies	▸ Sales of a portfolio of hotels that include significant value related to existing receivables, leases to retail tenants and the hotels' brand name (i.e., nonfinancial assets and financial assets that together meet the definition of a business) ▸ Sales of subsidiaries that hold a combination of financial assets (that are not ISNFAs) and nonfinancial assets (e.g., assets consisting of 50% receivables and 50% machinery)[5]
ASC 845-10, *Nonmonetary Transactions – Overall*	▸ Exchanges of products held for sale in the ordinary course of business (inventory) for a similar product as an accommodation and not as a means of selling the product to a customer ▸ Nonreciprocal transactions ▸ Exchanges of financial assets or noncontrolling interests that are outside the scope of ASC 860	▸ Exchange of finished goods inventory (e.g., a car) for finished goods inventory (e.g., a car) as an accommodation to reduce shipping costs ▸ Spin-offs and split-offs (see also ASC 505-60)
ASC 860, *Transfers and Servicing*	▸ Transfers of financial assets	▸ Transfers of debt securities, equity securities and equity method investments ▸ Factoring arrangements, transfers of receivables with recourse and securitizations

Question 2-1 **Is the sale or license of intellectual property in the scope of ASC 610-20?**

It depends. The sale of intellectual property is generally in the scope of ASC 610-20 if the selling entity does not consider selling intellectual property to be part of its ordinary activities (i.e., the sale is to a counterparty that is not a customer, as defined in ASC 606). This would be the case even when the carrying value of the intellectual property is zero (e.g., internally developed research and development that was never capitalized, an asset that was fully amortized).

However, we believe a license of intellectual property is not in the scope of ASC 610-20 because licensing a right to access or use intellectual property is not a derecognition event that involves the transfer of a nonfinancial asset. That is, the selling entity has not transferred a nonfinancial asset to a counterparty. Rather, the selling entity has provided the counterparty with the right to access or use its intellectual property. This is further supported by the fact that ASC 610-20 does not reference the licenses implementation guidance in ASC 606.

If no other guidance applies (e.g., ASC 845), we believe entities should consider applying the licensing guidance in ASC 606 by analogy to licenses of intellectual property to noncustomers, if applying that guidance faithfully depicts the economics of the arrangement. For example, an entity might determine that there is little economic difference between the license of intellectual property to a customer versus a noncustomer, so applying ASC 606 by analogy is appropriate.

[5] If no other guidance directly addresses the substance of the transaction, the entity deconsolidates in accordance with ASC 810. See section 2.6 for further details.

If an entity analogizes to ASC 606, it would need to apply all the applicable guidance in ASC 606 (e.g., it should not apply certain aspects of ASC 606 to the arrangement and other guidance to other aspects of the arrangement).

2.1 Scoping decision tree

The FASB included a decision tree in ASC 610-20-15-10 to help entities determine the appropriate derecognition model to apply when they sell or transfer assets to a counterparty. The first four steps of the decision tree address scope exceptions to ASC 610-20 because the transaction involves:

- Revenue from a contract with a customer (ASC 606) (see section 2.2 for further details)
- A business or nonprofit activity (ASC 810) (see section 2.3 for further details)
- A financial asset (ASC 860) (see section 2.4 for further details)
- An item that is subject to other scope exceptions listed in ASC 610-20-15-4 (see section 2.5 for further details)

If a transaction is not in the scope of other ASC guidance, an entity determines whether the assets promised in the contract are all (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs.

As mentioned in section 1.1, the term "in substance nonfinancial asset," or ISNFA, is "a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets."[6] That is, if substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets, all of the financial assets promised in the contract are ISNFAs. When making this evaluation for a contract that includes the transfer of ownership interests in one or more consolidated subsidiaries that is not a business, an entity evaluates the underlying assets in those subsidiaries.

The standard provides additional guidance on the concept of ISNFAs and how to evaluate whether substantially all of the fair value of the assets promised in a contract is concentrated in nonfinancial assets.[7] For transactions that are not subject to a scope exception, an entity needs to assess whether assets promised in a contract are ISNFAs for (1) transactions that include the sale of assets that aren't held in an entity and (2) transactions that involve the transfer of an ownership interest in one or more consolidated subsidiaries. See section 2.6 for further guidance on and discussion of ISNFAs.

In many transactions, entities can easily identify the applicable derecognition guidance. For example, a transferred group of assets may clearly be a business that is transferred to a counterparty that is not a customer and is therefore in the scope of ASC 810 (see section 2.3). If the transferred group of assets comprises solely nonfinancial assets or just nonfinancial assets and ISNFAs and no scope exceptions apply, the transaction generally will be in the scope of ASC 610-20.

If the transferred group of assets (1) is transferred to a counterparty that is not a customer; (2) is not a business; or (3) includes more than just nonfinancial assets and ISNFAs, further analysis will be required. In these cases, if the contract contains nonfinancial assets and financial assets that are not ISNFAs, the accounting depends on whether the transaction involves the sale of an ownership interest in one or more subsidiaries (see section 2.6 for additional details). If the transaction does not involve such a sale, the contract may be partially in the scope of ASC 610-20 and partially in the scope of other guidance (see section 2.7).

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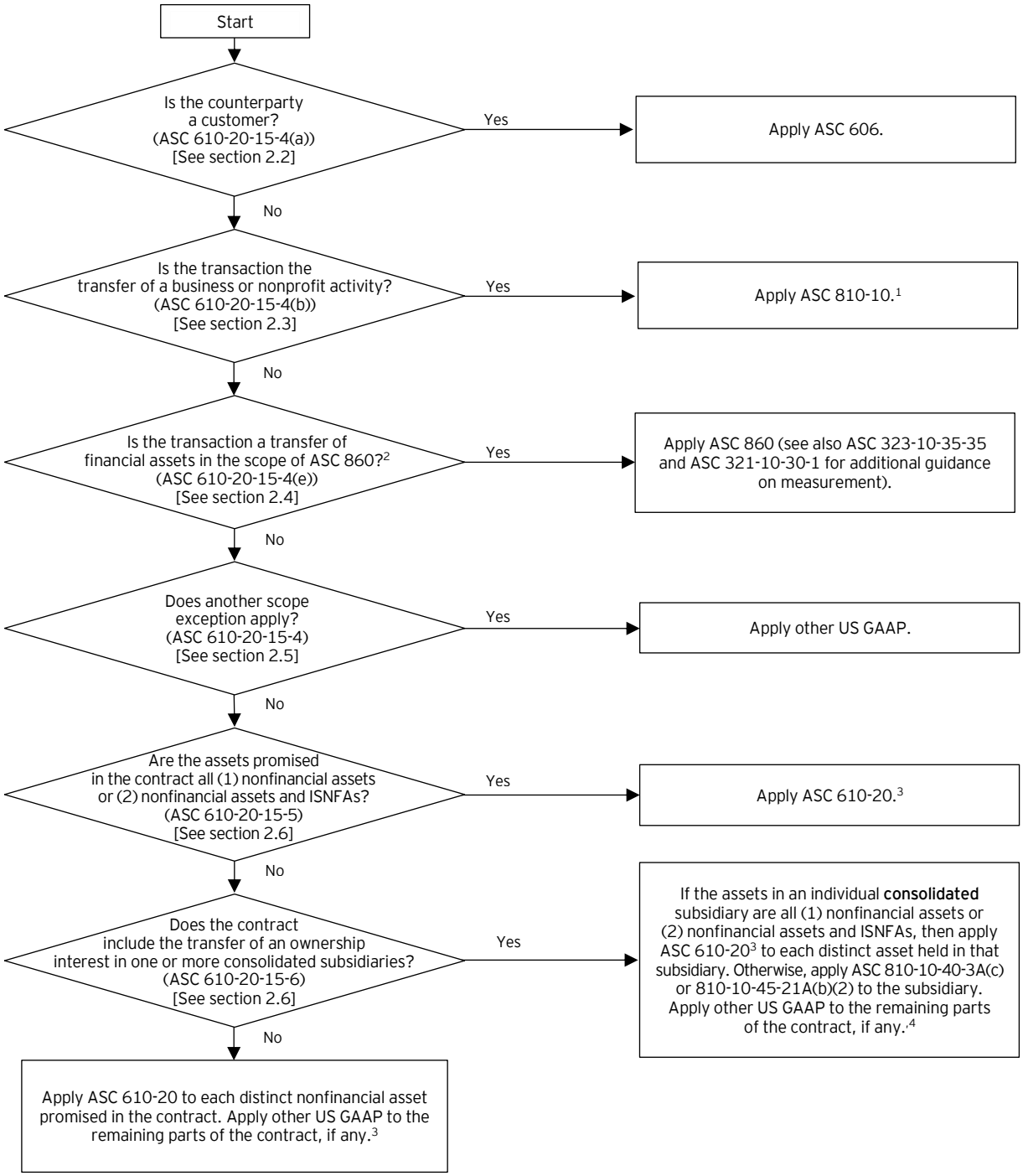
[6] ASC 610-20-15-5.

[7] See ASC 610-20-15-6 through 15-8.

The following decision tree is adapted from ASC 610-20-15-10. The sections following the decision tree further discuss each step of the decision tree.



[1] Certain types of transactions (e.g., spin-offs, split-offs, conveyances of oil and gas mineral rights) are excluded from the scope of ASC 810, as stated in ASC 810-10-40-3A and 40-5, because they are addressed by other guidance.

[2] Sales of equity method investments, even if the investees hold only nonfinancial assets, such as real estate, are accounted for under ASC 860, unless a scope exception applies.

[3] ASC 610-20 is applied to each distinct asset promised in the contract as discussed in section 3.2.2. If the contract includes terms or other contractual obligations that are not assets of the seller (e.g., guarantees), these aspects of the contract are separated and accounted for under other US GAAP. See section 2.7.

[4] An entity first evaluates all of the assets transferred, collectively, in the contract. If substantially all of the fair value of all of the assets is not concentrated in nonfinancial assets, the entity evaluates each individual consolidated subsidiary (i.e., the entity determines whether substantially all of the fair value of the assets in each subsidiary is concentrated in nonfinancial assets).

2.2 Counterparty is a customer

A sale of a nonfinancial asset to a customer is in the scope of ASC 606 and is not in the scope of ASC 610-20. ASC 610-20 and ASC 606 define a customer as "a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration." Neither standard defines the term "ordinary activities" because it was derived from the definition of revenue in the conceptual framework of the FASB in effect when the standard was developed.[8]

An example of an output of an entity's ordinary activities would be the heavy equipment a manufacturer makes and sells to customers. Likewise, a home that a homebuilder sells is an output of its ordinary activities. For these entities, these sales are in the scope of ASC 606. In contrast, an entity that sells equipment it previously used in its manufacturing operations to another entity likely would conclude that the equipment is not an output of its ordinary activities and, therefore, the sale agreement is not a contract with a customer. In this case, the transaction is in the scope of ASC 610-20.

If an entity sells a nonfinancial asset that is not an output of its ordinary activities to a counterparty and also sells goods or services to the counterparty that are the output of its ordinary activities, we believe the counterparty is considered a customer for the goods or services but not for the sale of the nonfinancial asset. For example, a widget maker's sales of widgets to Entity A would be in the scope of ASC 606. If the widget maker sells its widget-making machine to Entity A, that transaction is in the scope of ASC 610-20 if the widget maker concludes that the widget-making machine is not an output of its ordinary activities.

Determining whether a counterparty is a customer is important because of the financial statement presentation and disclosure differences between ASC 606 and ASC 610-20. This determination is also important for transactions involving the sale of an asset to an equity method investee or joint venture because it will determine whether intra-entity profits are eliminated. That is, if an arm's-length transaction is with a customer (i.e., in the scope of ASC 606), the selling entity is required to eliminate profit from the intra-entity transaction until that profit is realized in a transaction with a third party. However, if an arm's-length transaction is not with a customer and is in the scope of ASC 610-20, the selling entity records a full gain because the intra-entity profit is not eliminated. See section 4.2 for further details.

2.3 Transfer of a business or nonprofit activity

A sale of a business[9] is not in the scope of ASC 610-20. If an entity sells a subsidiary or group of assets that meets the definition of a business to a noncustomer, the transaction generally is in the scope of ASC 810.[10]

When determining whether a transaction involves a business, entities apply the definition of a business in ASC 805. That guidance requires an entity to first evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If that "substantially all" threshold is met, the set of assets and activities is not a business, and no further evaluation is required. If that threshold is not met, the entity evaluates whether the set meets the definition of a business. A business must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Judgment is required when performing this evaluation.

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[8] Paragraph BC53 of the Background Information and Basis for Conclusions of ASU 2014-09.

[9] Here and below, references to a business also include a nonprofit activity.

[10] Certain types of transactions (e.g., spin-offs, split-offs, conveyances of oil and gas mineral rights) are excluded from the scope of ASC 810, as stated in ASC 810-10-40-3A and 40-5, because they are addressed by other guidance. See section 19 of our FRD, ***Consolidation***, for more guidance.

See section 2.1.3 of our FRD, ***Business combinations***, for more information on the definition of a business. See sections 18 and 19 of our FRD, ***Consolidation***, for more information on the scope and accounting in ASC 810.

2.4 Transfer of financial assets, including equity method investments (consideration of ASC 860)

A sale of a financial asset (e.g., an equity method investment) is generally in the scope of ASC 860,[11] unless the financial asset is determined to be an ISNFA as discussed in section 2.4.1. That is, a financial asset, including an equity method investment, is in the scope of ASC 610-20 if it is transferred in a contract as part of a group of assets and substantially all of the fair value of the group of assets is concentrated in nonfinancial assets.[12]

ASC 860 generally does not apply to transfers of nonfinancial assets. However, entities apply ASC 860 to transfers of servicing assets (see ASC 860-50-40) and derivative instruments in the scope of ASC 815-10 that are not financial assets (as noted in ASC 860-10-15-4(a) and 15-5, respectively) as follows:

Excerpt from Accounting Standards Codification

Transfers and Servicing

Scope and Scope Exceptions

Transactions

860-10-15-3

The guidance in the Transfers and Servicing Topic applies to the issues of accounting for **transfers** and servicing of **financial assets**.

860-10-15-4

The guidance in this Topic does not apply to the following transactions and activities:

a. Except for transfers of servicing assets (see Section 860-50-40) and for the transfers noted in the following paragraph, transfers of nonfinancial assets [...]

e. Transfers of **in substance nonfinancial assets**, see Subtopic 610-20 [...]

860-10-15-5

Paragraph 815-10-40-2 states that transfers of assets that are derivative instruments and subject to the requirements of Subtopic 815-10 but that are not financial assets shall be accounted for by analogy to this Topic.

[11] Examples of transactions that may be in the scope of ASC 860 include transfers of investments accounted for under ASC 320, ASC 321, ASC 323, ASC 325, ASC 815 or ASC 825 that are not ISNFAs.

[12] ASC 610-20 provides guidance on how entities evaluate whether the sale or transfer of an ownership interest in one or more consolidated subsidiaries is in its scope or other US GAAP. See sections 2.1 and 2.6.

Under ASC 610-20, entities *do not* look through to the underlying assets and liabilities in an *unconsolidated* entity in which they hold an equity investment to determine which derecognition guidance to apply. Instead, entities evaluate the form of the asset that is transferred (e.g., an equity method investment) to determine the appropriate derecognition guidance. Therefore, an entity accounts for a transfer of an investment in an unconsolidated entity that is *not* an ISNFA as a transfer of the investment (a financial asset), not a transfer of the underlying assets and liabilities held by the unconsolidated investee (which might include nonfinancial assets).[13] If an entity transfers an ownership interest in an unconsolidated investee (e.g., an equity method investment) that is not an ISNFA, it applies the scoping guidance in ASC 860 to determine if the transaction is in the scope of ASC 860 or other US GAAP.

The following table summarizes the accounting for the sale of an equity method investment in an entity that holds only land:

Scenario: An entity transfers its equity method investment to a counterparty that is not a customer. The investee is an entity that holds only land.
Selling entity accounts for the transfer of the unconsolidated equity interest (a financial asset).
Applicable guidance: ASC 860, because the entity does not evaluate the assets held by an equity method investee to determine the accounting.[14]

Selling entities will generally account for the sale of real estate that they controlled under ASC 610-20 (if the transaction is not in the scope of ASC 606), and they will generally account for the sale or transfer of an equity method investment or investment in a joint venture in real estate under ASC 860, if no other scope exceptions apply. In the example in the preceding table, the entity does not look through to the underlying assets and liabilities of the equity method investee even if the underlying assets are nonfinancial assets. This is the case even if the substance of the transaction is arguably the sale of real estate.

How we see it

Entities need to carefully evaluate which derecognition guidance applies to transactions that include the sale of a nonfinancial asset and a financial asset (e.g., an equity method investment).

The sale of an equity method investment would be in the scope of ASC 610-20 if it is sold with nonfinancial assets (i.e., as part of a group of assets) in a contract with a noncustomer and substantially all of the fair value of the group of assets is concentrated in nonfinancial assets (and the group of assets is not a business). In this case, the equity method investment is an ISNFA because it is transferred in a group of assets and substantially all of the fair value of the group of assets is concentrated in nonfinancial assets. See section 2.4.1 (and Illustration 2-3) for further details.

[13] See ASC 860-10-55-14.

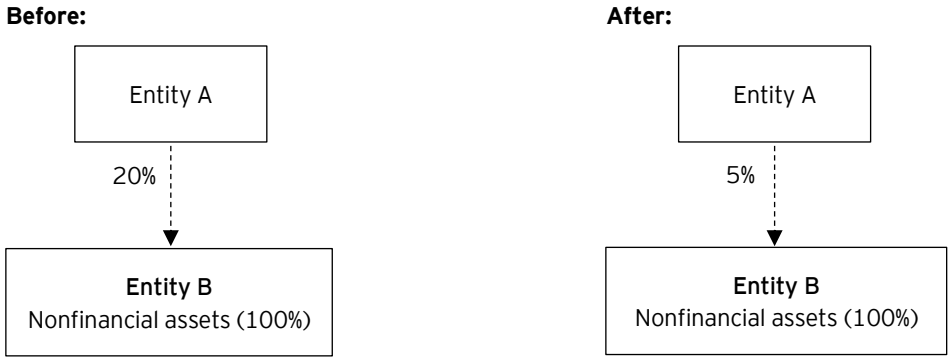
[14] An entity considers the underlying assets if it is evaluating a sale of a consolidated subsidiary. See ASC 610-20-15-5.

The following example illustrates a partial sale of an equity method investment in the scope of ASC 860.

Illustration 2-1: Partial sale of an equity method investment

Entity A has 20% of the voting common stock in Entity B. Entity A has significant influence over Entity B and applies the equity method in ASC 323 to account for its investment in Entity B. Entity B holds only nonfinancial assets (real estate property).

Entity A enters into a contract to sell its 15% interest in Entity B, retaining a 5% interest. The transaction is not with a customer, so it is not in the scope of ASC 606. In addition, Entity A did not have control of Entity B and did not lose control of a business (Entity B in this transaction); therefore, the transaction is not in the scope of ASC 810.



Analysis

Entity A concludes that the sale of a portion of its noncontrolling interest in Entity B is a transfer of a financial asset that is in the scope of ASC 860 and is excluded from the scope of ASC 610-20.[1] Entity A applies the guidance in ASC 860 to account for the transfer.

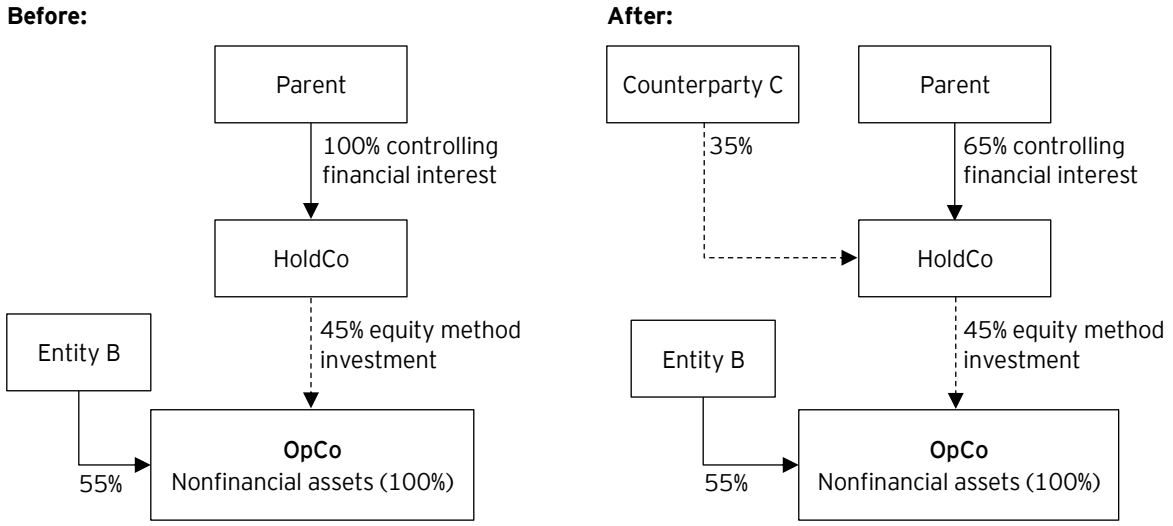
Note: Entity A does not evaluate the underlying assets of its equity method investee to determine the applicable derecognition guidance.

[1] See ASC 610-20-15-4(e).

The following example illustrates a similar transaction in which a sale is in the scope of ASC 860. In this example, however, the entity has a holding company subsidiary that has an equity method investment in an operating company that holds nonfinancial assets:

Illustration 2-2: Partial sale of a consolidated entity that holds an equity method investment

Parent owns a 100% controlling interest in HoldCo. HoldCo's only asset is an equity method investment in OpCo. OpCo holds only nonfinancial assets. Parent sells a 35% noncontrolling interest in HoldCo to Counterparty C. The transaction is not with a customer, so it is not in the scope of ASC 606. In addition, Parent did not lose control of a business; therefore, the transaction is not in the scope of ASC 810.



Analysis

Parent's controlling financial interest in HoldCo is evidence of control of HoldCo's individual assets and liabilities. However, HoldCo's sole asset is a single equity method investment (i.e., a single financial asset).

Parent evaluates the transfer and concludes that, in substance, it is transferring a financial asset in the scope of ASC 860. The transaction is not in the scope of ASC 610-20, even though all of the fair value of OpCo's assets is concentrated in nonfinancial assets. This is because Parent does not evaluate the underlying assets of OpCo since it only has a noncontrolling interest (equity method investment) in OpCo. This conclusion would not change even if the assets held by OpCo met the definition of a business because Parent does not control OpCo (i.e., it only has an equity method investment in OpCo). The transaction is not in the scope of ASC 810 because the substance of the transaction is addressed by other guidance (in this case, ASC 860).

Note: The analysis and resulting scoping determination for the transaction differ for the sale or transfer of controlling financial interests and noncontrolling financial interests. See section 2.6 for guidance on the sale or transfer of controlling interests.

This illustration is similar to Illustration 3-2; however, in that fact pattern, HoldCo had a controlling financial interest in OpCo prior to the transaction. That is an important distinction in assessing which standard applies to the transaction (i.e., ASC 610-20 is applied in that illustration).

2.4.1 When the transfer of financial assets is in the scope of ASC 610-20

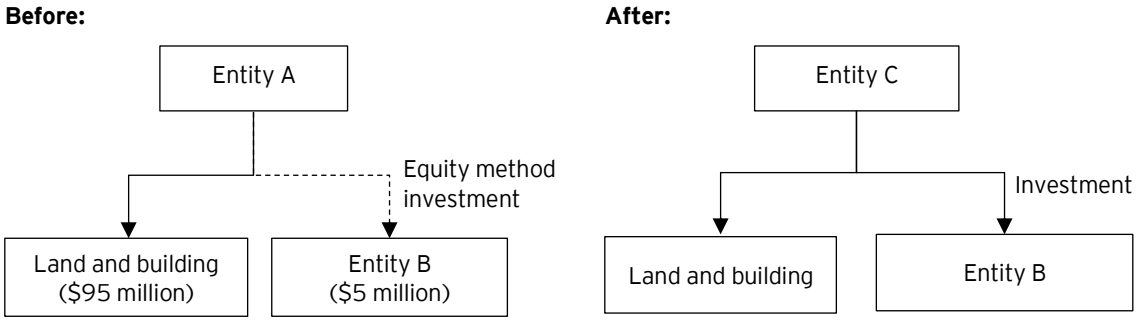
As mentioned above, the sale or transfer of equity investments (e.g., equity method investments) generally will be in the scope of ASC 860 and not in the scope of ASC 610-20, even if the underlying assets (i.e., the assets of the investee) are all nonfinancial assets. However, if an equity investment is determined to be an ISNFA, it is accounted for under ASC 610-20. A financial asset, including an equity investment, is an ISNFA if it is transferred in a contract along with nonfinancial assets and substantially all of the fair value of the group of assets is concentrated in nonfinancial assets.

Consider the following example:

Illustration 2-3: Transfer of an equity method investment that is an ISNFA in the scope of ASC 610-20

Entity A owns real estate property (land and building) with a fair value of $95 million. Entity A also has an equity method investment in Entity B, which has a fair value of $5 million.

Entity A enters into a contract to sell the real estate property and its equity method investment in Entity B to Entity C. The group of assets (i.e., the real estate property and the equity method investment) is not a business, and Entity C is not a customer of Entity A.



Analysis

Entity A evaluates all of the assets in the contract and determines that substantially all[1] of the fair value of the transferred group of assets (i.e., 95%)[2] is concentrated in nonfinancial assets. Therefore, the equity method investment in Entity B is an ISNFA in this contract. As a result, the sale of Entity A's equity method investment in Entity B and the real estate property are both in the scope of ASC 610-20.

[1] The term "substantially all" is not defined in ASC 610-20, and entities may need to apply judgment to determine what is considered "substantially all." See section 2.6 for further discussion.

[2] Calculated as $95 million of nonfinancial assets divided by $100 million of total assets.

When evaluating whether the transfer of an equity method investment is a transfer of an ISNFA and, therefore, is in the scope of ASC 610-20, an entity does not consider whether the assets underlying the equity method investee are nonfinancial assets or financial assets or whether the underlying operations meet the definition of a business because the nature of the entity's investment is a financial asset. That is, the outcome would be the same, regardless of whether the equity method investee held financial assets or nonfinancial assets or met the definition of a business because the evaluation does not consider the underlying assets of the interest. In Illustration 2-3, the equity method investment is an ISNFA because substantially all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets (i.e., the real estate property).

Although an entity does not look through to the underlying assets of an unconsolidated investee to determine the applicable derecognition guidance, it *does* consider whether the underlying assets held in a consolidated subsidiary are (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs. That is, in a sale or transfer of an ownership interest in one or more consolidated subsidiaries, an entity looks through to the underlying assets of the subsidiary that it controls to determine the applicable derecognition guidance for the transfer. In Illustration 2-3, if Entity A held the group of assets (i.e., the land, building and equity method investment in Entity B) in a consolidated subsidiary and sold the assets through the transfer of its ownership interest in the subsidiary, the scoping conclusion would be the same because Entity A would look through the consolidated subsidiary and evaluate the underlying assets held in the subsidiary. See section 2.6 for further details.

How we see it

Transfers of equity method investments generally will be in the scope of ASC 860, unless the equity method investment meets the definition of an ISNFA (i.e., when the equity method investment is transferred as part of a group of assets and substantially all of the fair value of the group of assets is concentrated in nonfinancial assets) or a scope exception to ASC 860 applies. When evaluating the applicable literature for derecognition, an entity evaluates the equity method investment itself (a financial asset) and any other assets included in the transaction that are not held in an equity method investment. The entity does not evaluate the assets underlying the equity method investment.

See our FRD, ***Transfers and servicing of financial assets***, for more information, including scope exceptions in ASC 860.

2.4.2 Acquisition, development and construction arrangements

Acquisition, development and construction (ADC) arrangements are defined in the Codification's Master Glossary as arrangements in which a lender, usually a financial institution, participates in expected residual profit from the sale or refinancing of property. ASC 310's guidance on receivables clarifies that when an acquisition, development or construction arrangement is accounted for as an investment in real estate or a joint venture and the expected residual profit is sold, the arrangement may be in the scope of ASC 860 or other guidance (e.g., ASC 360-10) depending on how the ADC arrangement is accounted for (i.e., as equity method investments or as investments in real estate).

Excerpt from Accounting Standards Codification

Receivables — Overall

Glossary

310-10-20

Acquisition, Development, and Construction Arrangements

Acquisition, development, or construction arrangements, in which a lender, usually a financial institution, participates in expected residual profit from the sale or refinancing of property.

Derecognition

Acquisition, Development and Construction Arrangements

310-10-40-2

This Subsection provides derecognition guidance related to the sale of a lender's interest in **expected residual profit**.

310-10-40-3

The lender's share of the expected residual profit in a project may be sold to the borrower or a third party for cash or other consideration. If the expected residual profit in an acquisition, development, and construction arrangement accounted for as a **loan** is sold, the proceeds from the sale shall be recognized prospectively as additional interest over the remaining term of the loan. The expected residual profit is considered additional compensation to the lender, and the sale results in a quantification of the profit.

310-10-40-4

If an acquisition, development, and construction arrangement is accounted for as an investment in real estate or joint venture and the expected residual profit is sold, the entity shall apply the guidance in Topic 860 on transfers and servicing.

310-10-40-5

If a financial institution was the seller of the property at the initiation of the project, the entity shall apply the guidance in paragraphs 360-10-40-3A through 40-3B. However, if the sale is part of a sale and leaseback transaction, gain recognition, if any, should be determined by reference to Subtopic 842-40.

2.5 Other scope exceptions

In addition to transactions with customers, sales of businesses and transactions that are in the scope of ASC 860, several other types of transactions are excluded from the scope of ASC 610-20, including:

- A sale and leaseback transaction that is in the scope of ASC 842-40 (see section 2.5.1)
- A lease that is in the scope of ASC 842
- A conveyance of oil and gas mineral rights that is in the scope of ASC 932-360
- A transfer of nonfinancial assets as consideration in a business combination
- A nonmonetary transaction that is in the scope of ASC 845 (e.g., a nonreciprocal transaction, a spin-off, an exchange of like-kind inventory for like-kind inventory) (see section 2.5.2)
- An exchange of takeoff and landing slots that is in the scope of ASC 908-350
- A contribution of cash and other assets or a promise to make such a contribution that is in the scope of ASC 720-25 or ASC 958-605
- A transfer of a nonfinancial asset to a venture that is accounted for using proportionate consolidation[15]
- A transfer of nonfinancial assets between entities under common control, such as a parent and its subsidiary or two subsidiaries of the same parent

2.5.1 Sale and leaseback transactions

Sale and leaseback transactions that are in the scope of ASC 842 are not in the scope of ASC 610-20.

How we see it

In many cases, applying ASC 842 to a sale and leaseback transaction will result in a similar outcome as applying ASC 610-20 to a sale of the same nonfinancial asset. However, some differences may exist because ASC 842 includes additional requirements for a sale and leaseback transaction to be considered a sale.

See section 7.2 of our FRD, ***Lease accounting: Accounting Standards Codification 842,* Leases**, for further details on determining whether the transfer of an asset is a sale.

[15] As discussed in paragraph BC64 of ASU 2017-05, "the Board noted that it would be inappropriate to remeasure a retained interest if the asset continued to be consolidated or was proportionately consolidated because the nature of the asset would be the same before and after the transaction."

2.5.2 Nonmonetary exchanges

A nonmonetary exchange in the scope of ASC 845 is not in the scope of ASC 610-20. However, ASC 845 excludes certain transactions from its scope, including:

- A transfer of nonmonetary assets solely between entities or persons under common control
- The transfer of goods or services in a contract with a customer in the scope of ASC 606 in exchange for noncash consideration
- The transfer of a nonfinancial asset in the scope of ASC 610-20 in exchange for noncash consideration

Excerpt from Accounting Standards Codification

Nonmonetary Transactions — Overall

Scope and Scope Exceptions

Entities

845-10-15-2

The guidance in the Nonmonetary Transactions Topic applies to all entities.

845-10-15-4

The guidance in the Nonmonetary Transactions Topic does not apply to the following transactions:

[...]

b. A transfer of nonmonetary assets solely between entities or persons under common control, such as between a parent and its **subsidiaries** or between two subsidiaries of the same parent, or between a **joint venture** or a **corporate joint venture** and its **owners** (see Subtopic 805-60 for accounting for transfers of nonmonetary assets upon formation of a joint venture) [...]

j. The transfer of goods or services in a **contract** with a **customer** within the scope of Topic 606 on **revenue** from contracts with customers in exchange for noncash consideration (see paragraphs 606-10-32-21 through 32-24)

k. The transfer of a nonfinancial asset within the scope of Subtopic 610-20 in exchange for noncash consideration (see paragraphs 610-20-32-2 through 32-3, which require measurement consistent with paragraphs 606-10-32-21 through 32-24).

The following table is adapted from ASC 845-10-55-2 and illustrates the scoping guidance for certain types of nonmonetary transactions:[16]

Asset given up	Investment accounted for by the equity method	A transfer of an equity method investment is accounted for under ASC 860, unless the investment is an ISNFA that is accounted for under ASC 610-20 (see section 2.4.1).
	Controlled asset or group of assets that does not meet the definition of a business	If the contract is with a customer and no scope exceptions apply in ASC 606, apply ASC 606. If the contract is not in the scope of ASC 606, evaluate whether the transaction is in the scope of ASC 610-20. If the contract is not in the scope of ASC 610-20, evaluate whether the transaction is in the scope of ASC 845. Otherwise, apply other US GAAP.

[16] The scoping guidance illustrated in this table applies to nonmonetary transactions when the asset received is (1) an investment accounted for by the equity method or (2) a controlled asset or group of assets that does not meet the definition of a business.

Despite the circular scoping references between ASC 845 and ASC 610-20, we expect many transactions will be in the scope of ASC 610-20 (or ASC 606) rather than ASC 845.[17] For example, sales of commercial properties (e.g., office buildings, hotels, manufacturing facilities) by non-real estate entities will generally be in the scope of ASC 610-20, if it is determined that the transactions are not in the scope of ASC 606. Exchanges between entities in the same line of business made to facilitate sales to customers or potential customers will generally be in the scope of ASC 845, if it is determined that the transactions are not in the scope of ASC 606. That is, entities in the same line of business would likely account for exchanges of finished goods for finished goods, or raw materials for raw materials, under ASC 845.

Transactions such as the transfer of a nonfinancial asset, including an ISNFA, to another entity in exchange for a noncontrolling interest in that entity are accounted for under ASC 610-20 when the counterparty is a noncustomer (unless another scope exception applies).[18] This scoping results in consistent measurement with ASC 606 because ASC 610-20 requires an entity to apply the measurement principles in ASC 606 to any consideration received (i.e., cash or noncash consideration) for the sale of a (1) nonfinancial asset or (2) a nonfinancial asset and an ISNFA. See section 4.1.3 for further details on the measurement of noncash consideration.

2.6 Contracts containing (1) nonfinancial assets or (2) nonfinancial assets and in substance nonfinancial assets (ISNFAs)

If none of the scope exceptions in ASC 610-20 apply to a contract that includes the sale or transfer of a nonfinancial asset, an entity evaluates whether all of the assets promised in the contract are in the scope of ASC 610-20 because they are either all (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs.

The term "transfer" in ASC 610-20 is used broadly and includes sales and situations in which a parent transfers ownership interests (or variable interests) in a consolidated subsidiary or other changes in facts and circumstances that result in the derecognition of nonfinancial assets or ISNFAs. An entity may lose control of nonfinancial assets or ISNFAs by contributing those assets to a joint venture or another noncontrolled investee.

Understanding the term "in substance nonfinancial asset" in ASC 610-20 is critical to determining the applicable guidance for a transaction that includes the sale or transfer of nonfinancial assets and financial assets.

As mentioned in section 2.1, an ISNFA is a financial asset that is promised to a counterparty in a contract in which substantially all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets.[19] Determining whether financial assets promised in a contract are ISNFAs is important because the guidance in ASC 610-20 says that all of the assets promised in a contract are in its scope if they are all (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs. The FASB decided that if the substance of a transaction is the transfer of nonfinancial assets, all of the assets would be in the scope of ASC 610-20, even if the transaction involves the transfer of both nonfinancial assets and financial assets (e.g., cash and receivables).[20] In these instances, the financial assets are derecognized following the guidance in ASC 610-20 rather than under other US GAAP.

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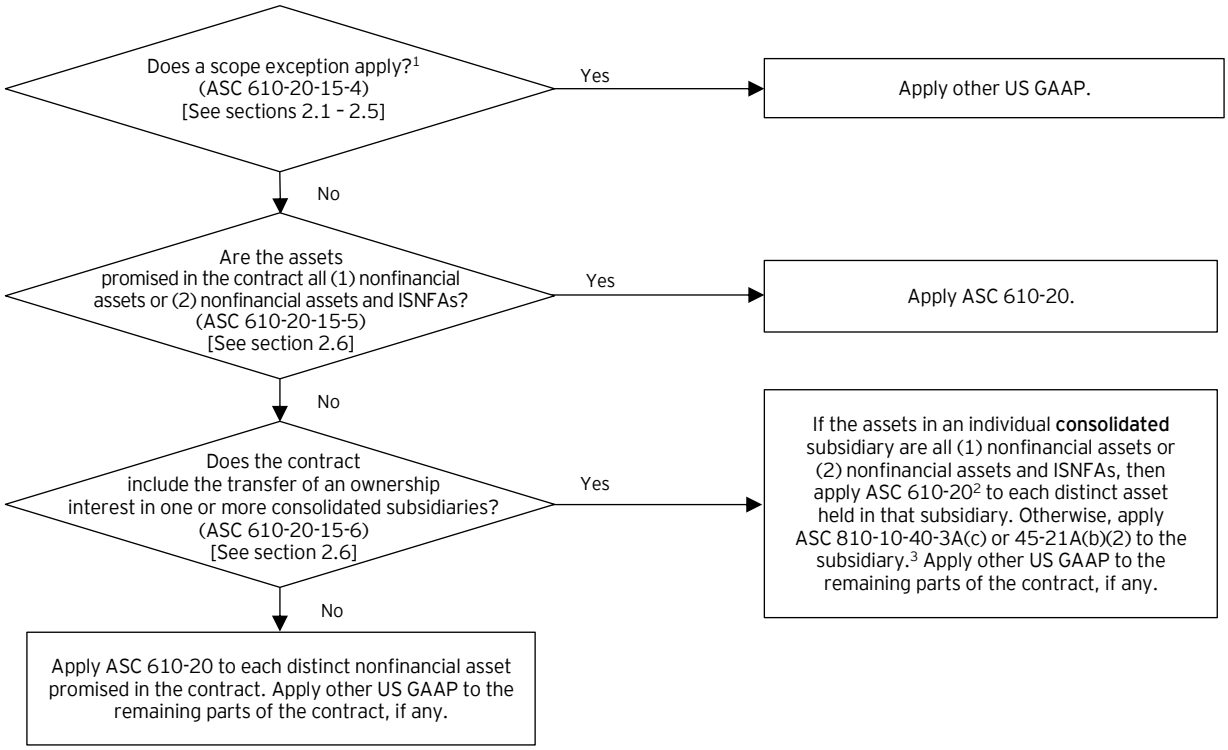
[17] Paragraphs BC49 and BC51 of ASU 2017-05.

[18] Paragraph BC50 of ASU 2017-05.

[19] ASC 610-20-15-5.

[20] Paragraph BC12 of ASU 2017-05.

The following decision tree, which is adapted from ASC 610-20-15-10 (and the decision tree in section 2.1), illustrates how to evaluate a contract that includes the sale or transfer of a nonfinancial asset, including when a nonfinancial asset is held in one or more consolidated subsidiaries:



[1] See section 2.1 for the complete decision tree.

[2] ASC 610-20 is applied to each distinct asset promised in the contract as discussed in section 3.2.2. If the contract includes terms or other contractual obligations that are not assets of the seller (e.g., guarantees), these aspects of the contract are separated and accounted for under other US GAAP. See section 2.7.

[3] Under the guidance in ASC 810, an entity first considers whether the substance of the transaction is directly addressed by other guidance (e.g., ASC 845, ASC 860, ASC 932). For example, if the transferred subsidiary holds only financial assets, the transaction may be in the scope of ASC 860.

If a transaction does not meet a scope exception in ASC 610-20 (see section 2.1), an entity begins its analysis by evaluating all of the assets it has promised to a counterparty in the entire contract in accordance with ASC 610-20-15-5 and 15-7. This analysis is performed for the following types of transactions:

- The transfer of an asset or a group of assets that is not held in an entity
- The transfer of ownership interests in one or more consolidated subsidiaries that is not a business
- The transfer of (1) ownership interests in one or more consolidated subsidiaries that is not a business and (2) an asset or a group of assets that is not held in an entity

Regardless of whether an entity transfers assets directly[21] or through one or more consolidated subsidiaries, it first must evaluate whether substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets as follows:

[21] By "transfers assets directly," we mean that the assets are not held in a legal entity.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Scope and Scope Exceptions

In Substance Nonfinancial Assets

610-20-15-5

An **in substance nonfinancial asset** is a financial asset (for example, a receivable) promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty in the contract are in substance nonfinancial assets. For purposes of this evaluation, when a contract includes the transfer of ownership interests in one or more consolidated **subsidiaries** that is not a business, an entity shall evaluate the underlying assets in those subsidiaries.

610-20-15-7

When determining whether substantially all of the fair value of the assets promised to a counterparty in a contract (or an individual consolidated subsidiary within a contract) is concentrated in nonfinancial assets, **cash** or **cash equivalents** promised to the counterparty shall be excluded. Also, any liabilities assumed or relieved by the counterparty shall not affect the determination of whether substantially all of the fair value of the assets transferred is concentrated in nonfinancial assets.

That is, if the contract is not with a customer and it is not a transfer of a business, and the entity transfers nonfinancial assets, whether held in a consolidated subsidiary or not and whether in combination with financial assets, the entity evaluates whether substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets.[22] If substantially all of the fair value of the assets in the contract is concentrated in nonfinancial assets, any financial assets are ISNFAs, and all of the assets transferred are in the scope of ASC 610-20.

Evaluating 'substantially all'

While the term "substantially all" is not defined in ASC 610-20, the FASB observed that "substantially all" is a higher threshold than "predominantly" and is well understood because it is used frequently throughout the Codification.[23] To evaluate this guidance, an entity should consider how it applies "substantially all" in its existing accounting policies in other areas of US GAAP (e.g., ASC 606, ASC 810, ASC 842). Entities will need to apply judgment to determine what is considered substantially all because the standard does not provide a bright line for making this assessment. For example, entities might consider leveraging the guidance in ASC 842-10-55-2 that describes how "substantially all the fair value of the underlying asset" could be evaluated in the context of lease classification. In that paragraph, the FASB states that "one reasonable approach" would be to conclude that "ninety percent or more of the fair value of the underlying asset amounts to substantially all the fair value of the underlying asset."

Although entities may quantitatively evaluate substantially all, the FASB noted that in some cases an entity may be able to qualitatively determine whether substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets. This is because entities are making this evaluation if the transaction is not a business, so the typical transaction under evaluation would not be expected to include a significant amount of financial assets.[24]

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[22] When making this evaluation, an entity does not look through to the underlying assets held by an unconsolidated investee in which the entity holds an equity investment to determine the derecognition guidance applicable to a transfer of the interest in the investee. See section 2.4 for further details.

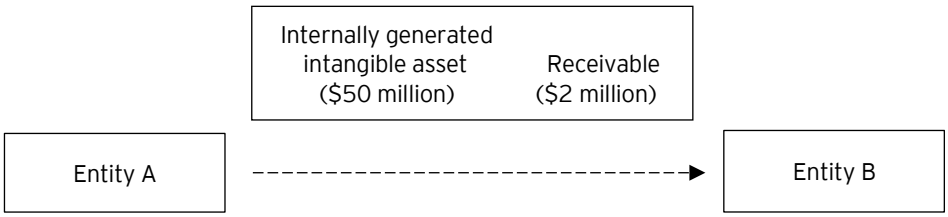
[23] Paragraph BC19 of ASU 2017-05.

[24] Paragraph BC15 of ASU 2017-05.

The analysis of whether substantially all of the fair value of the assets transferred is concentrated in nonfinancial assets requires consideration of the fair value of promised assets with a zero carrying value, including those that have not been recognized by the seller, such as in-process research and development, internally generated intangibles or off-market contracts. However, the analysis excludes cash or cash equivalents because the FASB did not want an entity to be able to achieve a particular accounting outcome simply by contributing cash to a counterparty and increasing the consideration it receives by the same amount.[25] The following example illustrates a transaction that includes a nonfinancial asset with a zero carrying value (i.e., assets that have not been recognized by the seller) and an ISNFA that is in the scope of ASC 610-20:

Illustration 2-4: Sale of an unrecognized asset and an ISNFA

Entity A sells an internally generated intangible asset (a nonfinancial asset with a zero carrying value) with a fair value of $50 million and a receivable (a financial asset) with a fair value of $2 million to Entity B. The group of assets is not a business, and Entity B is not Entity A's customer in this transaction because the assets are not outputs of Entity A's ordinary activities.



Analysis

Entity A concludes that substantially all of the fair value of the assets (i.e., 96%)[1] promised in the contract is concentrated in nonfinancial assets. That is, the receivable is an ISNFA. This is because Entity A evaluates the fair value of the assets included in the contract, including assets with a zero carrying value. The sale of all of the assets promised in the contract is in the scope of ASC 610-20.

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[2]

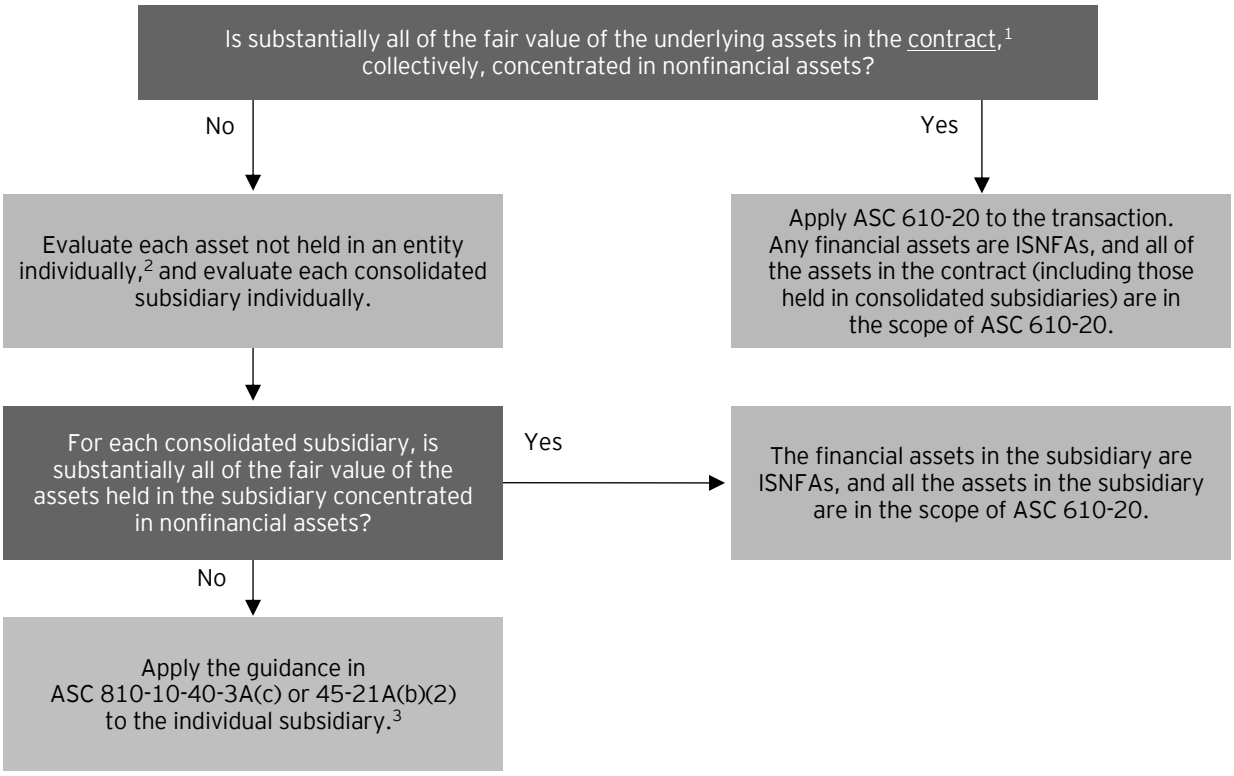
[1] Calculated as $50 million of nonfinancial assets divided by $52 million of total assets.
[2] See ASC 610-20-15-7.

In addition, the analysis excludes liabilities (both assumed and relieved by the counterparty) from the evaluation because the FASB focused on the nature of the assets that were transferred. That is, a counterparty's promise to assume or relieve a liability (e.g., a mortgage) of the selling entity does not affect the fair value assessment of the assets being transferred and, therefore, whether an asset is in the scope of ASC 610-20.[26]

[25] Paragraph BC17 of ASU 2017-05.
[26] Paragraph BC34 of ASU 2017-05.

Evaluating 'substantially all' guidance decision tree

The following decision tree expands upon the decision tree above and illustrates how an entity applies the "substantially all" guidance in ASC 610-20-15-5 through 15-8 to a contract:



[1] To make this assessment, an entity looks through any consolidated subsidiaries and evaluates the underlying assets of the subsidiaries. An entity does not look through the investment and evaluate the underlying assets for any investees for which it does not have a controlling financial interest.

[2] Individual assets sold that are not held in a subsidiary are evaluated using the applicable guidance based on the type of asset (e.g., nonfinancial assets are generally in the scope of ASC 610-20, financial assets are evaluated under ASC 860). Apply the guidance in ASC 606 to determine how to separate and initially measure one or more parts of a contract that are in the scope of other guidance. See section 2.7 for further details.

[3] Under the guidance in ASC 810, an entity first considers whether the substance of the transaction is directly addressed by other guidance (e.g., ASC 845, ASC 860, ASC 932). For example, if the transferred subsidiary holds only financial assets, the transaction may be in the scope of ASC 860.

Applying the 'substantially all' threshold at the contract level

Under ASC 610-20, an entity first evaluates whether substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the entire contract, collectively, is concentrated in nonfinancial assets. When a contract includes the transfer of an ownership interest in one or more consolidated subsidiaries, an entity looks through any consolidated subsidiaries to the underlying assets of those subsidiaries to make this assessment.

If *substantially all* of the fair value of the assets promised to a counterparty in a contract is concentrated in nonfinancial assets, the financial assets that are promised are ISNFAs, and each asset in the contract is in the scope of ASC 610-20. The result under this guidance is that an entity is not required to separately account for the financial assets in accordance with ASC 860,[27] and the entity applies the derecognition model in ASC 610-20 to the sale or transfer of the assets or group of assets.

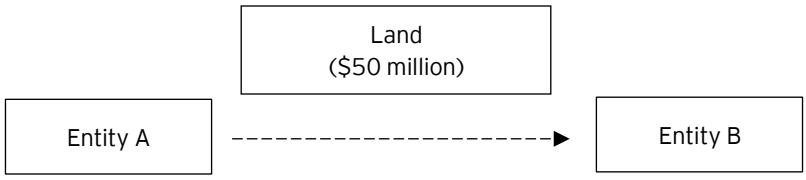
If *substantially all* of the fair value of all of the assets promised in the contract, collectively, is *not* concentrated in nonfinancial assets, an entity evaluates assets that are not held in a subsidiary using the applicable guidance based on the type of asset (e.g., nonfinancial assets are generally in the scope of ASC 610-20, financial assets are evaluated under ASC 860). In addition, an entity evaluates each consolidated subsidiary individually to determine whether substantially all of the fair value of the assets held in each individual consolidated subsidiary is concentrated in nonfinancial assets (see below for further details).

Transactions involving the sale of an asset or group of assets not held in an entity

As described above, when a contract involves the direct sale[28] of an asset or group of assets, an entity first evaluates whether substantially all of the fair value of the assets in the contract, collectively, is concentrated in nonfinancial assets. This analysis is generally straightforward for transactions that include solely nonfinancial assets (e.g., real estate, intangible assets). Entities may need to apply judgment if the contract also includes the transfer of financial assets. The following example illustrates a transaction that includes solely nonfinancial assets that is in the scope of ASC 610-20:

Illustration 2-5: Sale of a nonfinancial asset

Entity A sells land (a nonfinancial asset) with a fair value of $50 million to Entity B. The land is not a business, and Entity B is not Entity A's customer in this transaction because the land is not an output of Entity A's ordinary activities.



Analysis

The sale of land is in the scope of ASC 610-20 because Entity A is transferring a nonfinancial asset, and none of the scope exceptions in ASC 610-20 apply.

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[1]

[1] See ASC 610-20-15-7.

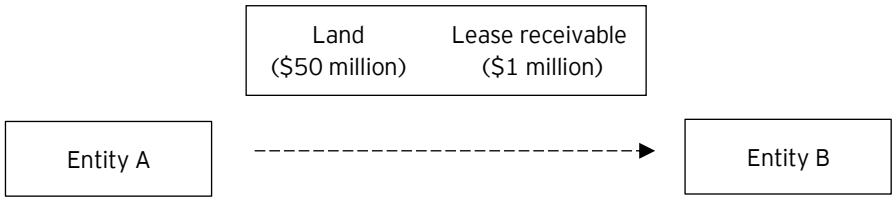
[27] Paragraph BC14 of ASU 2017-05.

[28] By "direct sale," we mean that the assets or group of assets are not held in a legal entity.

The following example illustrates a transaction that includes nonfinancial assets and ISNFAs that are in the scope of ASC 610-20:

Illustration 2-6: Sale of a nonfinancial asset and an ISNFA

Entity A sells land (a nonfinancial asset) with a fair value of $50 million and a lease receivable (a financial asset) with a fair value of $1 million to Entity B. The group of assets is not a business, and Entity B is not Entity A's customer in this transaction because the assets are not outputs of Entity A's ordinary activities.



Analysis

Entity A concludes that substantially all of the fair value of the assets (i.e., 98%)[1] promised in the contract is concentrated in nonfinancial assets. That is, the lease receivable is an ISNFA. The sale of all of the assets promised in the contract is in the scope of ASC 610-20.

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[2]

[1] Calculated as $50 million of nonfinancial assets divided by $51 million of total assets.

[2] See ASC 610-20-15-7.

In Illustrations 2-5 and 2-6, the transactions illustrate the transfer of (1) a nonfinancial asset and (2) a nonfinancial asset and an ISNFA, respectively, and are in the scope of ASC 610-20. Illustrations 2-7 and 2-8 illustrate how the scoping conclusion would be the same when (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs are transferred through the sale of ownership interests in one or more consolidated subsidiaries that hold the assets. This is because the evaluation is first performed at the contract level without consideration of the legal form of transfer (i.e., whether sold directly[29] or through one or more consolidated entities).

When an entity evaluates the direct transfer of an asset or a group of assets and concludes that substantially all of the fair value of the assets in the contract is *not* concentrated in nonfinancial assets, the contract may be partially in the scope of ASC 610-20 (i.e., for the nonfinancial assets) and partially in the scope of other guidance (e.g., ASC 860 for the financial assets). An entity applies the guidance in ASC 606-10-15-4 to determine how to separate and initially measure one or more parts of a contract that are in the scope of other guidance. See section 2.7 for further details.

Transactions involving the sale of an ownership interest in one or more subsidiaries

When a contract involves the transfer of an ownership interest in one or more consolidated subsidiaries that is not a business, an entity first evaluates whether substantially all of the fair value of the assets in the contract, collectively, is concentrated in nonfinancial assets. To make this assessment, an entity looks through any consolidated subsidiaries to the underlying assets of the subsidiaries. Consistent with the discussion above, if substantially all of the fair value of the assets, *collectively*, in the contract is concentrated in nonfinancial assets, the financial assets are ISNFAs, and all the assets in the contract (including the assets in the subsidiaries) are in the scope of ASC 610-20.

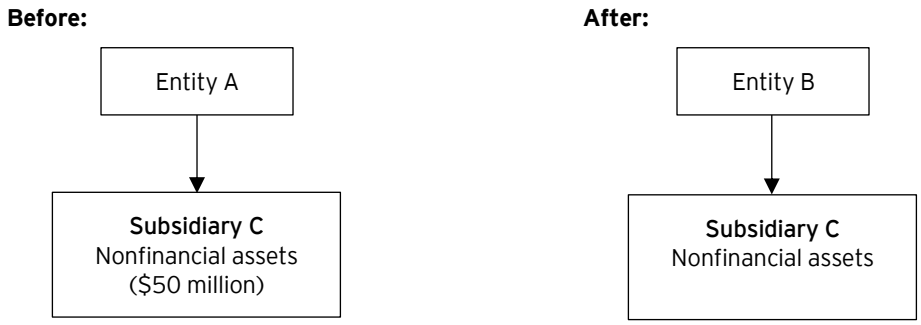
[29] By "sold directly," we mean that the assets are not held in a legal entity.

The Board decided[30] that the accounting for the derecognition of nonfinancial assets generally should be the same whether the assets are transferred in the form of assets or a legal entity. This is because the substance of a transaction in which a parent loses control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary (that is not a business) is the same as directly transferring[31] the underlying assets. In Illustrations 2-5 and 2-6, if Entity A entered into the contract to sell the nonfinancial assets and financial assets through one or more consolidated subsidiaries, the scoping conclusion would have been the same because the substance of the transaction is the same. Consider the following illustration:

Illustration 2-7: Transfer of ownership interest in a consolidated subsidiary

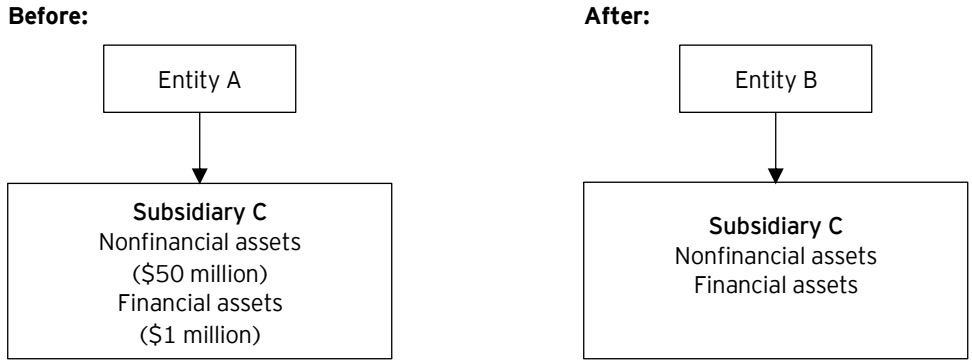
Example 1

Entity A sells its 100% ownership interest in Subsidiary C to Entity B. Subsidiary C holds nonfinancial assets[1] with a fair value of $50 million. Subsidiary C is not a business, and Entity B is not Entity A's customer in this transaction.



Example 2

Entity A sells its 100% ownership interest in Subsidiary C to Entity B. Subsidiary C holds nonfinancial assets[1] with a fair value of $50 million and financial assets with a fair value of $1 million. Subsidiary C is not a business, and Entity B is not Entity A's customer in this transaction.



Analysis

In Example 1, Entity A concludes that the sale of Subsidiary C is in the scope of ASC 610-20 because all assets held by Subsidiary C are nonfinancial assets.

In Example 2, Entity A determines that substantially all of the fair value of the assets (i.e., 98%)[2] is concentrated in nonfinancial assets (i.e., the financial assets are ISNFAs). Therefore, the sale of Subsidiary C is in the scope of ASC 610-20.

[30] Paragraph BC11 of ASU 2017-05.

[31] By "directly transferring," we mean that the assets are not held in a legal entity.

Note: In Examples 1 and 2, Entity A evaluates the underlying assets held by Subsidiary C because the subsidiary was consolidated by Entity A before the transaction with Entity B. If the assets were held by an investee that was not controlled and consolidated by Entity A (e.g., by an investee in which Entity A held an equity method investment), Entity A would not evaluate the underlying assets held by the investee, and ASC 860 may apply (see section 2.4 for further guidance).

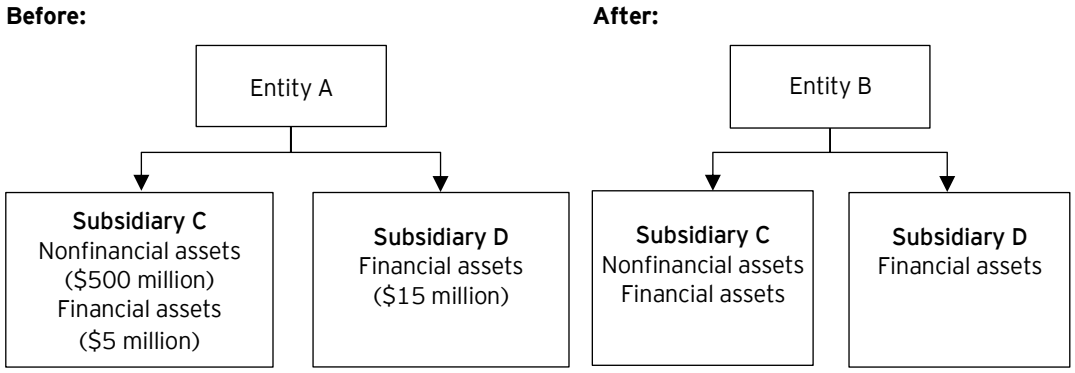
In addition, the ASC 610-20 scoping assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[3]

[1] These nonfinancial assets are not subject to a scope exception in ASC 610-20.
[2] Calculated as $50 million of nonfinancial assets divided by $51 million of total assets.
[3] See ASC 610-20-15-7.

The following example illustrates a similar transaction in which substantially all of the underlying assets in the contract are determined to be nonfinancial assets and ISNFAs. In this example, however, the entity transfers an ownership interest in more than one consolidated subsidiary:

Illustration 2-8: Transfer of ownership interests in two consolidated subsidiaries

Entity A sells its 100% ownership interests in Subsidiary C and Subsidiary D to Entity B. Subsidiary C holds nonfinancial assets[1] with a fair value of $500 million and financial assets with a fair value of $5 million. Subsidiary D holds financial assets with a fair value of $15 million. Subsidiary C and Subsidiary D together are not a business, and Entity B is not Entity A's customer in this transaction.



Analysis

Entity A first evaluates all of the underlying assets in the contract.[2] Entity A determines that substantially all of the fair value of the underlying assets (i.e., 96%)[3] is concentrated in nonfinancial assets. Therefore, the financial assets in Subsidiary C and Subsidiary D are ISNFAs. The sale of Entity A's ownership interests in Subsidiary C and Subsidiary D is in the scope of ASC 610-20. Note that the assessment is first made at the contract level. That is, it is irrelevant that all of the assets in Subsidiary D are financial assets because Entity A determines that the entire contract is in the scope of ASC 610-20.

Illustration 2-10 provides the accounting analysis for the transaction in this illustration when all of the financial assets are not ISNFAs.

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[4]

[1] These nonfinancial assets are not subject to a scope exception in ASC 610-20.
[2] Following the guidance in ASC 610-20-15-5, the entity evaluates the underlying assets held by its consolidated subsidiaries.
[3] Calculated as $500 million of nonfinancial assets divided by $520 million of total assets.
[4] See ASC 610-20-15-7.

As shown in the illustrations above, Entity A first evaluates whether substantially all of the fair value of the assets in the contract, collectively, is concentrated in nonfinancial assets. Because this is the case, the transfer of the ownership interests in the previously controlled subsidiaries is in the scope of ASC 610-20.

If a transaction involves the sale or transfer of an ownership interest in one or more consolidated subsidiaries, and substantially all of the fair value of the assets promised to a counterparty in the contract is *not* concentrated in nonfinancial assets, an entity applies the following guidance:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Scope and Scope Exceptions

In Substance Nonfinancial Assets

610-20-15-6

When a contract includes the transfer of ownership interests in one or more consolidated subsidiaries that is not a business, and substantially all of the fair value of the assets promised to a counterparty in the contract is not concentrated in nonfinancial assets, an entity shall evaluate whether substantially all of the fair value of the assets promised to the counterparty in an individual subsidiary within the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets in an individual subsidiary is concentrated in nonfinancial assets, then the financial assets in that subsidiary are in substance nonfinancial assets. (See Case C of Example 1 in paragraphs 610-20-55-9 through 55-10.)

610-20-15-8

If all of the assets promised to a counterparty in an individual consolidated subsidiary within a contract are not nonfinancial assets and/or in substance nonfinancial assets, an entity shall apply the guidance in paragraph 810-10-40-3A(c) or 810-10-45-21A(b)(2) to determine the guidance applicable to that subsidiary.

To apply the guidance in ASC 610-20-15-6 when a contract involves the transfer of an ownership interest in one or more consolidated subsidiaries that is not a business, and substantially all of the fair value of the assets, collectively, in the contract is not concentrated in nonfinancial assets, an entity evaluates each consolidated subsidiary *individually*. This is to determine whether substantially all of the fair value of the assets held in an individual consolidated subsidiary is concentrated in nonfinancial assets. If this is the case, the financial assets in that subsidiary are ISNFAs and all the assets in that subsidiary are in the scope of ASC 610-20.

However, if substantially all of the fair value of the assets held in an individual consolidated subsidiary is not concentrated in nonfinancial assets, the transfer of the subsidiary is not in the scope of ASC 610-20, and the entity applies the guidance in ASC 810-10-40-3A(c) or 45-21A(b)(2). This guidance has an entity consider whether other guidance (e.g., ASC 845, ASC 860, ASC 932) addresses the substance of the transaction before applying ASC 810 to the derecognition or decrease in ownership interest of a subsidiary that is not a business, as follows:

Excerpt from Accounting Standards Codification

Consolidation — Overall

Derecognition

Deconsolidation of a Subsidiary or Derecognition of a Group of Assets

810-10-40-3A

The deconsolidation and derecognition guidance in this Section applies to the following:

[...]

c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:

   1. Topic 606 on **revenue** from contracts with customers
   2. Topic 845 on exchanges of nonmonetary assets
   3. Topic 860 on transferring and servicing financial assets
   4. Topic 932 on conveyances of mineral rights and related transactions
   5. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.

Other Presentation Matters

Changes in a Parent's Ownership Interest in a Subsidiary

810-10-45-21A

The guidance in paragraphs 810-10-45-22 through 45-24 applies to the following:

[...]

b. Transactions that result in a decrease in ownership of either of the following while the parent retains a controlling financial interest in the subsidiary [...]

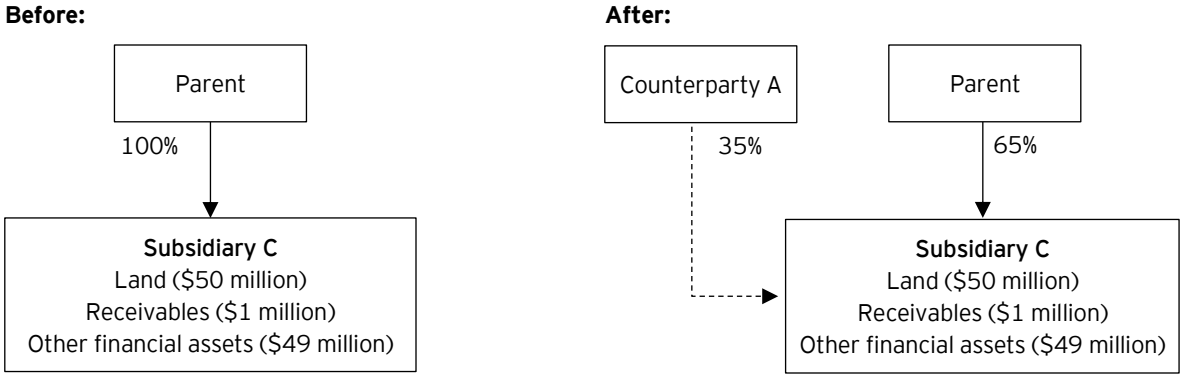
   2. A subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:

      i. Topic 606 on revenue from contracts with customers
      ii. Topic 845 on exchanges of nonmonetary assets
      iii. Topic 860 on transferring and servicing financial assets
      iv. Topic 932 on conveyances of mineral rights and related transactions
      v. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.

The following example illustrates how to apply the scoping guidance to a transaction in which a parent sells a noncontrolling interest in an entity that is not a business and the substance of the transaction is not addressed by other guidance:

Illustration 2-9: Partial sale of a consolidated entity that is not a business

Parent owns a 100% controlling interest in Subsidiary C. Subsidiary C holds land, receivables and other financial assets with fair values of $50 million, $1 million and $49 million, respectively. Subsidiary C is not a business, and Counterparty A is not Parent's customer in this transaction. Parent sells a 35% noncontrolling interest in Subsidiary C to Counterparty A.



Analysis

Because Counterparty A is not Parent's customer, the transaction is not in the scope of ASC 606. Parent did not sell a noncontrolling interest in a business; therefore, the transaction is not in the scope of ASC 810-10-45-21A(b)(1). Parent determines that substantially all of the fair value of the assets promised in the contract and Subsidiary C is not concentrated in nonfinancial assets (i.e., only 50%[1] are nonfinancial assets). As a result, the transaction is not in the scope of ASC 610-20.

The sale of the noncontrolling interest in Subsidiary C is in the scope of ASC 810-10-45-21A(b)(2) unless other guidance addresses the substance of the transaction. In this transaction, Parent concludes that no other literature addresses the substance of the transaction. Therefore, the sale of the noncontrolling interest in Subsidiary C would be in the scope of ASC 810-10-45-21A(b)(2). That is, Parent would not separate the nonfinancial assets from the financial assets but would instead account for the sale of the noncontrolling interest in Subsidiary C as one unit of account in the scope of ASC 810 as an equity transaction. See section 18 of our FRD, ***Consolidation***.

Note: This transaction would be in the scope of ASC 810-10-40-3A(c) if the parent lost control of Subsidiary C and the accounting would differ. See section 19 of our FRD, ***Consolidation***.

[1] Calculated as $50 million of nonfinancial assets divided by $100 million of total assets.

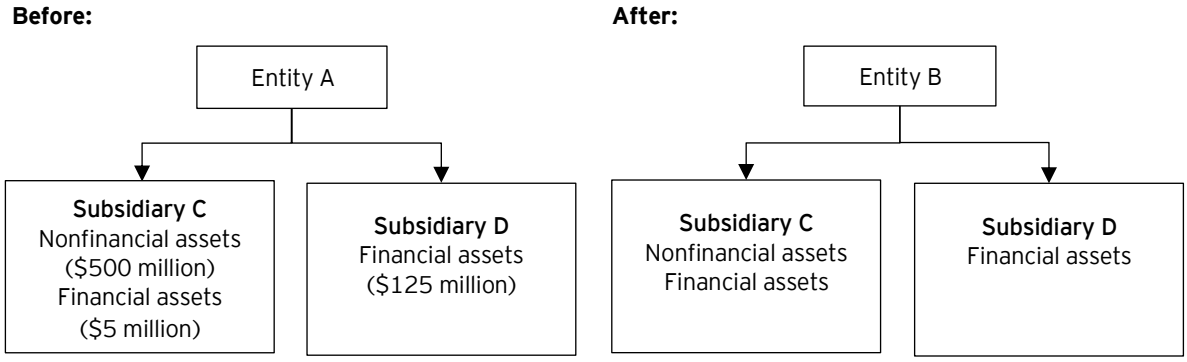
In Illustration 2-8, if substantially all of the fair value of assets promised in the contract was not concentrated in nonfinancial assets, Entity A would perform the same assessment for each subsidiary as follows:

Illustration 2-10: Transfer of ownership interests in two consolidated subsidiaries

Assume the same facts as in Illustration 2-8, except the value of the financial assets in Subsidiary D is higher in this illustration, so the financial assets in Subsidiary D are not ISNFAs.

Entity A sells its 100% ownership interests in Subsidiary C and Subsidiary D to Entity B. Subsidiary C and Subsidiary D together are not a business, and Entity B is not Entity A's customer in this transaction.

Subsidiary C holds nonfinancial assets[1] with a fair value of $500 million and financial assets with a fair value of $5 million. Subsidiary D holds financial assets with a fair value of $125 million.



Analysis

Entity A first evaluates all of the underlying assets in the contract.[2] Entity A determines that substantially all of the fair value of the assets in the contract is not concentrated in nonfinancial assets (approximately 79%[3] of the fair value of the assets is concentrated in nonfinancial assets). Therefore, Entity A evaluates each individual consolidated subsidiary separately.

Entity A determines that substantially all of the fair value of the assets in Subsidiary C (i.e., 99%)[4] is concentrated in nonfinancial assets. Therefore, the financial assets in Subsidiary C are ISNFAs, and the sale of Entity A's ownership interest in Subsidiary C is in the scope of ASC 610-20.

Subsidiary D holds only financial assets (i.e., the financial assets are *not* ISNFAs because substantially all of the fair value of the assets in Subsidiary D is not concentrated in nonfinancial assets). As a result, the sale of Entity A's ownership interest in Subsidiary D (and the assets held by Subsidiary D) is evaluated first under ASC 810-10-40-3A(c). Under ASC 810-10-40-3A(c), entities determine whether other guidance addresses the substance of the transaction before deconsolidating a subsidiary that is not a business under ASC 810. In this fact pattern, the sale of Subsidiary D is accounted for under ASC 860 because the substance of the transaction is the sale of financial assets, since Subsidiary D only holds financial assets (assuming no scope exceptions in ASC 860 are met).

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.[5]

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1 These nonfinancial assets are not subject to a scope exception in ASC 610-20.

2 Following the guidance in ASC 610-20-15-5, the entity evaluates the underlying assets held by its consolidated subsidiaries.

3 Calculated as $500 million of nonfinancial assets divided by $630 million of total assets.

4 Calculated as $500 million of nonfinancial assets divided by $505 million of total assets.

5 See ASC 610-20-15-7.

The FASB concluded[32] that subsidiaries that do not hold solely (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs are in the scope of ASC 810 unless the substance of the transaction is addressed by other guidance (e.g., ASC 845, ASC 860, ASC 932). Although a contract may be partially in the scope of ASC 610-20 and partially in the scope of other guidance (e.g., in Illustration 2-10, the sale of Subsidiary C is in the scope of ASC 610-20 and the sale of Subsidiary D is in the scope of other guidance), the Board decided[33] that an entity should not separate the assets transferred in an individual subsidiary and apply different derecognition models to the underlying assets.

That is, if the entire contract is not in the scope of ASC 610-20, and all of the assets promised in an individual consolidated subsidiary are not (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs, none of the assets in that subsidiary should be derecognized under ASC 610-20. An entity considers ASC 810-10-40-3A(c) or 45-21A(b)(2) to determine which guidance applies to the subsidiary. Under the guidance in ASC 810, an entity first considers whether the substance of the transaction is directly addressed by other guidance (e.g., ASC 845, ASC 860, ASC 932).

If no other guidance directly addresses the substance of the transaction, the entity follows the guidance in ASC 810 for the derecognition or decrease in ownership interest of a subsidiary that is not a business. For example, if an entity transfers an equity interest in a consolidated subsidiary, the subsidiary holds financial assets (that are not ISNFAs) and nonfinancial assets and the substance of the transaction is not addressed by other guidance, the entity derecognizes or accounts for the decrease in ownership interest of the subsidiary in accordance with ASC 810. See sections 18 and 19 of our FRD, ***Consolidation***, for more information on the scope of and accounting under ASC 810.

How we see it

The FASB created the concept of ISNFAs to make sure that contracts would be accounted for under a single derecognition model in ASC 610-20 if the substance of the transaction was a sale or transfer of nonfinancial assets that does not meet any scope exceptions. The standard requires entities to evaluate all of the underlying assets promised in the contract, collectively, regardless of whether they are held in one or more consolidated subsidiaries or outside of a legal entity.

If the "substantially all" threshold is not met when evaluating the underlying assets in the contract, collectively, entities are required to evaluate each consolidated subsidiary to determine whether the derecognition of an individual subsidiary is accounted for under ASC 610-20. This is important because the selling entity applies the same derecognition guidance to the nonfinancial assets and the financial assets within an individual consolidated subsidiary (e.g., ASC 610-20, if the threshold is met). This simplifies the analysis.

Because the guidance focuses on evaluating individual subsidiaries, it heightens the importance of understanding the legal form of the transaction to determine the appropriate accounting.

An entity should not separate the assets transferred in an individual consolidated subsidiary in a contract and apply different derecognition models to the assets. However, the entity may still have to apply the guidance in ASC 610-20-15-9 to determine how to separate and initially measure the parts of the contract that are in the scope of ASC 610-20 (e.g., individual nonfinancial assets not held in a subsidiary, a subsidiary that holds only nonfinancial assets) from those that are not in the scope of ASC 610-20 (e.g., a subsidiary that holds nonfinancial assets and financial assets that are *not* ISNFAs). See section 2.7 for further discussion.

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[32] Paragraphs BC26 through BC29 of ASU 2017-05.

[33] Paragraph BC26 of ASU 2017-05.

2.6.1 Accounting for the sale of real estate

An entity will account for the sale of real estate (or other nonfinancial assets) in a transaction that is with a customer under ASC 606 (section 2.2) and in a transaction that is not with a customer and that is a business under ASC 810 (section 2.3). An entity will generally account for the sale of an equity method investment or investment in a joint venture in real estate under ASC 860 (section 2.4). A sale of real estate will be in the scope of ASC 610-20 if one of these scope exceptions does not apply and the real estate is transferred directly[34] or in one or more consolidated subsidiaries in a contract where substantially all of the fair value of the assets transferred is concentrated in nonfinancial assets (e.g., real estate).

2.7 Contracts partially in the scope of other guidance

When a transferred group of assets isn't in a contract with a customer and isn't a business and includes more than just nonfinancial assets and ISNFAs, the contract may be partially in the scope of ASC 610-20 and partially in the scope of other guidance (e.g., ASC 460 for guarantees).

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Scope and Scope Exceptions

Contracts Partially within the Scope of Other Topics

610-20-15-9

If the promises to a counterparty in a contract are not all nonfinancial assets or all nonfinancial assets and in substance nonfinancial assets, a contract may be partially within the scope of this Subtopic and partially within the scope of other Topics. For example, in addition to transferring nonfinancial assets and in substance nonfinancial assets that are within the scope of this Subtopic, an entity may issue a guarantee to the counterparty that is within the scope of Topic 460 on guarantees. An entity shall apply the guidance in paragraph 606-10-15-4 to determine how to separate and measure one or more parts of a contract that are within the scope of other Topics. (See also Case A of Example 1 in paragraphs 610-20-55-2 through 55-5 and Case C of Example 1 in paragraphs 610-20-55-9 through 55-10.)

An entity will apply the guidance in ASC 606-10-15-4 to determine how to separate and initially measure one or more parts of a contract that are in the scope of other guidance, as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Scope and Scope Exceptions

Transactions

606-10-15-4

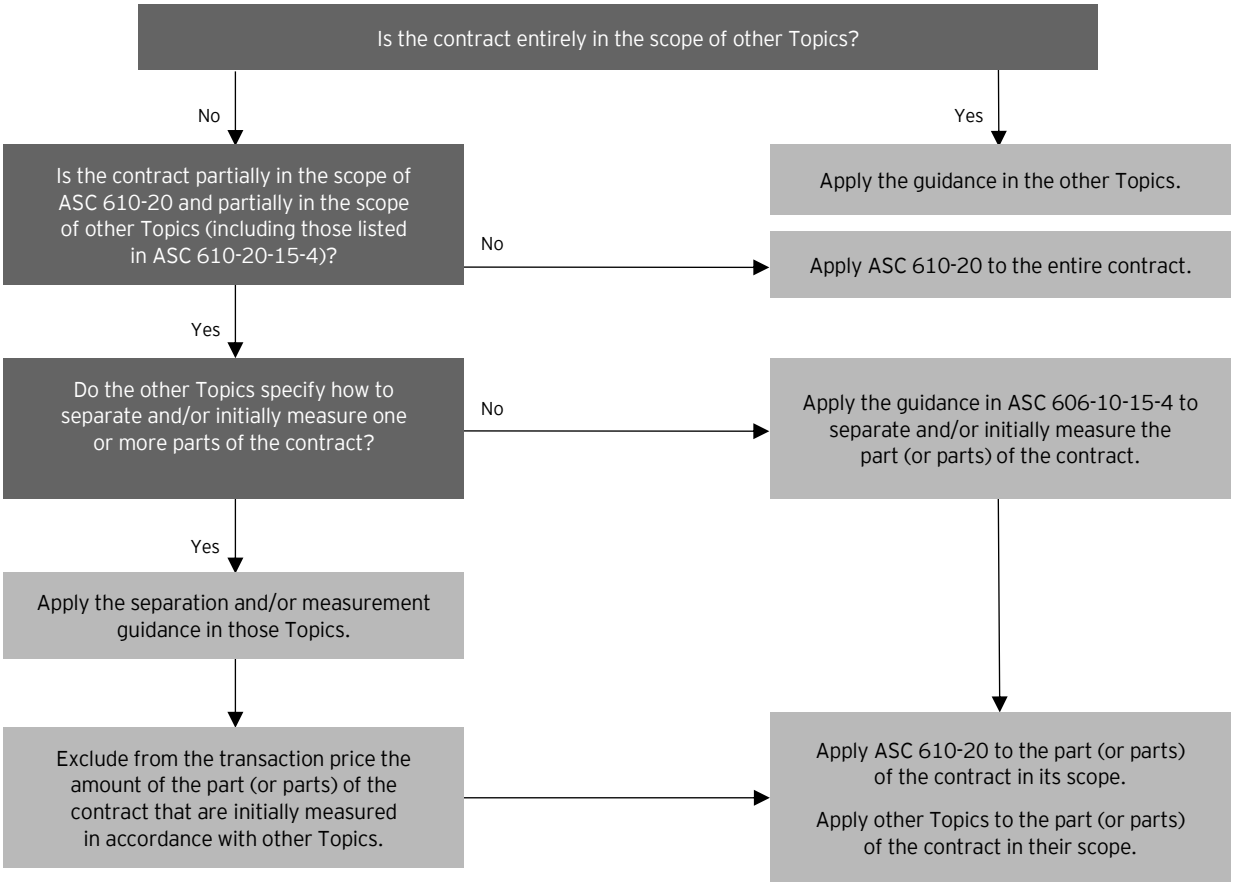
A contract with a customer may be partially within the scope of this Topic and partially within the scope of other Topics listed in paragraph 606-10-15-2.

a. If the other Topics specify how to separate and/or initially measure one or more parts of the contract, then an entity shall first apply the separation and/or measurement guidance in those Topics. An entity shall exclude from the **transaction price** the amount of the part (or parts) of the contract that are initially measured in accordance with other Topics and shall apply paragraphs 606-10-32-28 through 32-41 to allocate the amount of the transaction price that remains (if any) to each **performance obligation** within the scope of this Topic and to any other parts of the contract identified by paragraph 606-10-15-4(b).

[34] By "transferred directly," we mean that the real estate is not held in a legal entity.

b. If the other Topics do not specify how to separate and/or initially measure one or more parts of the contract, then the entity shall apply the guidance in this Topic to separate and/or initially measure the part (or parts) of the contract.

The following flowchart illustrates this guidance as it pertains to ASC 610-20:



Entities may need to apply the guidance in ASC 606-10-15-4 to separate parts of a contract for the following reasons:

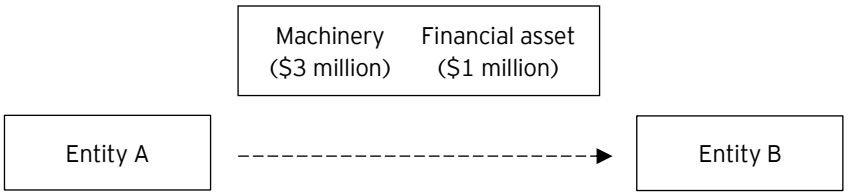
- To separate assets that are in the scope of ASC 610-20 from those that are outside of the scope
- To separate the transfer or sale of ownership interests in consolidated subsidiaries that are in the scope of ASC 610-20 from those that are outside the scope
- To separate terms or other contractual obligations that are not assets of the seller (e.g., guarantees)

Consider an entity that enters into a contract to sell financial assets and nonfinancial assets and substantially all of the fair value of the assets promised in the contract is not concentrated in nonfinancial assets and not in a subsidiary. The nonfinancial assets would be derecognized in accordance with ASC 610-20, but the financial assets would be derecognized in accordance with other US GAAP (e.g., ASC 860) because they are not ISNFAs. In this case, the entity may need to apply ASC 606 to separate the financial assets from the nonfinancial assets and measure the consideration to allocate to each asset for derecognition purposes, if other US GAAP does not specify how to do this.

The following example illustrates how an entity evaluates a transaction that includes the transfer of a nonfinancial asset and a financial asset that is partially in the scope of ASC 610-20 and partially in the scope of ASC 860:

Illustration 2-11: Contract to transfer nonfinancial and financial assets partially in the scope of ASC 610-20

Entity A enters into a contract to sell machinery (a nonfinancial asset) with a fair value of $3 million and a financial asset with a fair value of $1 million to Entity B. The group of assets is not a business, and Entity B is not Entity A's customer in this transaction because the assets are not outputs of Entity A's ordinary activities.



Analysis

Entity A concludes that substantially all of the fair value of the assets promised in the contract is not concentrated in nonfinancial assets (approximately 75%[1] of the value of the assets is concentrated in nonfinancial assets). Therefore, the financial asset in the contract is not an ISNFA. Entity A concludes that the machinery should be accounted for under ASC 610-20, and the financial asset should be accounted for under other US GAAP (e.g., ASC 860). Entity A applies the guidance in ASC 606-10-15-4[2] to determine how to separate and initially measure the consideration received for the machinery and the financial asset.

Note: This analysis doesn't illustrate how to measure and allocate the transaction price to the separate assets under ASC 606-10-15-4.

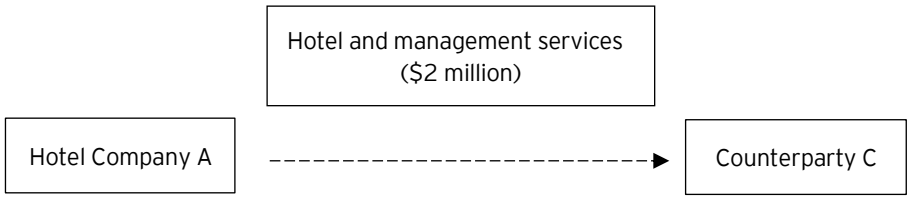
[1] Calculated as $3 million of nonfinancial assets divided by $4 million of total assets.

[2] See ASC 610-20-15-9.

The following example illustrates a transaction that includes the transfer of a nonfinancial asset and services that is partially in the scope of ASC 610-20 and partially in the scope of ASC 606:

Illustration 2-12: Contract to transfer property and management services

Hotel Company A enters into a contract to sell a hotel (a nonfinancial asset) with a fair value of $2 million. Hotel Company A also agrees to manage the property for three years at no additional cost to Counterparty C. The hotel is not a business.



Analysis

Hotel Company A concludes that it has promised the following: (1) a hotel that is in the scope of ASC 610-20 because the property is a nonfinancial asset and selling hotel properties is not an output of its ordinary activities (i.e., it is not in the scope of ASC 606) and (2) management services that are in the scope of other US GAAP (in this case, ASC 606). Hotel Company A applies the guidance in ASC 606-10-15-4[1] to determine how to separate and initially measure the consideration received for the hotel and the management services.

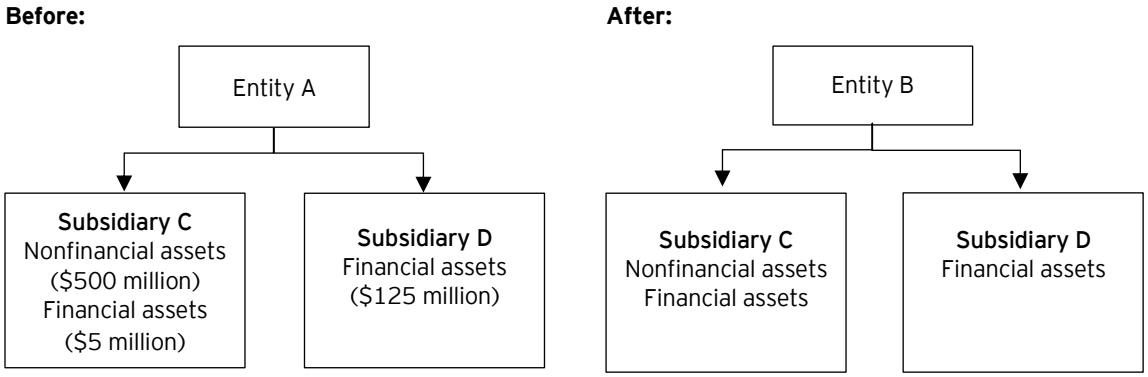
Note: Illustration 5-2 shows how Hotel Company A measures and allocates the transaction price to the separate promises under ASC 606-10-15-4.

[1] See ASC 610-20-15-9.

The guidance in ASC 606-10-15-4 may also need to be applied to separate two or more subsidiaries that are sold in a single transaction. Consider the situation described in Illustration 2-10, where an entity transfers ownership interests in two subsidiaries and only one of the subsidiaries is in the scope of ASC 610-20.

Illustration 2-13: Contract to transfer subsidiaries partially in the scope of ASC 610-20

Assume the same facts as in Illustration 2-10.



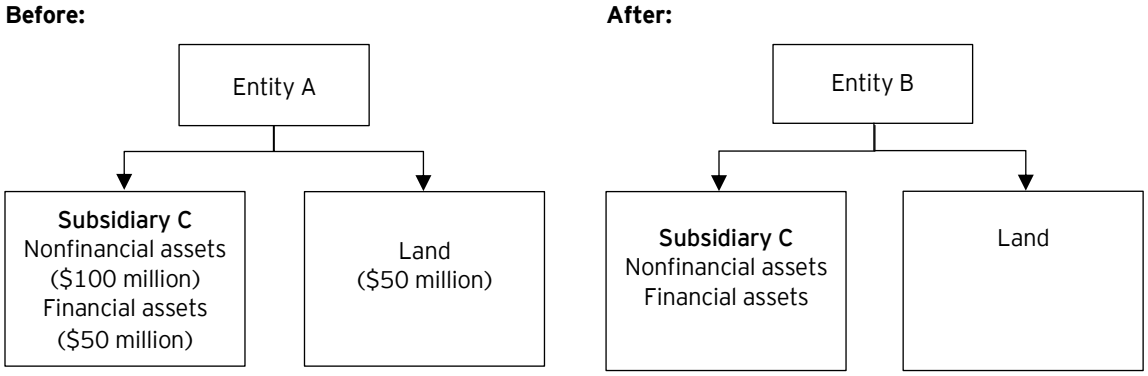
The sale of the ownership interest in Subsidiary C is accounted for under ASC 610-20, and the sale of the ownership interest in Subsidiary D is accounted for under ASC 860. Although Entity A will account for the assets underlying Subsidiary C and Subsidiary D, respectively, under different derecognition models, it will apply ASC 606-10-15-4[1] to determine how to separate and initially measure the consideration received for the ownership interests in Subsidiary C (which is in the scope of ASC 610-20) from the ownership interests in Subsidiary D (which is in the scope of ASC 860).

[1] See ASC 610-20-15-9.

The guidance in ASC 606-10-15-4 may also need to be applied to a transaction that includes the sale of one or more subsidiaries and an asset not held in a subsidiary in a single transaction, as illustrated in the following example:

Illustration 2-14: Transfer of an ownership interest in a consolidated subsidiary and a nonfinancial asset not held in the subsidiary

Entity A sells its 100% ownership interest in Subsidiary C and land to Entity B. Subsidiary C holds nonfinancial assets[1] with a fair value of $100 million and financial assets with a fair value of $50 million. The fair value of the land is $50 million. The assets in the contract (i.e., Subsidiary C and the land) together are not a business, and Entity B is not Entity A's customer in this transaction.



Analysis

Entity A first evaluates all of the underlying assets in the contract. Entity A determines that substantially all of the fair value of the assets in the contract is not concentrated in nonfinancial assets (approximately 75%[2] of the fair value of the assets is concentrated in nonfinancial assets). Therefore, Entity A evaluates Subsidiary C and the land separately.

Entity A concludes that the derecognition of Subsidiary C is not in the scope of ASC 610-20 because substantially all of the fair value of the assets held in Subsidiary C is not concentrated in nonfinancial assets (i.e., 67%[3] of the fair value of the assets in Subsidiary C is concentrated in nonfinancial assets). As a result, the sale of Entity A's ownership interest in Subsidiary C is evaluated under ASC 810-10-40-3A(c) unless other guidance addresses the substance of the transaction. In this transaction, Entity A concludes that no other literature addresses the substance of the transaction. Therefore, the sale of the ownership interest in Subsidiary C is in the scope of ASC 810-10-40-3A(c).

Entity A concludes that the sale of the land, a nonfinancial asset, is accounted for under ASC 610-20.

Although Entity A accounts for the derecognition of the assets in the contract (i.e., the land and the assets held in Subsidiary C) under different derecognition models, it applies ASC 606-10-15-4 to separate and initially measure the consideration received for the ownership interest in Subsidiary C from the land.

Note: This assessment would be the same if Entity A also transferred cash or cash equivalents to Entity B and/or Entity B assumed or relieved any liabilities.

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[1] These nonfinancial assets are not subject to a scope exception in ASC 610-20.

[2] Calculated as $150 million of nonfinancial assets divided by $200 million of total assets.

[3] Calculated as $100 million of nonfinancial assets divided by $150 million of total assets.

The guidance in ASC 606-10-15-4 may also need to be applied to separate terms or other contractual obligations that are not assets of the selling entity. Consider the following illustration when an entity transfers an asset in the scope of ASC 610-20 and provides a guarantee in the scope of other guidance.

Illustration 2-15: Contract to transfer a nonfinancial asset with a guarantee of return on the buyer's investment

Real Estate Investor A enters into a contract to sell a newly constructed apartment building (a nonfinancial asset) with a fair value of $2 million to Counterparty C. The building is not a business, and Counterparty C is not Real Estate Investor A's customer in this transaction because the building is not an output of Real Estate Investor A's ordinary activities. Real Estate Investor A ordinarily owns and operates multifamily properties. Real Estate Investor A also guarantees that Counterparty C will earn a minimum annual 10% profit in each of the next three years.

Analysis

Real Estate Investor A concludes that it has transferred a nonfinancial asset that is in the scope of ASC 610-20 and provided a financial guarantee to Counterparty C that is in the scope of ASC 460.

Real Estate Investor A applies the guidance in ASC 606-10-15-4[1] to determine how to separate and initially measure the consideration received for the apartment building and the guarantee obligation. Because ASC 460 specifies how to initially measure the guarantee obligation, Real Estate Investor A allocates a portion of the transaction price to the guarantee obligation in accordance with the measurement principles of ASC 460.

Assume that Real Estate Investor A determines a guarantee obligation of $93,000 in accordance with ASC 460 (i.e., the fair value of the guarantee) and allocates that amount of consideration to the guarantee and records a liability. Real Estate Investor A then allocates the remaining transaction price to the building.

Transaction price	$ 2,000,000
Less: Fair value of guarantee obligation	(93,000)
Remaining transaction price allocated to building	$ 1,907,000

[1] See ASC 610-20-15-9.

2.8 Examples

ASC 610-20 includes several examples that illustrate the application of the scoping guidance, including evaluating whether financial assets are ISNFAs. We have excerpted these examples below.

The following example illustrates the determination of whether a transaction is in the scope of ASC 610-20 due to the presence of financial assets that are ISNFAs. The conclusion would be the same if the contract included a significant amount of cash or cash equivalents transferred by the entity to the counterparty; if the financial asset (i.e., the receivable) were a different type of financial asset, such as an equity method investment; or if the consideration received was nonmonetary. The analysis would also exclude liabilities from the evaluation.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 1 — Scope

Case A — Nonfinancial Assets, In Substance Nonfinancial Assets, and a Guarantee

610-20-55-2

Seller enters into a **contract** to transfer real estate, the related operating leases, and accounts receivable to Buyer. Seller guarantees Buyer that the cash flows of the property will be sufficient to meet all of the operating needs of the property for two years after the sale. In the event that the cash flows are not sufficient, Seller is required to make a payment in the amount of the shortfall.

610-20-55-3

Seller concludes that the assets promised in the contract are not a **business** within the scope of Topic 810 on consolidation and are not an output of Seller's ordinary activities within the scope of Topic 606 on **revenue** from contracts with **customers**. In addition, assume that Seller concludes that substantially all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets (that is, substantially all of the fair value is concentrated in the real estate and in-place lease intangible assets). Therefore, the accounts receivable promised in the contract are **in substance nonfinancial assets**. In accordance with the guidance in this Subtopic, all of the assets in the contract, including the accounts receivable, are within the scope of this Subtopic.

610-20-55-4

Seller concludes that the guarantee, which is a liability of Seller, is within the scope of Topic 460 on guarantees. Therefore, Seller would apply the guidance in paragraph 606-10-15-4 to separate and measure the guarantee as described in paragraph 610-20-15-9.

610-20-55-5

Seller's conclusions would be the same if it transferred the real estate, leases, and receivables by transferring ownership interests in a consolidated **subsidiary**. That is, Seller would still conclude that all of the assets in the subsidiary are nonfinancial assets and in substance nonfinancial assets within the scope of this Subtopic and that the guarantee is within the scope of Topic 460.

The following example illustrates the determination of whether a transaction is in the scope of ASC 610-20 due to the presence of financial assets that are not ISNFAs.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 1 — Scope

Case B — Nonfinancial Assets and Financial Assets

610-20-55-6

Entity X enters into a contract to transfer machinery and financial assets, both of which have significant fair value. Entity X concludes that the assets promised in the contract are not a business within the scope of Topic 810 and are not an output of the entity's ordinary activities within the scope of Topic 606. Entity X also concludes that substantially all of the fair value of the assets promised in the contract is not concentrated in nonfinancial assets. Therefore, the financial assets promised in the contract are not in substance nonfinancial assets.

610-20-55-7

In accordance with the guidance in paragraph 610-20-15-9, Entity X should derecognize only the machinery in accordance with this Subtopic. Entity X should apply the guidance in paragraph 606-10-15-4 to separate and measure the financial assets.

610-20-55-8

If Entity X transfers the machinery and financial assets by transferring ownership interests in a consolidated subsidiary, it would still conclude that the financial assets are not in substance nonfinancial assets. As described in paragraph 610-20-15-8, if all of the assets promised to the counterparty in an individual consolidated **subsidiary** within a contract are not nonfinancial assets and/or in substance nonfinancial assets, those assets should not be derecognized in accordance with this Subtopic. Instead, Entity X should apply the guidance in paragraph 810-10-40-3A(c) or 810-10-45-21A(b)(2) to determine the guidance applicable to that subsidiary.

The following example illustrates how to evaluate a transaction that involves the transfer of ownership interests in two subsidiaries when the transferred set of assets isn't a business or includes more than just nonfinancial assets and ISNFAs.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 1 — Scope

Case C — One Subsidiary That Holds Nonfinancial Assets and One Subsidiary That Holds Financial Assets

610-20-55-9

Entity A enters into a contract to transfer ownership interests in two consolidated subsidiaries to a single counterparty. Subsidiary 1 consists entirely of nonfinancial assets, and Subsidiary 2 consists entirely of financial assets. Assume that the assets in Subsidiary 1 and Subsidiary 2 have an equal amount of fair value. Entity A concludes that the transaction is not the transfer of a business within the scope of Topic 810 and that the subsidiaries are not outputs of the entity's ordinary activities within the scope of Topic 606.

610-20-55-10

Entity A first considers whether substantially all of the fair value of the assets promised to the counterparty in the contract is concentrated in nonfinancial assets. Because the contract includes the transfer of ownership interests in one or more consolidated subsidiaries, Entity A evaluates the underlying assets in those subsidiaries. Entity A concludes that because both the financial assets and nonfinancial assets have an equal amount of fair value, substantially all of the fair value of the assets promised to the counterparty in the contract is not concentrated in nonfinancial assets. Entity A next considers whether substantially all of the fair value of the assets within Subsidiary 1 or Subsidiary 2 is concentrated in nonfinancial assets. Because the assets transferred within Subsidiary 1 are entirely nonfinancial assets, Entity A concludes that those assets are within the scope of this Subtopic. Entity A also concludes that the financial assets in Subsidiary 2 are not in substance nonfinancial assets and, therefore, are not within the scope of this Subtopic. Entity A should apply the guidance in paragraph 606-10-15-4 to separate and measure the financial assets in Subsidiary 2 from the nonfinancial assets in Subsidiary 1 that are derecognized within the scope of this Subtopic.

3 Derecognizing a nonfinancial asset or an in substance nonfinancial asset (ISNFA)

An entity that transfers a nonfinancial asset or an ISNFA in the scope of ASC 610-20 follows a two-step derecognition model to determine whether (and when) to derecognize the asset as follows:

- Step 1: Apply the guidance in ASC 810 to determine whether the entity has a controlling financial interest in the legal entity that holds the asset after the transaction (see section 3.1)
- Step 2: Apply certain guidance in ASC 606 to determine whether (and when) control transfers and how to measure the associated gain or loss
  - Determine whether and, if so, when a contract exists under ASC 606-10-25-1 (see section 3.2.1)
  - Identify the distinct nonfinancial assets and ISNFAs under ASC 606-10-25-19 through 25-22 if the transaction includes multiple assets that are transferred at different times (see section 3.2.2)
  - Determine whether (and when) control transfers under ASC 606-10-25-30 and, therefore, whether (and when) to derecognize the asset (see section 3.2.3)

Entities apply the measurement principles of ASC 606 (see section 4) to determine the amount of consideration to include in the calculation of the gain or loss for each nonfinancial asset or ISNFA derecognized. If multiple assets are transferred at different times, entities apply the allocation concepts of ASC 606 (see section 5) to allocate the consideration to each distinct nonfinancial asset or ISNFA.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

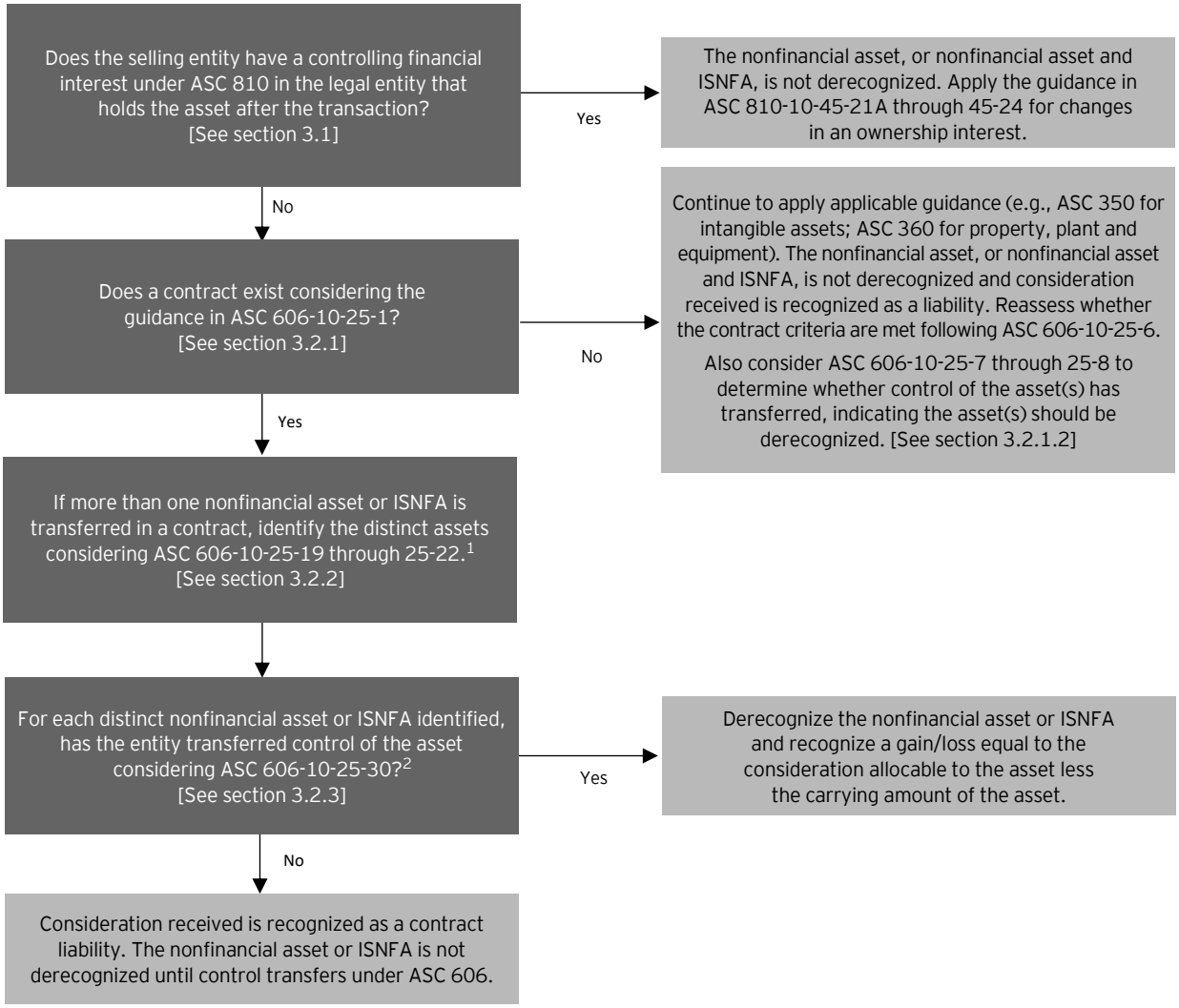
610-20-25-1

To recognize a gain or loss from the transfer of nonfinancial assets or **in substance nonfinancial assets** within the scope of this Subtopic, an entity shall apply the guidance in Topic 810 on consolidation and in Topic 606 on **revenue** from **contracts** with **customers** as described in paragraphs 610-20-25-2 through 25-7.

The FASB decided that an entity should apply the guidance in ASC 810 before it applies the guidance in ASC 606 because under ASC 810 an entity does not derecognize the assets and liabilities of a subsidiary if it continues to have a controlling financial interest in that subsidiary. Rather, it accounts for the transaction as an equity transaction.[35] See section 18 of our FRD, ***Consolidation***, for more guidance.

[35] Paragraph BC55 of ASU 2017-05.

The following flowchart illustrates whether and, if so, when an entity recognizes a gain or loss from the transfer of (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs:



[1] This step is applicable if control of the assets transfers at different points in time.

[2] When an entity retains or receives a noncontrolling interest in the subsidiary that holds the (1) nonfinancial asset or (2) nonfinancial asset and ISNFA (i.e., a partial sale), the selling entity evaluates whether the legal entity (e.g., the former consolidated subsidiary) that holds the (1) nonfinancial asset or (2) nonfinancial asset and ISNFA obtains or has control of that asset in accordance with ASC 606. See section 3.2.3.1 for further details.

How we see it

Although the sale of a consolidated subsidiary that holds nonfinancial assets and ISNFAs is accounted for under ASC 610-20 and the sale of a consolidated subsidiary that holds nonfinancial assets and financial assets (i.e., the financial assets do not meet the definition of ISNFAs) is accounted for under ASC 810-10, the initial accounting analysis is the same. This is because the first step in the application of ASC 610-20 is to determine whether the reporting entity obtains or retains a controlling financial interest in the legal entity that holds the asset after the transaction under ASC 810. That is, under both ASC 610-20 and ASC 810, if the reporting entity retains a controlling financial interest in the subsidiary, it does not derecognize the assets and continues to account for the subsidiary in accordance with the guidance in ASC 810 on accounting for changes in a parent's ownership interest in a subsidiary as long as it retains control of the subsidiary.

3.1 Step 1: determining whether the entity has a controlling financial interest

An entity applies the guidance in ASC 810[36] to determine whether it has a controlling financial interest in the legal entity that holds the nonfinancial assets or ISNFAs after the transaction. The legal entity under evaluation could be a new or existing entity in which the selling entity receives or retains an interest. For example, if the selling entity transfers a nonfinancial asset to a subsidiary in connection with the transfer of ownership interest in the subsidiary, the entity evaluates whether it continues to have a controlling financial interest in that subsidiary. An entity makes a similar assessment if it transfers a nonfinancial asset directly[37] to a counterparty (or to a legal entity created by the counterparty). That is, the selling entity evaluates whether it has a controlling financial interest in the counterparty (or the legal entity created by the counterparty).

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

Determining Whether an Entity Has a Controlling Financial Interest

610-20-25-2

An entity shall first evaluate whether it has (or continues to have) a controlling financial interest in the **legal entity** that holds the nonfinancial assets and/or **in substance nonfinancial assets** by applying the guidance in Topic 810 on consolidation. For example, if a **parent** transfers ownership interests in a consolidated **subsidiary**, the parent shall evaluate whether it continues to have a controlling financial interest in that subsidiary. Similarly, when an entity transfers assets directly to a counterparty (or a legal entity formed by the counterparty), the entity shall evaluate whether it has a controlling financial interest in the counterparty (or the legal entity formed by the counterparty).

When assessing whether it has (or continues to have) a controlling financial interest in the legal entity that holds the nonfinancial assets or ISNFAs, an entity applies the guidance in ASC 810. Evaluations under ASC 810 always begin with the Variable Interest Model. The Variable Interest Model applies to all legal entities, including corporations, partnerships, limited liability companies and trusts, unless a scope exception applies. The Variable Interest Model applies to a legal entity in which the equity does not have characteristics of a controlling financial interest. Under ASC 810's Variable Interest Model, the primary beneficiary, if any, is the party that has a controlling financial interest.

Therefore, to derecognize the nonfinancial assets and ISNFAs, the entity cannot have a controlling financial interest in (or be the primary beneficiary of) the legal entity that holds the nonfinancial assets and ISNFAs or in the counterparty that purchased the assets.[38] That is, the entity must lose control of the legal entity (if it had control before the transaction was consummated) and cannot control the counterparty that purchased the assets after the transaction occurs.

The primary beneficiary is determined based on which reporting entity, if any, has (1) the power to direct the activities of a variable interest entity (VIE) that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. This power to direct the significant activities of a VIE could be through a variety of equity, contractual or other interests, collectively known as "variable interests."

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[36] Certain scope exceptions apply. See section 4.3 of our FRD, ***Consolidation***, for more guidance.

[37] By "directly," we mean that the assets are not held in a legal entity.

[38] Selling entities need to evaluate whether they have a controlling financial interest in any parties that have a direct or indirect ownership in the transferred assets after the transaction.

If the entity being evaluated is not a VIE or a scope exception from the Variable Interest Model applies, the legal entity is evaluated for control using the Voting Model. Under ASC 810's Voting Model, the determining factor for a controlling financial interest is the ownership of a majority voting interest in a corporation or the ability of a single limited partner to exercise substantive kick-out rights in a limited partnership or similar entity (i.e., a limited liability company). See section 3.1.4.

See our FRD, ***Consolidation***, for guidance on determining whether an entity has (or continues to have) a controlling financial interest in a legal entity under the Variable Interest Model or Voting Interest Model. This guidance is summarized in the following questions:

1. Does a scope exception to the consolidation guidance (ASC 810) or the Variable Interest Model apply? (See section 4 of our FRD, ***Consolidation***, for more guidance)
2. If a scope exception does not apply, does the reporting entity have a variable interest in an entity? (See section 3.1.1.)
3. If the reporting entity has a variable interest in an entity, is the entity a VIE? (See section 3.1.2.)
4. If the entity is a VIE, is the reporting entity the primary beneficiary of that entity? (See section 3.1.3.)
5. If the entity is not a VIE (i.e., it is a voting interest entity), does the reporting entity have a controlling financial interest? (See section 3.1.4.)

If the selling entity determines that it has or continues to have a controlling financial interest in the legal entity that holds the transferred assets after the transaction, or in the counterparty to the transaction,[39] it doesn't derecognize the nonfinancial assets or ISNFA. See section 3.1.5 for more guidance, including examples of applying ASC 810 as part of the evaluation of the loss of control for transactions in the scope of ASC 610-20.

If the selling entity does not have a controlling financial interest in the legal entity that holds the transferred assets after the transaction, or in the counterparty to the transaction, it evaluates whether it has transferred control using the principles in ASC 606 (see section 3.2).

3.1.1 Variable interests

To apply ASC 610-20, an entity must determine whether, after the transaction, it has a variable interest in the legal entity being evaluated. Identifying variable interests generally requires a qualitative assessment that focuses on the purpose and design of a legal entity. To identify variable interests, it helps to ask, "Why was this entity created?", "What is the legal entity's purpose?" and "What risks was the legal entity designed to create and distribute?" ASC 810 provides the following guidance:

Excerpt from Accounting Standards Codification

Consolidation — Overall

Recognition — Variable Interest Entities

Determining the Variability to Be Considered

810-10-25-21

The variability that is considered in applying the Variable Interest Entities Subsections affects the determination of all of the following:

a. Whether the legal entity is a VIE

[39] Selling entities need to evaluate whether they have a controlling financial interest in any parties that have a direct or indirect ownership interest in the transferred assets after the transaction.

b. Which interests are variable interests in the legal entity

c. Which party, if any, is the **primary beneficiary** of the VIE.

That variability will affect any calculation of **expected losses and expected residual returns**, if such a calculation is necessary. Paragraph 810-10-25-38A provides guidance on the use of a quantitative approach associated with expected losses and expected residual returns in connection with determining which party is the primary beneficiary.

810-10-25-22

The variability to be considered in applying the Variable Interest Entities Subsections shall be based on an analysis of the design of the legal entity as outlined in the following steps:

a. Step 1: Analyze the nature of the risks in the legal entity (see paragraphs 810-10-25-24 through 25-25).

b. Step 2: Determine the purpose(s) for which the legal entity was created and determine the variability (created by the risks identified in Step 1) the legal entity is designed to create and pass along to its interest holders (see paragraphs 810-10-25-26 through 25-36).

810-10-25-25

In determining the purpose for which the legal entity was created and the variability the legal entity was designed to create and pass along to its interest holders in Step 2, all relevant facts and circumstances shall be considered, including, but not limited to, the following factors:

a. The activities of the legal entity

b. The terms of the contracts the legal entity has entered into

c. The nature of the legal entity's interests issued

d. How the legal entity's interests were negotiated with or marketed to potential investors

e. Which parties participated significantly in the design or redesign of the legal entity.

810-10-25-27

A review of the terms of the contracts that the legal entity has entered into shall include an analysis of the original formation documents, governing documents, marketing materials, and other contractual arrangements entered into by the legal entity and provided to potential investors or other parties associated with the legal entity.

810-10-25-29

A qualitative analysis of the design of the legal entity, as performed in accordance with the guidance in the Variable Interest Entities Subsections, will often be conclusive in determining the variability to consider in applying the guidance in the Variable Interest Entities Subsections, determining which interests are variable interests, and ultimately determining which variable interest holder, if any, is the primary beneficiary.

To answer these questions, an entity should analyze the legal entity's activities, including which parties participated significantly in the design or redesign of the legal entity, the terms of contracts, the nature of interests issued and how the legal entity's interests were marketed to potential investors. The legal entity's governing documents, formation documents, marketing materials and all other contractual arrangements should be closely reviewed and combined with the analysis of the activities of the entity to determine the risks the entity was designed to create and distribute.

Risks that cause variability include, but are not limited to, the following:

- Credit risk
- Interest rate risk (including prepayment risk)
- Foreign currency exchange risk
- Commodity price risk
- Equity price risk
- Operations risk

An entity may be exposed to a number of risks through the interests it holds in a legal entity, but the Variable Interest Model considers only interests that absorb variability the legal entity was designed or redesigned to create and distribute. When the Variable Interest Model refers to variability, it is referring to returns that are positive, negative or both. The Variable Interest Model refers to negative variability as expected losses and positive variability as expected residual returns. Expected losses and expected residual returns are not US GAAP economic losses or profits.

After determining the variability to consider, an entity can then identify which interests absorb that variability. The Variable Interest Model defines variable interests as investments or other interests that will absorb portions of a VIE's expected losses or receive portions of the VIE's expected residual returns. Variable interests are contractual, ownership (equity) or other financial interests in a legal entity that change with changes in the fair value of the legal entity's net assets. For example, a traditional equity investment is a variable interest because its value changes with changes in the fair value of the legal entity's net assets. Another example would be a guarantee of a legal entity's debt. Similar to an equity investment, the guarantee provides the reporting entity with a variable interest in the entity because the value of the guarantee changes with changes in the fair value of the legal entity's net assets.

The labeling of an item as an asset, liability, equity or contractual arrangement does not determine whether that item is a variable interest. Variable interests can be any of these. A key characteristic that distinguishes a variable interest from other interests is its ability to absorb or receive the variability a legal entity was designed (or redesigned) to create and pass along to its interest holders.

Guarantees, subordinated debt interests and written call options are variable interests because they absorb risk created and distributed by the legal entity. Items such as forward contracts, derivative contracts, purchase or supply arrangements and fees paid to decision makers or service providers may represent variable interests depending on the facts and circumstances. The Variable Interest Model also provides guidance on how to consider implicit variable interests. These items require further evaluation and are discussed in detail in section 5 of our FRD, ***Consolidation***.

3.1.2 Variable interest entities

An entity that concludes it holds variable interests in a legal entity, either from fees or other interests, would then determine whether the legal entity is a VIE. The initial determination is made on the date on which an entity becomes involved with the legal entity, which is generally when an entity obtains a variable interest (e.g., an investment, loan, lease) in the legal entity.

In addition, the Variable Interest Model requires an entity to reevaluate whether an entity is a VIE upon the occurrence of certain significant events and not at each reporting date. An event is significant if it represents a substantive change in the design of the entity and calls into question whether (1) the entity's equity investment at risk is sufficient or (2) the holders of the entity's equity investment at risk, as a group, have the characteristics of a controlling financial interest.

For a transaction that is in the scope of ASC 610-20, the entity considers the following to evaluate whether it has a controlling financial interest in the legal entity:

- If the legal entity that holds the nonfinancial assets and ISNFAs is a new entity or one in which the entity has not had a variable interest in the past, the entity would need to evaluate whether the legal entity is a VIE.
- If the legal entity that holds the nonfinancial assets and ISNFAs is an existing entity in which the entity previously held a variable interest, the entity would reevaluate whether the legal entity is a VIE if a reconsideration event has occurred. For example, these events include issuances of additional equity interests and revisions to the equity holders' voting rights. See section 12.1.1 of our FRD, ***Consolidation***, for examples of common VIE reconsideration events.
- If the entity obtains a variable interest in the counterparty, or other relevant parties to the arrangement (e.g., intermediate holding companies), it would evaluate whether such legal entities are VIEs.

Excerpt from Accounting Standards Codification

Consolidation — Overall

Scope and Scope Exceptions — Variable Interest Entities

Entities

810-10-15-14

A legal entity shall be subject to consolidation under the guidance in the Variable Interest Entities Subsections if, by design, any of the following conditions exist. (The phrase *by design* refers to legal entities that meet the conditions in this paragraph because of the way they are structured. For example, a legal entity under the control of its equity investors that originally was not a VIE does not become one because of operating losses. The design of the legal entity is important in the application of these provisions.)

a. The total equity investment (equity investments in a legal entity are interests that are required to be reported as equity in that entity's financial statements) at risk is not sufficient to permit the legal entity to finance its activities without additional **subordinated financial support** provided by any parties, including equity holders. [...]

b. As a group the holders of the equity investment at risk lack any one of the following three characteristics:

   1. The power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance. [...]

   2. The obligation to absorb the **expected losses** of the legal entity. The investor or investors do not have that obligation if they are directly or indirectly protected from the expected losses or are guaranteed a return by the legal entity itself or by other parties involved with the legal entity. See paragraphs 810-10-25-55 through 25-56 and Example 1 (see paragraph 810-10-55-42) for a discussion of expected losses.

   3. The right to receive the **expected residual returns** of the legal entity. The investors do not have that right if their return is capped by the legal entity's governing documents or arrangements with other variable interest holders or the legal entity. For this purpose, the return to equity investors is not considered to be capped by the existence of outstanding stock options, convertible debt, or similar interests because if the options in those instruments are exercised, the holders will become additional equity investors. [...]

c. The equity investors as a group also are considered to lack the characteristic in (b)(1) if both of the following conditions are present:

1. The voting rights of some investors are not proportional to their obligations to absorb the expected losses of the legal entity, their rights to receive the expected residual returns of the legal entity, or both.

2. Substantially all of the legal entity's activities (for example, providing financing or buying assets) either involve or are conducted on behalf of an investor that has disproportionately few voting rights. This provision is necessary to prevent a **primary beneficiary** from avoiding consolidation of a VIE by organizing the legal entity with nonsubstantive voting interests. Activities that involve or are conducted on behalf of the related parties of an investor with disproportionately few voting rights shall be treated as if they involve or are conducted on behalf of that investor. The term *related parties* in this paragraph refers to all parties identified in paragraph 810-10-25-43, except for de facto agents under paragraph 810-10-25-43(d). [...]

The distinction between a VIE and other entities is based on the nature and amount of the equity investment and the rights and obligations of the equity investors. A legal entity is a VIE if it has any of the following characteristics:

- The legal entity does not have enough equity to finance its activities without additional subordinated financial support.
- The equity holders, as a group, lack the characteristics of a controlling financial interest.
- The legal entity is structured with nonsubstantive voting rights (i.e., an anti-abuse clause).

These characteristics are discussed in detail in section 7 of our FRD, ***Consolidation***.

3.1.3 Determining the primary beneficiary (i.e., control of a VIE)

An entity that has concluded that it is in the scope of the Variable Interest Model, that it has a variable interest in a legal entity and that the legal entity is a VIE, must evaluate whether it is the primary beneficiary of the VIE to determine whether it has a controlling financial interest in the VIE, as part of its evaluation of the transaction under ASC 610-20. The primary beneficiary analysis is a qualitative analysis based on power and benefits.

Excerpt from Accounting Standards Codification

Consolidation — Overall

Recognition — Variable Interest Entities

Consolidation Based on Variable Interests

810-10-25-38

A reporting entity shall consolidate a VIE when that reporting entity has a variable interest (or combination of variable interests) that provides the reporting entity with a controlling financial interest on the basis of the provisions in paragraphs 810-10-25-38A through 25-38J. The reporting entity that consolidates a VIE is called the primary beneficiary of that VIE.

810-10-25-38A

A reporting entity with a variable interest in a VIE shall assess whether the reporting entity has a controlling financial interest in the VIE and, thus, is the VIE's primary beneficiary. This shall include an assessment of the characteristics of the reporting entity's variable interest(s) and other involvements (including involvement of related parties and de facto agents), if any, in the VIE, as well as the involvement of other variable interest holders. Paragraph 810-10-25-43 provides guidance on related parties and de facto agents. Additionally, the assessment shall consider the VIE's purpose and design, including the risks that the VIE was designed to create and pass through to its variable interest holders. A reporting entity shall be deemed to have a controlling financial interest in a VIE if it has both of the following characteristics:

a. The power to direct the activities of a VIE that most significantly impact the VIE's economic performance

b. The obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. The quantitative approach described in the definitions of the terms **expected losses**, **expected residual returns**, and **expected variability** is not required and shall not be the sole determinant as to whether a reporting entity has these obligations or rights.

Only one reporting entity, if any, is expected to be identified as the primary beneficiary of a VIE. Although more than one reporting entity could have the characteristic in (b) of this paragraph, only one reporting entity if any, will have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance.

An entity is the primary beneficiary and therefore has a controlling financial interest in a VIE if it has both power and benefits — that is, it has (1) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance (power) and (2) the obligation to absorb losses of the VIE that potentially could be significant to the VIE or the right to receive benefits from the VIE that potentially could be significant to the VIE (benefits). This evaluation is summarized below and is discussed in detail in section 8 of our FRD, ***Consolidation***. To derecognize nonfinancial assets and ISNFAs, the entity cannot be the primary beneficiary of the legal entity that holds the assets or of the counterparty that purchased the assets.

Power

The primary beneficiary of a legal entity under the Variable Interest Model must have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance (e.g., the VIE's revenues, expenses, margins, gains and losses, cash flows, financial position). The following graphic illustrates how to think systematically about the power assessment:

An entity should carefully evaluate the purpose and design of a legal entity to determine the legal entity's significant activities. While a legal entity's operations may involve a number of activities, generally a subset of those activities is considered significant to the legal entity's economic performance. An entity's involvement with the design or redesign of a VIE does not, itself, establish the entity as the party with power, even if that involvement is significant. Rather, that involvement may indicate that the entity had the opportunity and the incentive to establish arrangements that result in the entity being the variable interest holder with power.

The same activities that were considered in determining whether the equity holders have power for the VIE test will be considered for identifying the primary beneficiary. However, now the focus is on identifying which party has the power. It may or may not be an equity holder. Significant activities may include, but are not limited to, purchasing or selling significant assets, incurring additional indebtedness, making acquisition and/or divestiture decisions or determining the strategic operating direction of the legal entity.

After the activities that have the most significant impact on the VIE's economic performance have been identified, an entity evaluates whether it has the power to direct those activities. Power may be exercised through the board of directors, management, a contract or other arrangements. An entity's ability to direct the activities of a VIE when circumstances arise or events occur constitutes power if that ability relates to the activities that most significantly impact the economic performance of the VIE. It is important to note that an entity does not actively have to exercise its power to have power to direct the activities of a legal entity.

Only one entity could have the characteristic of power as defined in the Variable Interest Model. Thus, only one party can be the primary beneficiary. However, in some circumstances (e.g., shared power among unrelated parties), an entity may conclude that no one party has the power over a VIE.

As part of its power assessment, an entity also should consider whether kick-out rights, participating rights or protective rights are present. ASC 810 provides guidance for determining the primary beneficiary when power is shared and when multiple unrelated parties direct the activities that most significantly impact the VIE's economic performance. These are further described in section 8 of our FRD, ***Consolidation***.

Benefits

If an entity concludes it has a variable interest in a VIE, we believe there is a presumption that the entity has satisfied the benefits criterion. We believe that it would be uncommon for a reporting entity to conclude that it has a variable interest but does not have benefits. Having a variable interest generally will expose an entity to either losses or returns that potentially could be significant to the VIE. The key word in this analysis is "could." The benefits criterion is not based on probability. It requires only that an entity has the obligation to absorb losses or the right to receive benefits that could be significant. Also, an entity does not have to have both the obligation to absorb losses and the right to receive benefits. The entity only has to be exposed to one or the other.

Related parties and de facto agents

The Variable Interest Model has specific steps and provisions that require consideration with respect to related parties. If an entity concludes that neither it nor one of its related parties individually meets the criteria to be the primary beneficiary, the entity then evaluates whether as a group, the entity and its related parties have those characteristics. When a related party group has power and benefits, further analysis is required to determine if one party within the group is the primary beneficiary. See section 9 of our FRD, ***Consolidation***, for further details.

For purposes of the Variable Interest Model, the term "related parties" includes parties identified in ASC 850 and other parties that are acting as de facto agents of the variable interest holder unless otherwise specified. For additional guidance on related parties and de facto agents, see section 10 of our FRD, ***Consolidation***.

3.1.4 Control of a voting interest entity

Excerpt from Accounting Standards Codification

Consolidation — Overall

Scope and Scope Exceptions — General

Entities

810-10-15-8

For legal entities other than limited partnerships, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

If the legal entity being evaluated is not a VIE (as discussed in section 3.1.2) or a scope exception from the Variable Interest Model applies (see section 4.4 of our FRD, ***Consolidation***), the legal entity is evaluated for control using the Voting Model to determine whether the entity has (or continues to have) a controlling financial interest in the legal entity that holds the nonfinancial assets and ISNFAs as part of the loss of control analysis under ASC 610-20.

The Voting Model generally can be subdivided into two categories: (1) consolidation of corporations and (2) consolidation of limited partnerships and similar entities. Consolidation of corporations is based upon whether an entity owns more than 50% of the outstanding voting shares of a legal entity. This, of course, is a general rule.

There are exceptions, such as when the legal entity is in bankruptcy or when minority shareholders have certain approval or veto rights. Consolidation based on a majority voting interest may apply to entities other than corporations. However, we use the term "corporation" to distinguish from the approach applied to limited partnerships and similar entities.

For limited partnerships and similar entities (e.g., limited liability companies) that are not VIEs, generally, only a single limited partner that is able to exercise substantive kick-out rights will have a controlling financial interest in the legal entity. A general partner generally would not have a controlling financial interest in a limited partnership that is a voting interest entity. See section 11 of our FRD, ***Consolidation***, for further guidance on the Voting Model.

3.1.5 Accounting when the entity does or does not retain a controlling financial interest

If the selling entity determines that it has a controlling financial interest in the legal entity that holds the transferred assets post-transaction, or in the counterparty to the transaction,[40] it doesn't derecognize the (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs, and it accounts for the transaction in accordance with ASC 810-10-45-21A through 45-24.

If the selling entity determines that it does not have a controlling financial interest in the legal entity that holds the (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs transferred, the assets are further evaluated for loss of control using the principles in ASC 606 (see section 3.2 for further discussion).

[40] Selling entities need to evaluate whether they have a controlling financial interest in any parties that have a direct or indirect ownership in the transferred assets after the transaction.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

Determining Whether an Entity Has a Controlling Financial Interest

610-20-25-3

If an entity determines it has (or continues to have) a controlling financial interest in the legal entity that holds the nonfinancial assets or in substance nonfinancial assets, it shall not derecognize those assets and shall apply the guidance in paragraphs 810-10-45-21A through 45-24.

610-20-25-4

Any nonfinancial assets or in substance nonfinancial assets transferred that are held in a legal entity in which the entity does not have (or ceases to have) a controlling financial interest shall be further evaluated in accordance with the guidance in paragraphs 610-20-25-5 through 25-7.

Consolidation — Overall

Other Presentation Matters

Changes in a Parent's Ownership Interest in a Subsidiary

810-10-45-21A

The guidance in paragraphs 810-10-45-22 through 45-24 applies to the following:

a. Transactions that result in an increase in ownership of a subsidiary

b. Transactions that result in a decrease in ownership of either of the following while the parent retains a controlling financial interest in the subsidiary:

   1. A subsidiary that is a business or a **nonprofit activity**, except for either of the following:

      i. Subparagraph superseded by Accounting Standards Update No. 2017-05

      ii. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360).

      iii. A transfer of a good or service in a contract with a customer within the scope of Topic 606.

   2. A subsidiary that is not a business or a nonprofit activity if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:

      i. Topic 606 on revenue from contracts with customers

      ii. Topic 845 on exchanges of nonmonetary assets

      iii. Topic 860 on transferring and servicing financial assets

      iv. Topic 932 on conveyances of mineral rights and related transactions

      v. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.

810-10-45-22

A parent's ownership interest in a subsidiary might change while the parent retains its controlling financial interest in the subsidiary. For example, a parent's ownership interest in a subsidiary might change if any of the following occur:

a. The parent purchases additional ownership interests in its subsidiary.

b. The parent sells some of its ownership interests in its subsidiary.

c. The subsidiary reacquires some of its ownership interests.

d. The subsidiary issues additional ownership interests.

810-10-45-23

Changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions (investments by owners and distributions to owners acting in their capacity as owners). Therefore, no gain or loss shall be recognized in consolidated net income or comprehensive income. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted shall be recognized in equity attributable to the parent. Example 1 (paragraph 810-10-55-4B) illustrates the application of this guidance.

810-10-45-24

A change in a parent's ownership interest might occur in a subsidiary that has accumulated other comprehensive income. If that is the case, the carrying amount of accumulated other comprehensive income shall be adjusted to reflect the change in the ownership interest in the subsidiary through a corresponding charge or credit to equity attributable to the parent. Example 1, Case C (paragraph 810-10-55-4F) illustrates the application of this guidance.

Under this guidance, if the selling entity determines that it has a controlling financial interest in the legal entity that holds the transferred assets post-transaction, or in the counterparty to the transaction,[41] the transaction generally will be accounted for under ASC 810 as a change in a parent's ownership interest in a subsidiary in which it retains control (i.e., as an equity transaction). When an entity transfers an ownership interest in a subsidiary but retains a controlling financial interest in that subsidiary, the entity does not record a deferred gain or a contract liability because it is not obligated to transfer any distinct nonfinancial assets and doing so would be inconsistent with the overall guidance in ASC 610-20.[42] See section 18 of our FRD, ***Consolidation***, for more guidance on applying ASC 810.

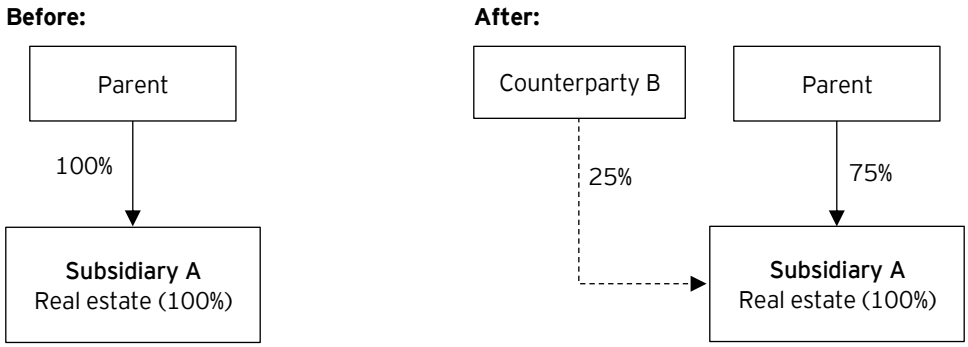
[41] Selling entities need to evaluate whether they have a controlling financial interest in any parties that have a direct or indirect ownership in the transferred assets after the transaction.

[42] Paragraph BC57 of ASU 2017-05.

The following example illustrates this guidance when an entity continues to have a controlling financial interest in the subsidiary (i.e., it does not lose control of the subsidiary) in which it transfers a partial ownership interest:

Illustration 3-1: Partial sale of a subsidiary with a retained controlling financial interest

Parent owns a 100% controlling interest in Subsidiary A. Subsidiary A holds only real estate. Parent sells a 25% interest in Subsidiary A to Counterparty B. Subsidiary A is not a business, and Counterparty B is not Parent's customer in this transaction.



Analysis

Because Subsidiary A is not a business, and Counterparty B is not Parent's customer, the transaction is not in the scope of ASC 810 or ASC 606, respectively. Parent concludes the sale of its ownership interest in Subsidiary A is in the scope of ASC 610-20 because it evaluated the underlying assets held by Subsidiary A,[1] which it controlled before the transaction. All of the assets are all real estate, so all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets.

Parent evaluates whether it has a controlling financial interest in Subsidiary A after the transaction. Assume Subsidiary A is a voting interest entity. Because Parent holds a majority interest in Subsidiary A and, assuming there are no other facts and circumstances that would preclude Parent from having a controlling financial interest in Subsidiary A after the transaction, Parent retains its controlling financial interest in Subsidiary A under ASC 810. Therefore, it does not deconsolidate or derecognize Subsidiary A.[2] The change in Parent's ownership interest in Subsidiary A is accounted for as an equity transaction, and the carrying amount of Parent's noncontrolling interest in Subsidiary A is adjusted to reflect the change in ownership interest in accordance with ASC 810-10-45-23.

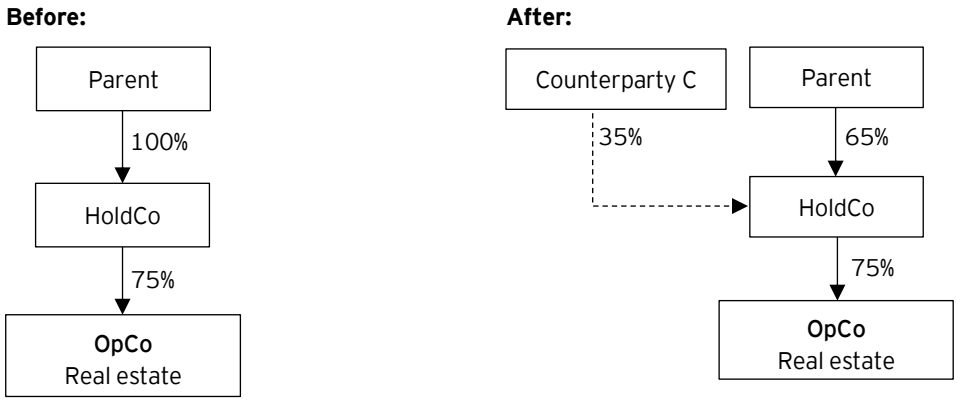
[1] See ASC 610-20-15-5.

[2] See ASC 610-20-25-2.

The following example illustrates a similar transaction in which an entity retains a controlling financial interest in the subsidiary (i.e., it does not lose control of the subsidiary) and it transfers a partial ownership interest.[43] In this example, however, the entity's subsidiary is a holding company that consolidates an operating company that holds nonfinancial assets:

Illustration 3-2: Partial sale of a subsidiary with a retained controlling financial interest in a tiered structure

Parent owns a 100% controlling interest in HoldCo, and HoldCo owns a 75% controlling interest in OpCo, which holds only real estate. Parent sells a 35% noncontrolling interest in HoldCo to Counterparty C. HoldCo and OpCo do not meet the definition of a business, and Counterparty C is not Parent's customer in this transaction.



Analysis

HoldCo and OpCo together are not a business, and Counterparty C is not Parent's customer in this transaction; therefore, the transaction is not in the scope of ASC 810 or ASC 606, respectively. Because Parent controlled OpCo prior to the transaction (through Parent's controlling interest in HoldCo, which has a controlling interest in OpCo), and because Parent transfers an ownership interest in HoldCo, Parent evaluates the underlying assets in HoldCo (i.e., the assets held by OpCo). Parent concludes the sale of its ownership interest in HoldCo is in the scope of ASC 610-20 because the assets held by OpCo are nonfinancial assets.[1]

Parent evaluates whether it has a controlling financial interest in HoldCo and OpCo after the transaction. Assume HoldCo and OpCo are voting interest entities. Because Parent holds a majority interest in HoldCo and OpCo, and assuming there are no other facts and circumstances that would preclude Parent from having a controlling financial interest in HoldCo and OpCo after the transaction, Parent retains its controlling financial interest in HoldCo and OpCo under ASC 810. Therefore, it does not deconsolidate or derecognize HoldCo or OpCo.[2] The change in Parent's ownership interest in HoldCo is accounted for as an equity transaction, and the carrying amount of Parent's noncontrolling interest in HoldCo is adjusted to reflect the change in ownership interest in accordance with ASC 810-10-45-23.

Note: This illustration is similar to Illustration 2-2; however, in that fact pattern, HoldCo had an equity method investment in OpCo prior to the transaction. That is an important distinction in assessing which standard applies to the transaction (i.e., ASC 860 applied in that illustration).

[1] See ASC 610-20-15-5.

[2] See ASC 610-20-25-3.

[43] A sale of a partial interest in a nonfinancial asset (e.g., an undivided interest (see ASC 970-323); ownership of a portion of the ownership rights to an asset, such as a mineral right) is not addressed in ASC 610-20.

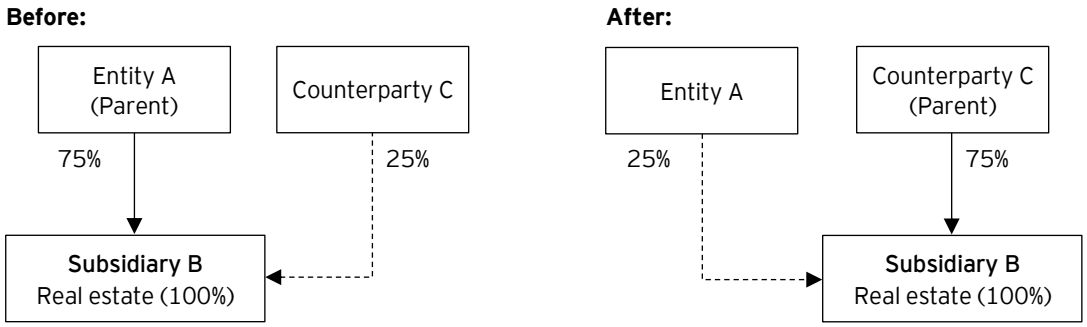
In Illustrations 3-1 and 3-2, it is assumed that the subsidiaries are voting interest entities and, therefore, the selling entities retain control in the transactions because they retain a majority ownership interest in the subsidiaries. However, an entity could lose control of a subsidiary even when it retains a majority interest in the subsidiary if that subsidiary is a VIE or if other parties have participating rights in the subsidiary that preclude the selling entity from controlling the subsidiary. See section 3.1 for further guidance on identifying a VIE.

The following example illustrates a transaction in which an entity loses control of the subsidiary in which it transfers a partial ownership interest:

Illustration 3-3: Partial sale of a subsidiary with loss of a controlling financial interest

Entity A owns a 75% controlling interest in Subsidiary B (Counterparty C owns the 25% noncontrolling interest). Subsidiary B holds only real estate. Entity A sells a 50% interest in Subsidiary B to Counterparty C and retains a 25% interest in Subsidiary B. Subsidiary B is not a business, and Counterparty C is not Entity A's customer in this transaction.

Assume that after the transaction, Subsidiary B is a voting interest entity, and there are no other facts and circumstances that would preclude Counterparty C from having control over Subsidiary B.



Analysis

Because Subsidiary B is not a business, and Counterparty C is not Entity A's customer, the transaction is not in the scope of ASC 810 or ASC 606, respectively. Entity A concludes the sale of its ownership interest in Subsidiary B is in the scope of ASC 610-20 because it evaluated the underlying assets held by Subsidiary B,[1] which it controlled before the transaction. All of the assets are real estate, so all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets.

Entity A evaluates whether it has a controlling financial interest in Subsidiary B after the transaction. Because Subsidiary B is a voting interest entity, and Entity A does not hold a majority interest in Subsidiary B (i.e., it holds only 25%), Entity A does not have a controlling financial interest in Subsidiary B (it loses control of Subsidiary B) under ASC 810.

Therefore, it proceeds to step 2 of the assessment (analyzing whether control is transferred under the guidance in ASC 606). See section 3.2 for more guidance.

[1] See ASC 610-20-15-5.

3.2 Step 2: determining whether control of the nonfinancial asset or ISNFA has transferred

If an entity determines that it doesn't have a controlling financial interest in the legal entity that holds the asset after the transaction, ASC 610-20 requires the entity to apply certain recognition principles of ASC 606 to evaluate whether control of the nonfinancial asset (or assets) has transferred and, if so, when the asset (or assets) should be derecognized. To make this determination, an entity performs the following steps:

- Assess whether a contract exists by applying the concepts in ASC 606-10-25-1 through 25-8 (see section 3.2.1). This guidance also addresses the accounting if a contract does not exist following an evaluation of ASC 606-10-25-1, including when an asset is derecognized and how much consideration can be included in the gain or loss calculation.
- Identify the distinct nonfinancial assets or ISNFAs if a contract exists under ASC 606-10-25-1 and control of more than one nonfinancial asset or ISNFA is transferred at different points in time. If control of all assets transferred in the contract occurs at the same time, this step is not required. See section 3.2.2.
- Apply the guidance in ASC 606-10-25-30 to determine the point in time when control of each distinct nonfinancial asset and ISNFA is transferred. See section 3.2.3.

3.2.1 Determining the existence of a contract

To evaluate whether a contract exists under ASC 610-20, entities apply the guidance in ASC 606 that specifies the criteria for determining whether a contract exists and how to account for arrangements when the criteria have not been met as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

Applying Revenue Recognition Guidance

610-20-25-5

After applying the guidance in paragraphs 610-20-25-2 through 25-4, an entity shall next evaluate a **contract** in accordance with the guidance in paragraphs 606-10-25-1 through 25-8. If a **contract** does not meet all of the criteria in paragraph 606-10-25-1, an entity shall not derecognize the nonfinancial assets or **in substance nonfinancial assets** transferred, and it shall apply the guidance in paragraph 350-10-40-3 to any **intangible assets** and the guidance in paragraph 360-10-40-3C to any property, plant, and equipment. An entity shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when a contract subsequently meets all of the criteria in paragraph 606-10-25-1.

A contract to transfer a nonfinancial asset or an ISNFA under ASC 610-20 may be written, oral or implied by an entity's customary business practices, but must create enforceable rights and obligations and meet the criteria in ASC 606-10-25-1. These criteria include approval of the contract by all parties and their commitment to perform their respective obligations, the ability to identify each party's rights regarding goods and services (assets) to be transferred and the associated payment terms, whether the contract has commercial substance and whether collection of the transaction price is probable, as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Recognition

Identifying the Contract

606-10-25-1

An entity shall account for a contract with a customer that is within the scope of this Topic only when all of the following criteria are met:

a. The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) and are committed to perform their respective obligations.

b. The entity can identify each party's rights regarding the goods or services to be transferred.

c. The entity can identify the payment terms for the goods or services to be transferred.

d. The contract has commercial substance (that is, the risk, timing, or amount of the entity's future cash flows is expected to change as a result of the contract).

e. 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 (see paragraphs 606-10-55-3A through 55-3C). In evaluating whether collectibility of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see paragraph 606-10-32-7).

606-10-25-2

A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral, or implied by an entity's customary business practices. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries, and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services). An entity shall consider those practices and processes in determining whether and when an agreement with a customer creates enforceable rights and obligations.

606-10-25-5

If a contract with a customer meets the criteria in paragraph 606-10-25-1 at contract inception, an entity shall not reassess those criteria unless there is an indication of a significant change in facts and circumstances. For example, if a customer's ability to pay the consideration deteriorates significantly, an entity would reassess whether it is probable that the entity will collect the consideration to which the entity will be entitled in exchange for the remaining goods or services that will be transferred to the customer (see paragraphs 606-10-55-3A through 55-3C).

An entity accounts for a contract that is within the scope of ASC 610-20 when all five criteria in ASC 606-10-25-1 are met. The criteria in ASC 606-10-25-1 are assessed at the inception of the arrangement. If the criteria are met at that time, an entity does not reassess the criteria unless there is an indication that the facts and circumstances have changed significantly. If the counterparty's ability to pay significantly deteriorates, an entity would have to reassess whether it is probable that the entity will collect the consideration to which it is entitled in exchange for transferring the assets under the contract.

To meet the criteria in ASC 606-10-25-1, an entity must conclude that it is probable that it will collect substantially all of the consideration promised in the contract. Section 3.2.1.1 provides additional guidance on evaluating collectibility.

If an entity determines that the criteria in ASC 606-10-25-1 are not met, it continues to reassess whether it subsequently meets the criteria following the guidance in ASC 606-10-25-6. An entity also considers the guidance in ASC 606-10-25-7 through 25-8 on accounting for nonrefundable consideration an entity receives in an arrangement that doesn't meet the definition of a contract. See section 3.2.1.2 for further discussion.

See section 3 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further details on assessing whether a contract under ASC 606 exists.

How we see it

Entities must carefully evaluate whether a contract (particularly an oral or implied contract) is legally enforceable. In many cases in the US, a contract to sell or transfer nonfinancial assets must be written to be legally enforceable (e.g., many real estate transactions). Entities commonly execute these transactions using a signed, written contract that specifies the asset to be transferred and the amount to be paid. This generally will result in a straightforward assessment of most of the contract criteria. The assessment may be different when evaluating transactions that occur in countries outside of the US. Entities may have to look to the relevant legal framework when making this assessment.

Additionally, ASC 610-20 doesn't provide guidance on how to consider contracts entered into at or near the same time with the same counterparty. When determining whether two or more contracts should be combined, we believe entities should follow the guidance in ASC 606-10-25-9 (see section 3.3 in our FRD, ***Revenue from contracts with customers (ASC 606)***.

3.2.1.1 Assessing collectibility

Collectibility refers to the counterparty's ability and intent to pay substantially all of the amount of consideration to which the entity will be entitled in exchange for the assets that will be transferred to the counterparty. An entity should assess a counterparty's ability to pay based on the counterparty's financial capacity and its intention to pay considering all relevant facts and circumstances, including past experiences with that counterparty.

The purpose of the criteria in ASC 606-10-25-1 is to require an entity to assess whether a contract exists under the standard and whether a transaction is valid. The collectibility criterion (i.e., determining whether the counterparty has the ability to pay) is a key part of that assessment. If it is not probable that the counterparty will pay (i.e., fulfill its obligations under the contract), there is a question about whether the contract is valid and the transaction is substantive, regardless of whether a legal contract exists.[44] However, the Board also noted[45] that entities generally only enter into contracts after concluding it is probable that they will be fairly compensated for their performance. That is, in most instances, an entity would not enter into a contract if there were significant credit risk associated with that counterparty without also having adequate economic protection to make sure that it would collect the consideration. Therefore, the Board expects many arrangements will meet the collectibility criterion.

[44] Paragraphs BC12 and BC14 of ASU 2016-12.

[45] Paragraphs BC43 of ASU 2014-09 and BC10 of ASU 2016-12.

The amount of consideration that is assessed for collectibility is the amount to which the entity expects to be entitled, which under the standard is the transaction price (see section 4.1) for the asset(s) that will be transferred to the counterparty rather than the stated contract price for those items. The transaction price may be less than the stated contract price if an entity concludes that it has offered or is willing to accept a price concession or other discount. Such concessions or discounts are forms of variable consideration (see section 4.1.1) that an entity would estimate at contract inception and deduct from the contract price to derive the transaction price. The estimated transaction price would then be evaluated for collectibility. The following table illustrates these concepts:

Stated contract price	$ 2,000,000
Price concession — amount entity estimates it will offer or accept as a reduction to the contractual price	(200,000)
Transaction price	$ 1,800,000

In some cases, an entity may conclude that it has offered or is willing to accept an implicit price concession or other discount, as discussed in section 4.1.1.1.1, that is a form of variable consideration that reduces total contract consideration to derive the transaction price that is evaluated for collectibility. In other cases, an entity may decide to transfer the asset even if it has doubts about the counterparty's intent or ability to pay the transaction price for the asset. That is, the entity has chosen to accept the risk of default by the counterparty of the contractually agreed-upon consideration (i.e., credit loss under ASC 326). The Board did not develop detailed guidance for distinguishing between price concessions (recognized as variable consideration) and credit loss (recognized as expense). An entity should consider all facts and circumstances when analyzing situations in which, at contract inception, the entity is willing to accept a lower price than the amount stated in the contract.

The guidance in ASC 606 specifically precludes an entity from evaluating its ability to repossess an asset as part of the collectibility assessment. The FASB noted[46] that the ability to repossess an asset does not mitigate an entity's exposure to credit risk for the consideration promised in the contract. However, that ability may affect the entity's assessment of whether it has transferred control of the asset to the counterparty.

The following example illustrates a contract in which the selling entity concludes it is not probable it will collect substantially all of the consideration to which it is entitled:

Illustration 3-4: Seller financing with collectibility concerns at sale closing

Entity A sells an office building to Counterparty B for $1,000,000, consisting of $50,000 of cash, which is paid up front and nonrefundable, and a 10-year nonrecourse first mortgage from Counterparty B for $950,000. Substantially all of the office building is leased at the transaction closing date.

Because Entity A provides nonrecourse financing, cash flows from the operation of the property will be primarily relied upon to service the mortgage. The leases of the largest two tenants in the building expire within the next two years, and Entity A believes there is significant uncertainty regarding Counterparty B's ability to replace them with new tenants that are willing to pay comparable rents. Therefore, there is uncertainty whether the property will continue to generate the cash flows necessary to service the mortgage. Because Entity A has attempted to dispose of this office building for several years, it is willing to accept the credit risk of this contract since it has the ability to repossess the property, if necessary.

[46] Paragraph BC15 of ASU 2016-12.

The terms of the contract include required principal payments of $100,000 per year beginning in the second year of the contract, a $150,000 balloon payment at the end of the contract and interest. For purposes of this example, we have ignored the accounting for the interest component.

Analysis

Entity A determines that the office building does not meet the definition of a business. Counterparty B is not Entity A's customer in this transaction because Entity A doesn't consider selling buildings to be part of its ordinary activities. Entity A does not own and sell property. As a result, Entity A determines that the transaction is in the scope of ASC 610-20.

Because of the (1) uncertainty about whether the property will generate the cash flows necessary to service the mortgage and (2) insignificant amount of the $50,000 down payment in relation to the selling price of the building, Entity A determines at contract inception that collection of the transaction price (i.e., substantially all of the consideration to which it will be entitled) is not probable. Therefore, the contract criteria in ASC 606-10-25-1 are not met (as required by ASC 610-20-25-5).

See section 3.2.1.2 for guidance on the accounting for a contract that doesn't meet the contract criteria in ASC 606-10-25-1. See also Illustrations 3-5A and 3-5B, which are continuations of this illustration.

After the entity has determined the amount to assess for collectibility under ASC 606-10-25-1(e), an entity also has to determine whether an allowance for credit losses is required under ASC 326 for the receivable (or contract asset) that is recorded (i.e., after consideration of any variable consideration, such as an implicit price concession). If an allowance is required, the entity should record the allowance separately on the balance sheet and present the loss as a credit loss expense under ASC 326 on the income statement (i.e., not as a reduction of the transaction price).

See section 3.1.5 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further details on assessing the collectibility criterion in ASC 606.

How we see it

Entities may find applying the collectibility criterion challenging. Significant judgment will be required to determine when an expected partial payment from the counterparty indicates that (1) there is an implied price concession in the contract that affects the determination of the transaction price and the amount that is assessed for collectibility under ASC 606-10-25-1(e), (2) there is a credit loss under ASC 326 or (3) the arrangement lacks sufficient substance to be considered a contract in the scope of the guidance. See section 4.1.1.1.1 for further discussion on implicit price concessions and section 2.11.2 of our FRD, ***Credit impairment under ASC 326***, for further information on estimating the allowance for credit loss on receivables and contract assets resulting from the application of ASC 606.

3.2.1.2 Accounting for consideration received when the contract criteria are not met (updated September 2026)

If a contract does not meet all of the criteria in ASC 606-10-25-1, an entity applies the guidance in ASC 610-20-25-5 that refers to the guidance in ASC 350-10-40-3 if the transferred asset is an intangible asset and the guidance in ASC 360-10-40-3C if the asset is considered property, plant and equipment as follows:

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Overall

Derecognition

Transfer or Sale of Intangible Assets

350-10-40-3

If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do any of the following, as applicable:

a. Report the nonfinancial asset in its financial statements

b. Recognize amortization expense as a period cost for those assets with a finite life

c. Apply the impairment guidance in Section 350-30-35

d. For crypto assets accounted for in accordance with Subtopic 350-60, recognize gains and losses from remeasurement.

Property, Plant, and Equipment — Overall

Derecognition

Transfer or Sale of Property, Plant, and Equipment

360-10-40-3C

If an entity transfers a nonfinancial asset in accordance with paragraph 360-10-40-3A, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all the criteria in paragraph 606-10-25-1. Until all the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

a. Report the nonfinancial asset in its financial statements

b. Recognize depreciation expense as a period cost unless the assets have been classified as held for sale in accordance with paragraphs 360-10-45-9 through 45-10

c. Apply the impairment guidance in Section 360-10-35.

This guidance (including the guidance in ASC 610-20-25-5) indicates that if an entity determines a contract does not exist under ASC 606-10-25-1, it continues to reassess the arrangement to determine whether the criteria for a contract are met as explained in ASC 606-10-25-6. If the criteria are not met, and the entity receives consideration from the counterparty, it applies the guidance in ASC 606-10-25-7 through 25-8 as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Recognition

Identifying the Contract

606-10-25-6

If a contract with a customer does not meet the criteria in paragraph 606-10-25-1, an entity shall continue to assess the contract to determine whether the criteria in paragraph 606-10-25-1 are subsequently met.

606-10-25-7

When a contract with a customer does not meet the criteria in paragraph 606-10-25-1 and an entity receives consideration from the customer, the entity shall recognize the consideration received as **revenue** only when one or more of the following events have occurred:

a. The entity has no remaining obligations to transfer goods or services to the customer, and all, or substantially all, of the consideration promised by the customer has been received by the entity and is nonrefundable.

b. The contract has been terminated, and the consideration received from the customer is nonrefundable.

c. The entity has transferred control of the goods or services to which the consideration that has been received relates, the entity has stopped transferring goods or services to the customer (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

606-10-25-8

An entity shall recognize the consideration received from a customer as a liability until one of the events in paragraph 606-10-25-7 occurs or until the criteria in paragraph 606-10-25-1 are subsequently met (see paragraph 606-10-25-6). Depending on the facts and circumstances relating to the contract, the liability recognized represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer.

If the contract criteria are not met, any consideration an entity receives from the counterparty is initially accounted for as a liability that is measured at the amount of consideration received. Generally, we would not expect this liability to be presented as a contract liability. This is because a contract liability (as discussed in section 6.1) is defined in ASC 606, and referred to under ASC 610-20, as an entity's obligation to transfer goods or services to a customer (counterparty) for which the entity has received consideration (or the amount is due) from the customer (counterparty). Typically, an entity would not have an obligation to transfer goods or services before the criteria in ASC 606-10-25-1 are met. The liability continues to be recognized until the contract criteria in ASC 606-10-25-1 are met or until one of the events described in ASC 606-10-25-7 occurs.

ASC 606-10-25-27(c) includes four criteria that must be met in order for an entity to recognize revenue when consideration has been received from a counterparty and the contract criteria have not been met:

- The entity has transferred control of the asset(s) to which the consideration that has been received relates.
- The entity has stopped transferring assets to the counterparty, if applicable.

- The entity has no obligation under the contract to transfer additional assets.
- The consideration received from the counterparty is nonrefundable.

If control of the asset has transferred, we believe the entity should also derecognize the asset and recognize a corresponding gain or loss. The Board noted[47] that once a buyer controls the asset (i.e., it has obtained control of the asset from the selling entity), the entity no longer controls that asset and should no longer recognize the asset. In such circumstances, the difference between any nonrefundable consideration received by the selling entity and the carrying amount of the asset is recognized as a gain or loss when control of the asset has transferred. This could result in a significant up-front loss when the initial consideration received by the selling entity is substantially less than the carrying amount of the asset. The gain or loss calculation is updated when additional consideration is received in future periods.

For example, consider an entity that sells a building to a counterparty that is not a customer. At contract inception, the entity transfers control of the building to the counterparty and concludes the contract criteria in ASC 606-10-25-1 are not met because the entity does not think it is probable it will collect substantially all of the consideration promised in the contract (i.e., the collectibility criterion is not met). The entity receives a small nonrefundable down payment from the counterparty. Because the entity transfers control of the building, it recognizes a gain or loss based on the difference between the carrying amount of the building and the down payment received. The entity recognizes changes in the gain or loss when additional payments are received. See section 3.2.3 for further discussion on transferring control of an asset. The events listed in ASC 606-10-25-7 are discussed in more detail in section 3.5 of our FRD, ***Revenue from contracts with customers (ASC 606)***. The following example illustrates the accounting for consideration received for which the selling entity concludes that it is not probable it will collect substantially all of the consideration to which it is entitled and when control of the asset is not transferred at contract inception:

Illustration 3-5A: Seller financing with collectibility concerns

Assume the same facts as in Illustration 3-4.

Entity A sells an office building to Counterparty B for $1,000,000, consisting of $50,000 of cash, which is paid up front and nonrefundable, and a 10-year nonrecourse first mortgage from Counterparty B for $950,000. The office building has a carrying value of $800,000. Entity A concludes a contract does not exist under ASC 606-10-25-1.

Analysis

Because the contract criteria in ASC 606-10-25-1 are not met, Entity A considers the guidance in ASC 606-10-25-6 through 25-8. ASC 606-10-25-6 requires Entity A to reassess whether the contract criteria are met in subsequent periods considering any changes in facts and circumstances. Entity A also considers the guidance in ASC 606-10-25-7 to determine how to account for any nonrefundable cash received before a contract meets all of the criteria in ASC 606-10-25-1. Assume that Entity A evaluated ASC 606-10-25-7 and determined that it did not meet all of the criteria (e.g., control of the building has not transferred to Counterparty B) to recognize the receipt of the $50,000 nonrefundable down payment in income.

[47] Paragraph BC28 of ASU 2016-12.

As a result, Entity A does not derecognize the office building and accounts for the receipt of the $50,000 nonrefundable down payment as a liability, and it does not record a mortgage receivable. Entity A also continues to recognize depreciation of the asset (assumed to be $25,000 per year for purposes of the example).

Cash	$ 50,000	
Deposit liability		$ 50,000
Depreciation expense	$ 25,000	
Accumulated depreciation		$ 25,000

Entity A continues to reassess the contract in the second year of the arrangement. Entity A receives a principal payment of $100,000 but continues to believe that collectibility of the remaining balance is not probable because Counterparty B has yet to execute new leases for the space that will become available in the near term. As a result, Entity A records the $100,000 payment received as a deposit liability and continues to recognize depreciation of the asset. For purposes of this example, we have again ignored the accounting for the interest component.

Cash	$ 100,000	
Deposit liability		$ 100,000
Depreciation expense	$ 25,000	
Accumulated depreciation		$ 25,000

The following example continues from Illustration 3-5A and shows the accounting for consideration received when the selling entity concludes that it *is* probable it will collect substantially all of the consideration to which it is entitled:

Illustration 3-5B: Subsequent accounting for consideration when the contract criteria are met

Following Illustrations 3-4 and 3-5A, in the third year of the arrangement, Entity A receives a $100,000 principal payment and Counterparty B has recently entered into new long-term leases with the two largest tenants in the office building.

Analysis

Based on the change in Counterparty B's circumstances in Year 3, Entity A determines that Counterparty B has the intent and ability to pay the full amount due and that it is now probable that it will collect the unpaid portion of the transaction price (i.e., the outstanding mortgage receivable). Therefore, Entity A concludes that the contract criteria in ASC 606-10-25-1 are now met (as required by ASC 610-20-25-5).

Entity A also determines that control of the office building transferred because Counterparty B now has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the building. As a result, Entity A derecognizes the building, recognizes a gain on sale of the building and records a mortgage receivable for cash consideration that remains outstanding.

Cash	$ 100,000	
Mortgage receivable	$ 750,000[1]	
Deposit liability	$ 150,000	
Building, net		$ 750,000
Gain on sale		$ 250,000[2]

[1] Calculated as $1,000,000 transaction price less $250,000 of cash payments received (i.e., initial down payment of $50,000 and two subsequent payments of $100,000 each).

[2] Calculated as $1,000,000 transaction price less $750,000 net carrying value of the building (calculated as $800,000 initial carrying value less two years of depreciation totaling $50,000).

How we see it

ASC 610-20 doesn't provide guidance on how to account for assets that are not in the scope of the intangible asset guidance in ASC 350 and the property, plant and equipment guidance in ASC 360 when the contract criteria in ASC 606-10-25-1 are not met. Consistent with the Board's conclusion about how to account for assets in the scope of ASC 350 and ASC 360 that cannot be derecognized, we believe entities should continue to follow the guidance they were applying to the assets prior to the transfer when the contract criteria in ASC 606-10-25-1 are not met.

3.2.2 Identifying the distinct nonfinancial assets or ISNFAs

A contract to sell nonfinancial assets may include more than one nonfinancial asset or ISNFA. The guidance requires an entity to derecognize each distinct nonfinancial asset and ISNFA when it transfers control (as described in ASC 606-10-25-30) of each asset. An entity applies the following guidance to identify the distinct nonfinancial assets and ISNFAs:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

Applying Revenue Recognition Guidance

610-20-25-6

Once a contract meets all of the criteria in paragraph 606-10-25-1, an entity shall identify each distinct nonfinancial asset and distinct in substance nonfinancial asset promised to a counterparty in accordance with the guidance in paragraphs 606-10-25-19 through 25-22. An entity shall derecognize each distinct asset when it transfers control of the asset in accordance with paragraph 606-10-25-30. In some cases, control of each asset may transfer at the same time such that an entity may not need to separate and allocate consideration to each distinct nonfinancial asset and in substance nonfinancial asset. That may be the case, for example, when a parent transfers ownership interests in a consolidated subsidiary that holds nonfinancial assets (or nonfinancial assets and in substance nonfinancial assets) and ceases to have a controlling financial interest in the subsidiary in accordance with Topic 810. However, control of each asset may not transfer at the same time if the parent has control of some of the assets in accordance with paragraph 606-10-25-30 (for example, through repurchase agreements).

If the contract meets the criteria in ASC 606-10-25-1, an entity identifies each distinct nonfinancial asset or ISNFA promised in a contract using the guidance in ASC 606-10-25-19 through 25-22. The FASB observed[48] that control of each asset will often transfer at the same time (e.g., when they are all held in one entity). Therefore, in practice, an entity often may not need to separate and allocate consideration to each distinct nonfinancial asset or ISNFA. However, when control of distinct nonfinancial assets or ISNFAs is transferred at different points in time (e.g., because one or more, but not all, assets is subject to a repurchase agreement), identifying each distinct nonfinancial asset or ISNFA will be required to determine the point in time that control of each asset transfers (see section 3.2.2).

ASC 610-20 refers to the separation guidance in ASC 606 that outlines a two-step process for determining whether a promised good or service (or a bundle of goods and services) is distinct: (1) consideration of whether the counterparty can benefit from the good or service either on its own or together with other resources that are readily available to the counterparty (i.e., the nonfinancial asset or ISNFA is capable of being distinct) and (2) consideration of whether the good or service is separable from other promises in

[48] Paragraph BC41 of ASU 2017-05.

the contract (i.e., the nonfinancial asset or ISNFA is distinct within the context of the contract). Both criteria must be met to conclude that the nonfinancial asset or ISNFA is distinct. If these criteria are met, the individual nonfinancial asset or ISNFA must be accounted for as a separate unit of account. Entities apply the following guidance to determine whether a nonfinancial asset or ISNFA is distinct:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Identifying Performance Obligations

Distinct Goods or Services

606-10-25-19

A good or service that is promised to a customer is distinct if both of the following criteria are met:

a. The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (that is, the good or service is capable of being distinct).

b. The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of the contract).

606-10-25-20

A customer can benefit from a good or service in accordance with paragraph 606-10-25-19(a) if the good or service could be used, consumed, sold for an amount that is greater than scrap value, or otherwise held in a way that generates economic benefits. For some goods or services, a customer may be able to benefit from a good or service on its own. For other goods or services, a customer may be able to benefit from the good or service only in conjunction with other readily available resources. A readily available resource is a good or service that is sold separately (by the entity or another entity) or a resource that the customer has already obtained from the entity (including goods or services that the entity will have already transferred to the customer under the contract) or from other transactions or events. Various factors may provide evidence that the customer can benefit from a good or service either on its own or in conjunction with other readily available resources. For example, the fact that the entity regularly sells a good or service separately would indicate that a customer can benefit from the good or service on its own or with other readily available resources.

606-10-25-21

In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable in accordance with paragraph 606-10-25-19(b), the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Factors that indicate that two or more promises to transfer goods or services to a customer are not separately identifiable include, but are not limited to, the following:

a. The entity provides a significant service of integrating goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity is using the goods or services as inputs to produce or deliver the combined output or outputs specified by the customer. A combined output or outputs might include more than one phase, element, or unit.

b. One or more of the goods or services significantly modifies or customizes, or are significantly modified or customized by, one or more of the other goods or services promised in the contract.

c. The goods or services are highly interdependent or highly interrelated. In other words, each of the goods or services is significantly affected by one or more of the other goods or services in the contract. For example, in some cases, two or more goods or services are significantly affected by each other because the entity would not be able to fulfill its promise by transferring each of the goods or services independently.

606-10-25-22

If a promised good or service is not distinct, an entity shall combine that good or service with other promised goods or services until it identifies a bundle of goods or services that is distinct. In some cases, that would result in the entity accounting for all the goods or services promised in a contract as a single **performance obligation**.

Both steps in the analysis of whether assets are distinct are important to determine whether a promised nonfinancial asset or ISNFA should be accounted for separately from other promised assets. The first criterion (i.e., capable of being distinct) establishes the minimum characteristics for a nonfinancial asset or an ISNFA to be accounted for separately. However, even if the individual nonfinancial asset or ISNFA promised in a contract may be capable of being distinct, it may not be appropriate to account for each asset separately because doing so would not result in a faithful depiction of the entity's performance in that contract or appropriately represent the nature of an entity's promise to the counterparty. Therefore, an entity would also need to consider the interrelationship of those nonfinancial assets or ISNFAs to apply the second criterion (i.e., distinct within the context of the contract) and determine the units of account in a contract.

To determine whether promised nonfinancial assets or ISNFAs are separately identifiable (i.e., whether a promise to transfer an asset is distinct in the context of the contract), an entity needs to evaluate whether the contract is to deliver (1) multiple promised assets or (2) a combined item that comprises the individual assets promised in the contract. That is, an entity needs to evaluate whether the multiple promised assets to be delivered to the counterparty are *outputs* or *inputs* to a combined item.

The evaluation of the separately identifiable principle should consider the utility of the promised assets (i.e., the ability of each asset to provide benefit or value). An entity may be able to fulfill its promise to transfer each asset in a contract independently of the other assets, but if each asset significantly affects the other's utility to the counterparty, the promises are not separately identifiable because they are effectively inputs to a combined output. The Board also noted that the capable of being distinct criterion also considers the utility of the promised asset, but merely establishes a *baseline* level of economic substance an asset must have to be capable of being distinct. In contrast, the separately identifiable criterion looks at the counterparty's ability to derive its *intended* benefit from the contract. For example, if two or more promised assets are capable of being distinct because the counterparty can derive some measure of benefit from each one individually, but the counterparty's ability to derive the intended benefit from the contract significantly depends on the entity transferring all of those assets, those promised assets would need to be combined into a single unit of account because they are not separately identifiable in the context of the contract.

The FASB also explained[49] that the separately identifiable principle is intended to consider the level of integration, interrelation or interdependence among the multiple promised assets in a contract. That is, the principle is intended to help an entity evaluate when its performance in transferring a bundle of assets is, in substance, fulfilling a single promise to a counterparty. In evaluating how it fulfills its promises in a contract, an entity may also consider the notion of "separable risks"[50] and the relationship between the various assets in the contract. When considering the risks an entity undertakes in fulfilling its promises in a contract,

[49] Paragraph BC32 of ASU 2016-10.

[50] Paragraph BC30 of ASU 2016-10.

it could conclude that individual assets in a bundle are not distinct if the risk that it assumes in transferring one of the promised assets to the counterparty is inseparable from the risk relating to the transfer of the other promised assets in the bundle. Therefore, to apply the separately identifiable principle, an entity should evaluate how two or more promised assets affect each other and not just evaluate whether one asset, by its nature, depends on the other (e.g., an undelivered asset that would never be obtained by a counterparty who didn't purchase the delivered asset in the contract). That is, the conclusion about whether the promised assets are separately identifiable hinges on whether there is a significant two-way dependency between the items. Determining whether a two-way dependency is significant such that the promised assets are separately identifiable is a judgment that requires careful consideration.

ASC 606-10-25-21 includes three factors that are intended to help entities determine when the promises in a bundle of promised assets are *not* separately identifiable and, therefore, should be combined into a single unit of account. The factors are (1) the presence of a significant integration service, (2) the presence of significant modification or customization and (3) whether the promised goods are highly interdependent or highly interrelated. These three factors are not an exhaustive list, and not all of the factors need to be met to conclude that the entity's promised assets are not distinct and should be combined. The three factors also are not intended to be criteria that are evaluated independently of the separately identifiable principle.

Entities may need to apply significant judgment to evaluate whether a promised asset is separately identifiable. The evaluation requires a thorough understanding of the facts and circumstances present in each contract. We believe an entity should consider questions such as:

- Is the combined item greater than or substantively different from the sum of the promised assets?
- Is an entity, in substance, fulfilling a single promise to the counterparty?
- Is the risk an entity assumes to fulfill its obligation to transfer a promised asset inseparable from the risk relating to the transfer of the other promised assets in the bundle?
- Do two or more promised assets each significantly affect the other?
- Does each promised asset significantly affect the other promised asset's utility to the counterparty?

Refer to section 4.2 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further details.

The following example illustrates how to identify distinct assets in a transaction to transfer multiple nonfinancial assets at different points in time:

Illustration 3-6: Identifying the distinct assets in a contract to sell multiple nonfinancial assets

Company Q sells a hotel and a parcel of land that is adjacent to the hotel to Buyer R for $2,000,000. Company Q transfers title and physical possession of the land to Buyer R on 31 December 20X1, the transaction closing date. Company Q transfers title and physical possession of the hotel on 31 March 20X2. The transaction is not the sale of a business. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

Analysis

Buyer R is not Company Q's customer in this transaction because the hotel and land are not outputs of Company Q's ordinary activities (i.e., Company Q ordinarily operates hotels under management agreements or provides licenses to franchisees and generally does not own and sell hotel properties or land), so the transaction is in the scope of ASC 610-20.

Because Company Q transfers two nonfinancial assets at different points in time, it evaluates the guidance in ASC 606-10-25-19 through 25-22 (as required by ASC 610-20-25-6) to identify the distinct assets in the contract and determines that the hotel and land are each capable of being distinct and distinct within the context of the contract.

In making this determination, Company Q notes that the hotel and land each provide a benefit to the counterparty on their own (i.e., they are capable of being distinct) and that the promised hotel and land provide separate utility to the counterparty (i.e., they are distinct within the context of the contract). That is, the nature of Company Q's promise is to transfer the hotel and the land, separately, to Buyer R. Therefore, Company Q concludes that the hotel and the land are each distinct assets (i.e., separate units of account).

Note: See section 5 for guidance on allocating the consideration promised in the contract to more than one distinct nonfinancial asset.

3.2.3 Transferring control of the nonfinancial asset or ISNFA

If an entity determines that it does not have a controlling financial interest in the entity that holds the asset(s) after the transaction and the arrangement meets the criteria to be accounted for as a contract as described in section 3.2.1, the entity derecognizes each nonfinancial asset or ISNFA and recognizes a gain or loss when control of the underlying asset(s) transfers to the counterparty.

Entities evaluate control as described in ASC 606. ASC 606-10-25-25 defines control as "the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset," including the ability to prevent others from directing the use of the asset and obtaining the benefits from it. The FASB explained[51] the key terms in the definition of control as follows:

- Ability — A counterparty must have the present right to direct the use of, and obtain substantially all of the remaining benefits from, an asset for an entity to derecognize the asset.
- Direct the use of — A counterparty's ability to direct the use of an asset refers to the counterparty's right to deploy or to allow another entity to deploy that asset in its activities or to restrict another entity from deploying that asset.
- Obtain the benefits from — The counterparty must have the ability to obtain substantially all of the remaining benefits from an asset for the counterparty to obtain control of it. Conceptually, the benefits from an asset are potential cash flows (either an increase in cash inflows or a decrease in cash outflows). A counterparty can obtain the benefits directly or indirectly in many ways, such as by using, consuming, disposing of, selling, exchanging, pledging or holding an asset.

The transfer of control to the counterparty represents the transfer of the rights regarding the nonfinancial asset or ISNFA. The counterparty's ability to receive the benefit from the asset is represented by its right to substantially all of the cash inflows, or the reduction of cash outflows, generated by the asset. Upon transfer of control, the counterparty has sole possession of the right to use the asset for the remainder of its economic life.

The guidance in ASC 610-20 contemplates the transfer of control of a nonfinancial asset or an ISNFA at a point in time (rather than over time). Therefore, the guidance refers to indicators of the transfer of control in ASC 606-10-25-30 to determine when control of the underlying asset has transferred to the counterparty. These indicators include:

- The entity has a present right to payment for the asset.
- The counterparty has legal title to the asset.
- The entity has transferred physical possession of the asset.

[51] Paragraph BC120 of ASU 2014-09.

- The counterparty has the significant risks and rewards of ownership of the asset.
- The counterparty has accepted the asset.

ASC 606 provides guidance on how to apply these indicators, including how they relate to the definition of control and how the other implementation guidance in ASC 606 (e.g., accounting for repurchase agreements, see section 3.2.3.2) may affect the assessment of control, as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Recognition

Performance Obligations Satisfied at a Point in Time

606-10-25-30

If a **performance obligation** is not satisfied over time in accordance with paragraphs 606-10-25-27 through 25-29, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a **customer** obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the guidance on control in paragraphs 606-10-25-23 through 25-26. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:

a. The entity has a present right to payment for the asset — If a customer presently is obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

b. The customer has legal title to the asset — Legal title may indicate which party to a **contract** has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

c. The entity has transferred physical possession of the asset — The customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls. Paragraphs 606-10-55-66 through 55-78, 606-10-55-79 through 55-80, and 606-10-55-81 through 55-84 provide guidance on accounting for repurchase agreements, consignment arrangements, and bill-and-hold arrangements, respectively.

d. The customer has the significant risks and rewards of ownership of the asset — The transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

e. The customer has accepted the asset — The customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. To evaluate the effect of a contractual customer acceptance clause on when control of an asset is transferred, an entity shall consider the guidance in paragraphs 606-10-55-85 through 55-88.

None of the indicators are meant to be individually determinative. The Board also clarified[52] that the indicators are not meant to be a checklist and not all of them must be present to determine that the entity has transferred control. Rather, the indicators are factors that are often present when a counterparty has obtained control of an asset, and the list is meant to help entities apply the principle of control. An entity must consider all relevant facts and circumstances to determine whether control has transferred. For example, the fact that a counterparty has physical possession of an asset but can't use it until a certain date may indicate that the selling entity still controls the asset, even though the counterparty has physical possession.

We discuss the indicators in ASC 606-10-25-30 that an entity considers when determining when it transfers control of the asset to the counterparty in more detail below.

Present right to payment for the asset

The FASB considered[53] but rejected specifying a right to payment as an overarching criterion for determining when an asset should be derecognized. Therefore, while the date at which the entity has a right to payment for the asset may be an indicator of the date the counterparty obtained control of the asset, it does not always indicate that the counterparty has obtained control of the asset. For example, in some contracts, a counterparty is required to make a nonrefundable up-front payment but doesn't receive an asset in return at that time.

Legal title and physical possession

The term "title" is often associated with a legal definition denoting the ownership of an asset or legally recognized rights that preclude others' claim to the asset. Accordingly, the transfer of title often indicates that control of an asset has been transferred. The determination of which party has title to an asset does not always depend on which party has physical possession of the asset, but without contract language to the contrary, title generally passes to the counterparty at the time of the physical transfer.

Risks and rewards of ownership

Although the Board included the risks and rewards of ownership as one factor to consider when evaluating whether control of an asset has transferred, it emphasized[54] that this factor does not change the principle of determining the transfer of assets on the basis of control. The concept of the risks and rewards of ownership is based on how the selling entity and the counterparty share both the potential gain (the reward) and the potential loss (risk) associated with owning an asset. Rewards of ownership include the following:

- Rights to all appreciation in value of the asset
- Unrestricted usage of the asset
- Ability to modify the asset
- Ability to transfer or sell the asset
- Ability to grant a security interest in the asset

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[52] Paragraph BC155 of ASU 2014-09.

[53] Paragraph BC148 of ASU 2014-09.

[54] Paragraph BC154 of ASU 2014-09.

Conversely, the risks of ownership include the following:

- Absorbing all of the declines in market value
- Incurring losses due to theft or damage of the asset
- Incurring losses due to changes in the business environment (e.g., obsolescence, impairment)

Counterparty acceptance

When determining whether the counterparty has obtained control of the asset, an entity must consider any acceptance clauses that require the counterparty to approve the acceptability of the asset before it is obligated to pay for it. If a counterparty does not accept the asset, the entity may not be entitled to consideration, may be required to take remedial action or may be required to take back the delivered asset.

Some acceptance provisions may be straightforward and may give a counterparty the ability to accept or reject transferred assets based on objective criteria specified in the contract (e.g., the asset functions at a specified speed). Other acceptance clauses may be subjective or may appear in parts of the contract that do not typically address acceptance matters, such as warranty provisions or indemnification clauses. Judgment may be required to determine the effect of the latter types of acceptance clauses on derecognition.

Acceptance criteria that an entity cannot objectively evaluate against the agreed-upon specifications in the contract precludes an entity from concluding that a counterparty has obtained control of an asset until formal sign-off is obtained from the counterparty, or the acceptance provisions lapse. Acceptance clauses should not be deemed a formality if the acceptance terms are unusual or nonstandard. If a contract contains acceptance provisions based on counterparty-specified criteria, it may be difficult for the entity to objectively assess the criteria, and the entity should not derecognize an asset prior to obtaining evidence of acceptance. However, determining that the acceptance criteria have been met (and thus acceptance is merely a formality) may be appropriate if the entity can demonstrate that the asset meets all of the contract's acceptance specifications by replicating, before transfer, those conditions under which the counterparty intends to use the asset.

See section 7.2 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on the indicators of control transfer.

How we see it

We believe that if title to a nonfinancial asset transfers to the counterparty, control likely transfers at the same time. Although this indicator is not determinative without full consideration of the facts and circumstances of the contract, the title to an asset (e.g., real estate) typically provides the holder of the title the ability to direct the use of and obtain substantially all of the remaining benefits of the asset to which the title is held. That is, if an entity holds the title to an asset, it often will have the ability to control the asset.

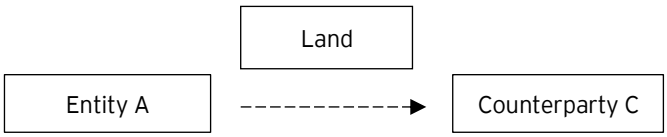
However, if the transfer of the title to the asset doesn't coincide with, or conflicts with, the other indicators of control transfer (e.g., if title transfers but physical possession doesn't), entities will have to carefully consider when control of the asset transfers. Entities also have to carefully consider any other contract terms that may affect the transfer of control. For example, when an entity has the obligation or right to repurchase an asset (i.e., a forward or call option), this may indicate the counterparty has not obtained control of the asset (see section 3.2.3.2).

The following examples illustrate how an entity may evaluate the transfer of control principles in ASC 606 for a transaction to transfer nonfinancial assets:

Illustration 3-7: Transfer of control of land to a single counterparty

Entity A sells land to Counterparty C. The land is not a business, and Counterparty C is not Entity A's customer in this transaction because the land is not an output of Entity A's ordinary activities. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

On the transaction closing date, Entity A transfers title and physical possession of the land to Counterparty C.



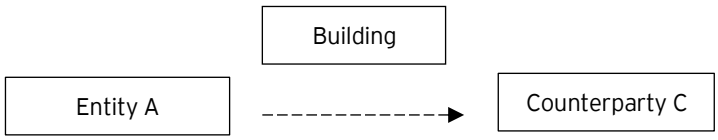
Analysis

Entity A concludes it has transferred control of the land to Counterparty C because it has transferred title and physical possession of the land to Counterparty C, which indicates that Counterparty C has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the land. In addition, Entity A concludes there are no factors present that preclude it from transferring control of the land to Counterparty C. Entity A derecognizes the land at the transaction closing date.

Illustration 3-8: Transfer of control of a building to a single counterparty

Entity A sells an office building to Counterparty C in exchange for $1 million in cash ($150,000 directly from Counterparty C and $850,000 of proceeds from a secured first mortgage Counterparty C entered into with a third-party lender). The office building is not a business, and Counterparty C is not Entity A's customer in this transaction because the building is not an output of Entity A's ordinary activities. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

Entity A is not contingently liable for the mortgage nor does it have any other risks related to Counterparty C's financing. On the transaction closing date, Entity A transfers title and physical possession of the property to Counterparty C and no longer has significant risks and rewards of ownership with the property. The office building has a carrying value of $800,000.



Analysis

Entity A concludes it has transferred control of the office building to Counterparty C. The contract specifies Entity A's present right to payment for the building (which has already been received in this transaction), and Entity A has transferred title and physical possession of the building to Counterparty C, which indicates that Counterparty C has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the office building. In addition, Entity A concludes there are no factors present that preclude it from transferring control of the building to Counterparty C. Entity A derecognizes the building at the transaction closing date.

Cash	$ 1,000,000	
Building, net		$ 800,000
Gain on sale		$ 200,000 [1]

[1] Calculated as $1,000,000 transaction price less $800,000 of net carrying value of the building.

How we see it

An entity is required to recognize the amount of the transaction price it allocates to each nonfinancial asset or ISNFA in a contract when it transfers the assets to the counterparty, regardless of whether the consideration is paid up-front or the entity has a conditional or unconditional right to receive the consideration in the future. An entity that has not yet received the consideration to which it is entitled for transferring the nonfinancial assets or ISNFAs recognizes a corresponding receivable if its right to payment is unconditional or a contract asset if its right to payment is conditional (See section 6.1 for further discussion).

3.2.3.1 Transferring control of nonfinancial assets held in a legal entity

In many nonfinancial asset transfer transactions, the assessment of when control transfers and to whom it transfers will be straightforward (e.g., a single nonfinancial asset is sold directly to a third party). However, it may be challenging for an entity to determine when control of the underlying asset transfers to the counterparty in other instances, such as in "partial sale" transactions. The term *partial sale* in the context of ASC 610-20 generally refers to a transaction in which an entity transfers either:

- A controlling financial interest in a subsidiary that holds nonfinancial assets (or nonfinancial assets and ISNFAs) and the entity retains a noncontrolling interest in the former subsidiary
- Nonfinancial assets (or nonfinancial assets and ISNFAs) to a counterparty that is owned or newly formed by a third party in exchange for a noncontrolling interest in that entity

The control transfer assessment also may be complicated when ownership interests in an entity that holds nonfinancial assets (or nonfinancial assets and ISNFAs) are sold to more than one counterparty (e.g., two buyers each acquire a 40% equity interest in an entity). ASC 610-20 provides the following guidance for these situations:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Recognition

Applying Revenue Recognition Guidance

610-20-25-7

For purposes of evaluating the indicators of the transfer of control in paragraph 606-10-25-30, if an entity has (or continues to have) a **noncontrolling interest** in the **legal entity** that holds the nonfinancial assets or in substance nonfinancial assets as a result of the transaction, the entity shall evaluate the point in time at which the legal entity holding the assets obtains (or has) control (for example, by evaluating whether the legal entity can direct the use of, and obtain substantially all of the benefits from, each distinct nonfinancial asset or in substance nonfinancial asset within it). (See Case A of Example 2 in paragraphs 610-20-55-11 through 55-14.) If the entity does not have a noncontrolling interest in the legal entity that holds the nonfinancial assets or in substance nonfinancial assets as a result of the transaction, it shall evaluate the point in time at which a counterparty (or counterparties, collectively) obtains control of the assets in the legal entity (for example, by evaluating whether a counterparty [or counterparties, collectively] can direct the use of, and obtain substantially all of the benefits from, each distinct nonfinancial asset or in substance nonfinancial asset within the legal entity).

The transfer of control guidance in ASC 606 doesn't contemplate partial sale transactions because that guidance requires an entity to evaluate the point in time at which a customer obtains control of an asset and, in doing so, considers whether the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.[55] In contrast, when an entity retains (or receives) a noncontrolling interest in a partial sale transaction under ASC 610-20, the counterparty may not have the ability to obtain substantially all of the remaining benefits from the asset and, therefore, it may be unclear how to apply the guidance in ASC 606 to evaluate the transfer of control in those circumstances.

3.2.3.1.1 Entity retains or receives a noncontrolling interest in the legal entity that holds the nonfinancial assets (i.e., a partial sale)

To address the transfer of control for partial sale transactions, the Board included guidance in paragraph ASC 610-20-25-7 that states that when an entity retains or receives a noncontrolling interest in the subsidiary that holds the (1) nonfinancial asset or (2) nonfinancial asset and ISNFA (i.e., a partial sale), the selling entity evaluates whether the legal entity (e.g., the former consolidated subsidiary) that holds the (1) nonfinancial asset or (2) nonfinancial asset and ISNFA obtains or has control of that asset in accordance with ASC 606. That is, the selling entity evaluates whether it transfers control of the underlying asset (e.g., the building) instead of whether control of the ownership interest transfers (i.e., the unit of account is the underlying asset and not the ownership interest in the former subsidiary).

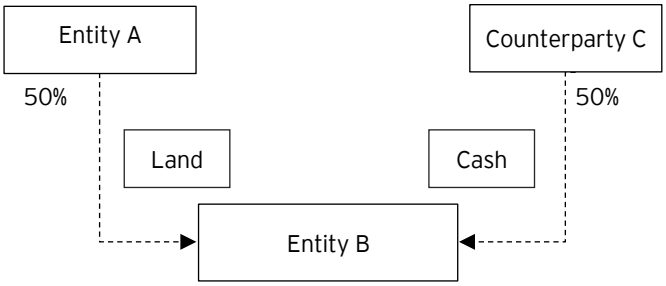
In addition, in this situation, because an entity retains or receives a noncontrolling interest in a partial sale, the counterparty (or counterparties) may not have the ability to obtain substantially all of the remaining benefits from the asset, so the selling entity evaluates whether the legal entity holding the nonfinancial assets or ISNFAs as a result of the transaction has control of these assets rather than whether the counterparty (or counterparties) to the transaction obtained control of the nonfinancial assets or ISNFAs.

The following example illustrates how a selling entity evaluates control of an asset it transfers to a newly formed entity in which the selling entity has a noncontrolling interest:

Illustration 3-9: Transfer of control when an entity has a noncontrolling interest in the legal entity that holds the nonfinancial asset

Entity A and Counterparty C create a newly formed legal entity, Entity B. Entity A transfers land and Counterparty C contributes cash to Entity B and each party receives a 50% noncontrolling interest in Entity B. The land is not a business, and Counterparty C is not Entity A's customer in this transaction. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

At the transaction closing date, Entity B obtains title and physical possession of the land.



[55] Paragraph BC59 of ASU 2017-05.

Analysis

Because Entity A has a noncontrolling interest in the legal entity that holds the land as a result of the transaction (i.e., Entity B), it evaluates the point in time Entity B controls the asset.[1] Entity A concludes Entity B controls the land at the transaction closing date because Entity B has legal title, physical possession and the significant risks and rewards of ownership of the land. In addition, Entity A concludes there are no factors present that preclude it from transferring control of the land to Entity B. Based on these factors, Entity A concludes that Entity B is able to direct the use of, and obtain substantially all of the remaining benefits from, the land on the transaction closing date.

Entity A derecognizes the land and accounts for its noncontrolling interest in Entity B as an equity method investment under ASC 323.

[1] See ASC 610-20-25-7.

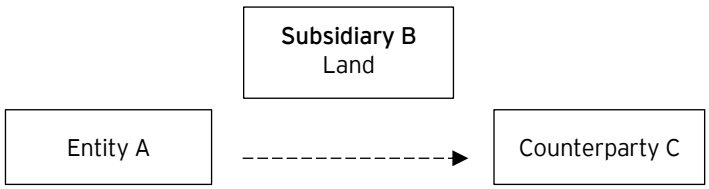
3.2.3.1.2 Entity does not retain or receive a noncontrolling interest in the legal entity that holds the nonfinancial assets

When a selling entity does not retain or receive a noncontrolling interest in the legal entity that holds the (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs as a result of the transaction, the entity evaluates whether the counterparty, or counterparties, collectively, obtains control of the nonfinancial assets or ISNFAs. Consider the following illustration:

Illustration 3-10: Transfer of control when an entity does not have a noncontrolling interest in the legal entity that holds the nonfinancial asset

Entity A sells its ownership interest in Subsidiary B to Counterparty C. Subsidiary B holds a single nonfinancial asset that is land. Subsidiary B is not a business, and Counterparty C is not Entity A's customer in this transaction. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

On the transaction closing date, Entity A loses its controlling financial interest in Subsidiary B under ASC 810 and transfers title and physical possession of the land to Counterparty C.



Analysis

Because Entity A does not have a noncontrolling interest in the legal entity that holds the land as a result of the transaction (i.e., Subsidiary B), it evaluates the point in time Counterparty C obtains control of the land held by Subsidiary B.[1] Entity A concludes that at the transaction closing date, Counterparty C can direct the use of, and obtain substantially all of the benefits from, the land because it controls the legal entity that holds the land (i.e., Subsidiary B). In addition, Entity A concludes there are no factors present that preclude it from transferring control of the land to Counterparty C. Entity A derecognizes the land and Subsidiary B.

Note: This analysis is similar to the analysis in Illustrations 3-7 and 3-8 in section 3.2.3 because in the illustrations, the selling entity evaluates the point in time the counterparty obtains control of the nonfinancial asset.

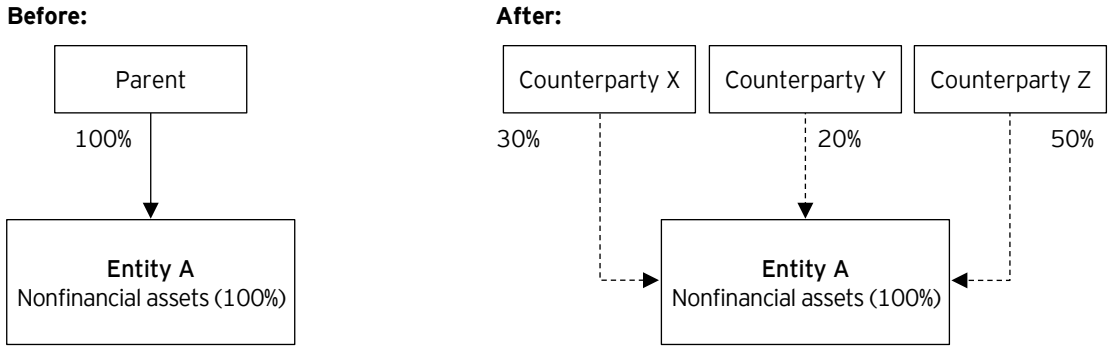
[1] See ASC 610-20-25-7.

The Board considered an example in which a parent transfers interests in a wholly owned subsidiary by transferring 50% of its interest to Party A and 50% of its interest to Party B. The entity should evaluate the point in time in which Party A and Party B, collectively, obtain control of the wholly owned subsidiary.

The following example illustrates how an entity may evaluate the transfer of control principles in ASC 606 for a transaction to transfer a nonfinancial asset to multiple counterparties:

Illustration 3-11: Transfer of control to multiple counterparties

Parent transfers 30%, 20% and 50% equity interests in its wholly owned subsidiary Entity A to Counterparty X, Counterparty Y and Counterparty Z, respectively, for cash. Entity A holds only nonfinancial assets.[1] Entity A is not a business, and the counterparties are not Parent's customers in this transaction. At the transaction closing date, Parent does not have a controlling financial interest in Entity A, Counterparty X, Counterparty Y or Counterparty Z under ASC 810. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.



Analysis

Because Parent concludes that it loses control of Entity A under ASC 810, Parent evaluates the point in time at which Counterparty X, Counterparty Y and Counterparty Z collectively obtain control of the nonfinancial assets held by Entity A under ASC 606.[2] Parent concludes that at the transaction closing date, the counterparties, collectively, can direct the use of, and obtain substantially all of the benefits from, the nonfinancial assets because they collectively control the legal entity that holds the nonfinancial assets. In addition, Parent concludes there are no factors present that preclude it from transferring control of the nonfinancial assets to the counterparties. Parent derecognizes Entity A and the nonfinancial assets on the transaction closing date.

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[1] These nonfinancial assets are not subject to a scope exception in ASC 610-20.

[2] See ASC 610-20-25-7.

3.2.3.2 Repurchase agreements (updated September 2025)

When assessing whether an entity has lost control of the asset, an entity needs to consider any repurchase agreements (e.g., a call option to repurchase either an asset or the ownership interest in an entity) in accordance with ASC 606-10-25-30(c). Repurchase agreements may preclude derecognition because while physical possession may transfer, if the entity that sold the asset has the ability to direct future ownership of the transferred asset, it may indicate that control has not transferred.

ASC 606 clarifies the types of arrangements that qualify as repurchase agreements:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Recognition

Satisfaction of Performance Obligations

606-10-25-26

When evaluating whether a customer obtains control of an asset, an entity shall consider any agreement to repurchase the asset (see paragraphs 606-10-55-66 through 55-78).

Implementation Guidance and Illustrations

Repurchase Agreements

606-10-55-66

A repurchase agreement is a **contract** in which an entity sells an asset and also promises or has the option (either in the same contract or in another contract) to repurchase the asset. The repurchased asset may be the asset that was originally sold to the **customer**, an asset that is substantially the same as that asset, or another asset of which the asset that was originally sold is a component.

606-10-55-67

Repurchase agreements generally come in three forms:

a. An entity's obligation to repurchase the asset (a forward)

b. An entity's right to repurchase the asset (a call option)

c. An entity's obligation to repurchase the asset at the customer's request (a put option).

For an obligation or right to purchase an asset to be accounted for as a repurchase agreement under the standard, it should exist at contract inception either as a part of the same contract or in another contract. The FASB clarified[56] that an entity's subsequent decision to repurchase an asset after transferring control of that asset to a counterparty without reference to any pre-existing contractual right should not be accounted for as a repurchase agreement under the standard. That is, because the counterparty is not obligated to resell that asset to the entity in the initial contract, any subsequent decision to repurchase the asset does not affect the counterparty's ability to control the asset upon initial transfer.

[56] Paragraph BC423 of ASU 2014-09.

How we see it

An entity that has an obligation or a right to repurchase an asset may be required to account for the contract as either a lease or a financing arrangement. While ASC 606-10-55-66 refers to a contract, we believe applying the repurchase guidance to one or more, but not all, performance obligations in a contract may be appropriate in certain circumstances. For example, if a repurchase option applies to an asset in a separately identified performance obligation but does not apply to goods or services in other performance obligations, accounting for the effect of the forward or call at the contract level may prevent the entity from recognizing revenue when (or as) it satisfies the performance obligations unaffected by the repurchase option.

3.2.3.2.1 Forward or call option held by the entity

When an entity has the obligation or right to repurchase an asset (i.e., a forward or call option), the standard indicates that the counterparty has not obtained control of the asset.

The standard provides the following guidance for assets that are transferred with forward or call options:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Implementation Guidance and Illustrations

A Forward or a Call Option

606-10-55-68

If an entity has an obligation or a right to repurchase the asset (a forward or a call option), a **customer** does not obtain control of the asset because the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset even though the customer may have physical possession of the asset. Consequently, the entity should account for the **contract** as either of the following:

a. A **lease** in accordance with Topic 842 on leases, if the entity can or must repurchase the asset for an amount that is less than the original selling price of the asset unless the contract is part of a sale and leaseback transaction. If the contract is part of a sale and leaseback transaction, the entity should account for the contract as a financing arrangement and not as a sale and leaseback transaction in accordance with Subtopic 842-40.

b. A financing arrangement in accordance with paragraph 606-10-55-70, if the entity can or must repurchase the asset for an amount that is equal to or more than the original selling price of the asset.

606-10-55-69

When comparing the repurchase price with the selling price, an entity should consider the time value of money.

606-10-55-70

If the repurchase agreement is a financing arrangement, the entity should continue to recognize the asset and also recognize a financial liability for any consideration received from the customer. The entity should recognize the difference between the amount of consideration received from the customer and the amount of consideration to be paid to the customer as interest and, if applicable, as processing or holding costs (for example, insurance).

606-10-55-71

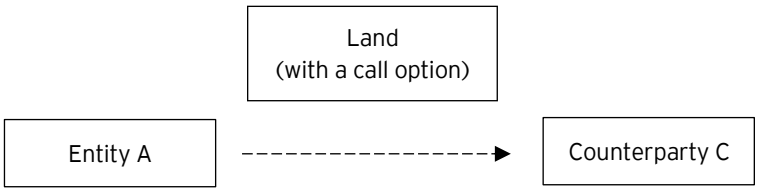
If the option lapses unexercised, an entity should derecognize the liability and recognize **revenue**.

The following example illustrates how a call option held by the selling entity to repurchase an asset affects the assessment of the transfer of control:

Illustration 3-12: Transfer of a nonfinancial asset with a repurchase option

Entity A sells land to Counterparty C. Entity A holds a substantive call option to repurchase the land in two years at a fixed price. The land is not a business, and Counterparty C is not Entity A's customer in this transaction because the land is not an output of Entity A's ordinary activities. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

On the transaction closing date, Entity A transfers physical possession of the land to Counterparty C.



Analysis

Entity A concludes it has not transferred control of the land to Counterparty C because the substantive call option prevents Counterparty C from obtaining control of the land. That is, Counterparty C is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the land even though it has physical possession of the asset. As a result, Entity A does not derecognize the land and accounts for the contract either as a lease or a financing arrangement in accordance with ASC 606-10-55-68.

The repurchase guidance in ASC 606 requires that an entity account for a transaction including a forward or a call option based on the relationship between the repurchase price and the original selling price, regardless of whether the option will be exercised. The standard indicates that if the entity has the right or obligation to repurchase the asset at a price less than the original selling price (taking into consideration the effects of the time value of money), the entity should account for the transaction as a lease in accordance with ASC 842, unless the contract is part of a sale and leaseback transaction (in which case the transaction is accounted for as a financing arrangement in accordance with ASC 606-10-55-70). For additional information on lease accounting, see our FRD, ***Lease accounting: Accounting Standards Codification 842,*** **Leases**. If the entity has the right or obligation to repurchase the asset at a price equal to or greater than the original selling price (considering the effects of the time value of money) or if the contract is part of a sale and leaseback transaction, the entity would account for the contract as a financing arrangement in accordance with ASC 606-10-55-70.

How we see it

The effect of the time value of money should be considered when comparing the repurchase price to the original selling price of the asset. This evaluation can influence the determination of whether the repurchase agreement represents a lease or financing arrangement.

The following graphic depicts this guidance for transactions that are not sale and leasebacks:

Forward or call option				
Repurchase price	<	Original selling price	=	Lease
Repurchase price	≥	Original selling price	=	Financing

Note: When comparing the repurchase price with the selling price, an entity should consider the time value of money.

Under the standard, a transaction with a seller option to repurchase the asset is treated as a lease or a financing arrangement (i.e., not a sale) because the counterparty does not have control of the asset and is constrained in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The Board noted[57] that entities would not need to consider the likelihood that a call option will be exercised in determining the accounting for the repurchase provision. However, the Board also stated that nonsubstantive call options should be ignored and would not affect when a counterparty obtains control of an asset. See also Question 3-1 for how an entity might consider a conditional call option and an example of one that may qualify to be treated as a sale.

The Board also noted[58] that, theoretically, a customer (counterparty) may not be constrained in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset if the selling entity agrees to repurchase, at the prevailing market price, an asset from the customer (counterparty) that is substantially the same and is readily available in the marketplace.

For example, an entity may transfer control of a commodity to a customer (counterparty) together with a forward or call option to repurchase that commodity (or one that is substantially the same). If (1) the repurchase price in the forward or call option is at the prevailing market price at the repurchase date, (2) the commodity to be repurchased is substantially the same and (3) the commodity to be repurchased under the forward or call option is readily available (e.g., by being traded in an active commodity market), then the customer (counterparty) may not be constrained in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. The evaluation of whether the customer (counterparty) obtains control of the asset would likely require the use of significant judgment.

If a transaction is considered a financing arrangement under the standard, in accordance with ASC 606-10-55-70, the selling entity continues to recognize the asset and record a financial liability for the consideration received from the counterparty. The difference between the consideration received from the counterparty and the consideration subsequently paid to the counterparty (upon repurchasing the asset) represents the interest and holding costs, as applicable, that are recognized over the term of the financing arrangement. If the option lapses unexercised, the entity derecognizes the liability and recognizes a gain or loss on the transaction at that time.

[57] Paragraph BC427 of ASU 2014-09.

[58] Paragraph BC425 of ASU 2014-09.

The following example illustrates how the relationship between the repurchase price and the original selling price of an asset subject to a call option affects the accounting of the transaction:

Illustration 3-13: Selling entity holds call option for an amount greater than the purchase price

Real Estate Fund E sells an office building to Counterparty C on 1 January 20X1 for $2 million. The contract includes a call option that gives Real Estate Fund E the right to repurchase the asset for $2.2 million on or before 31 December 20X2. For ease of illustration, the time value of money is ignored in this example. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

Analysis

Real Estate Fund E concludes control of the asset does not transfer to Counterparty C on 1 January 20X1 because Real Estate Fund E has a right to repurchase the office building. Counterparty C is therefore limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Real Estate Fund E accounts for the transaction as a financing arrangement because the exercise price is more than the original selling price. Real Estate Fund E does not derecognize the office building and instead recognizes the cash received as a financial liability. Real Estate Fund E also accretes the liability and recognizes interest expense over the two-year period for the difference between the exercise price ($2.2 million) and the cash received ($2.0 million).

If the option subsequently lapses unexercised, Real Estate Fund E derecognizes the office building and recognizes proceeds of $2.2 million.[1]

[1] This amount includes the extinguishment of the financial liability.

How we see it

Given that the FASB has embedded lease guidance in the standard, it is important for entities to understand the interaction between the lease and revenue guidance.

Question 3-1 **How does an entity evaluate a conditional call option to repurchase an asset?**

ASC 606 does not specifically address conditional call options. We believe that if the entity controls the outcome of the condition that causes the call option to become active, then the presence of the call option indicates that control has not transferred because the counterparty is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. That is, the entity would be required to treat the contract as a lease or a financing arrangement as required by ASC 606-10-55-68.

We also believe that if the entity does not control the condition that causes the call option to become active, then it would be acceptable for the entity to apply judgment to determine whether the call option limits the counterparty's ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. For example, if neither the entity nor the counterparty controls the outcome of the contingency, the entity could evaluate the nature of the contingency, together with the likelihood of the contingency becoming active, to determine whether it limits the counterparty's ability to obtain control of the asset.

We further believe that if the counterparty controls the outcome of the contingency, then the conditional call option may not prevent the counterparty from obtaining control of the asset if the counterparty can direct the use of, and obtain substantially all the remaining benefits from, the asset. The guidance in ASC 606-10-55-72 through 55-78 may be helpful for an entity to consider when determining whether the counterparty obtains control of the asset when a counterparty controls the outcome of the contingency. See section 7.3 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

3.2.3.2.2 Put option held by the counterparty

An entity's obligation to repurchase an asset at the counterparty's request is a put option that is held by the counterparty. ASC 606 provides the following guidance for counterparty-held put options:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Implementation Guidance and Illustrations

A Put Option

606-10-55-72

If an entity has an obligation to repurchase the asset at the **customer's** request (a put option) at a price that is lower than the original selling price of the asset, the entity should consider at contract inception whether the customer has a significant economic incentive to exercise that right. The customer's exercising of that right results in the customer effectively paying the entity consideration for the right to use a specified asset for a period of time. Therefore, if the customer has a significant economic incentive to exercise that right, the entity should account for the agreement as a lease in accordance with Topic 842 on leases unless the contract is part of a sale and leaseback transaction. If the contract is part of a sale and leaseback transaction, the entity should account for the contract as a financing arrangement and not as a sale and leaseback transaction in accordance with Subtopic 842-40.

606-10-55-73

To determine whether a customer has a significant economic incentive to exercise its right, an entity should consider various factors, including the relationship of the repurchase price to the expected market value of the asset at the date of the repurchase and the amount of time until the right expires. For example, if the repurchase price is expected to significantly exceed the market value of the asset, this may indicate that the customer has a significant economic incentive to exercise the put option.

606-10-55-74

If the customer does not have a significant economic incentive to exercise its right at a price that is lower than the original selling price of the asset, the entity should account for the agreement as if it were the sale of a product with a right of return as described in paragraphs 606-10-55-22 through 55-29.

606-10-55-75

If the repurchase price of the asset is equal to or greater than the original selling price and is more than the expected market value of the asset, the contract is in effect a financing arrangement and, therefore, should be accounted for as described in paragraph 606-10-55-70.

606-10-55-76

If the repurchase price of the asset is equal to or greater than the original selling price and is less than or equal to the expected market value of the asset, and the customer does not have a significant economic incentive to exercise its right, then the entity should account for the agreement as if it were the sale of a product with a right of return as described in paragraphs 606-10-55-22 through 55-29.

606-10-55-77

When comparing the repurchase price with the selling price, an entity should consider the time value of money.

606-10-55-78

If the option lapses unexercised, an entity should derecognize the liability and recognize **revenue**.

The guidance in ASC 606 indicates that if the counterparty has the ability to require an entity to repurchase an asset (i.e., a put option) at a price lower than the original selling price, the entity should consider at contract inception whether the counterparty has a significant economic incentive to exercise that right. That is, this determination influences whether the counterparty has control over the asset received and determines whether the arrangement is treated as a lease or a sale with the right of return. For additional information on lease accounting, see our FRD, ***Lease accounting: Accounting Standards Codification 842,*** **Leases**.

An entity must consider many factors to determine whether a counterparty has a significant economic incentive to exercise its right, including the relationship of the repurchase price to the expected market value of the asset at the date of repurchase and the amount of time until the right expires. The standard notes that if the repurchase price is expected to significantly exceed the market value of the asset, the counterparty may have a significant economic incentive to exercise the put option. Given that the standard provides limited guidance on determining whether a significant economic incentive exists, judgment may be required to make this determination.

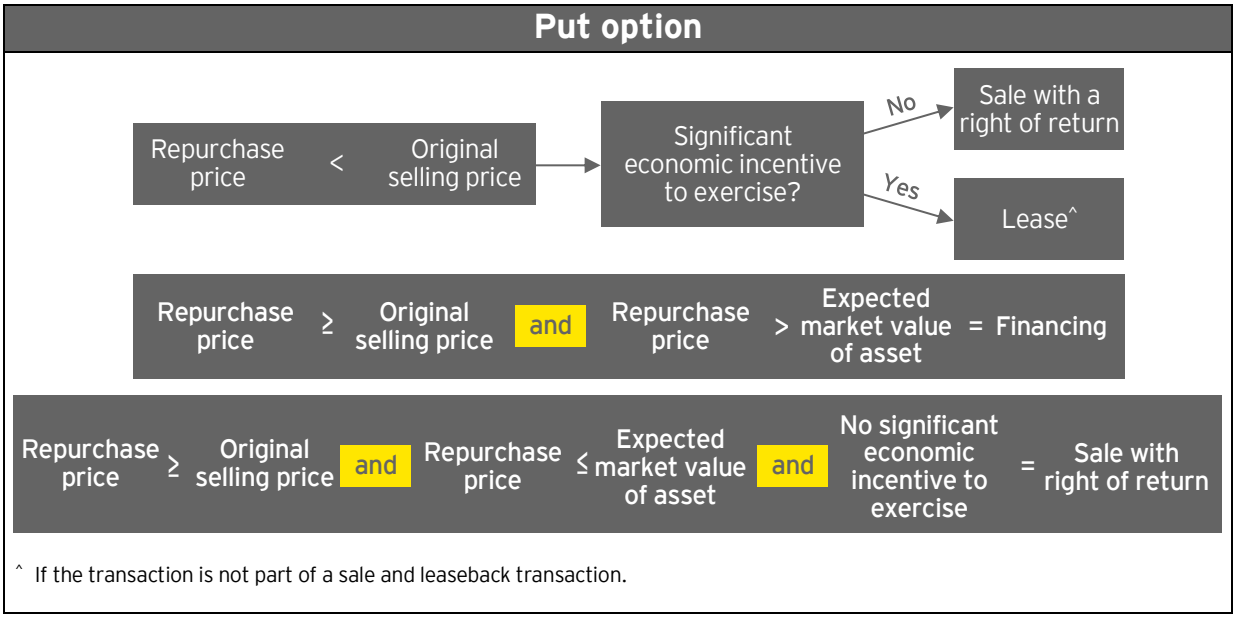
If a counterparty has a significant economic incentive to exercise its right and, therefore, the counterparty is expected to ultimately return the asset, the entity should account for the agreement as a lease because the counterparty is effectively paying the entity for the right to use the asset for a period of time. An exception would be if the contract is part of a sale and leaseback transaction, in which case the contract should be accounted for as a financing arrangement in accordance with ASC 606-10-55-70.

If a counterparty does not have a significant economic incentive to exercise its right, the entity should account for the agreement in a manner similar to a sale of a product with a right of return.

A repurchase price of an asset that is equal to or greater than the original selling price but less than or equal to the expected market value of the asset should also be accounted for as a sale of a product with a right of return, if the counterparty does not have a significant economic incentive to exercise its right. See section 5.4 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for a discussion of sales with a right of return.

If the counterparty has the ability to require an entity to repurchase the asset at a price equal to or more than the original selling price and the repurchase price is more than the expected market value of the asset, the contract is in effect a financing arrangement.

The following graphic depicts this guidance:



The following example illustrates how a put option to repurchase an asset held by the counterparty to the transaction affects the assessment of the transfer of control:

Illustration 3-14: Counterparty holds a put option

Real Estate Fund E sells an office building to Counterparty C on 1 January 20X1 for $20 million. The contract includes a put option that obligates Real Estate Fund E to repurchase the building at Counterparty C's request for $19 million on or before 31 December 20X2. Real Estate Fund E estimates that the market value of the office building will be $18 million on 31 December 20X2. The transaction meets the ASC 606 contract criteria as required by ASC 610-20-25-5.

Analysis

At contract inception, Real Estate Fund E assesses whether Counterparty C has a significant economic incentive to exercise the put option to determine whether the arrangement should be accounted for as a lease in accordance with ASC 842 or a sale with a right of return. Real Estate Fund E considers all relevant factors and concludes that Counterparty C has a significant economic incentive to exercise the put option.

Real Estate Fund E concludes that control of the building does not transfer to Counterparty C because the significant economic incentive to exercise the put option limits Counterparty C's ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Consequently, Real Estate Fund E accounts for the arrangement as a lease in accordance with ASC 842.

3.2.4 Accounting when control of an asset has not transferred under ASC 606

An entity cannot derecognize a nonfinancial asset or an ISNFA or recognize a gain or loss until control of the underlying asset transfers to the counterparty. If the counterparty pays consideration, or the entity has an unconditional right to consideration, before the entity transfers control of a nonfinancial asset or an ISNFA to the counterparty, the entity presents the consideration received or receivable as a contract liability when the payment is made, or the payment is due, whichever is earlier, in accordance with ASC 606-10-45-2.

The FASB determined that if an entity receives consideration before transferring control of a distinct nonfinancial asset or an ISNFA in accordance with ASC 606-10-25-30, the entity is obligated to transfer the distinct nonfinancial asset or ISNFA to the counterparty and, therefore, should recognize a contract liability.[59]

See section 6.1 for further guidance on contract liabilities.

3.3 Examples

ASC 610-20 includes examples to illustrate the assessment of whether control of a nonfinancial asset transfers to the counterparty. The first example illustrates how to evaluate whether and when to derecognize a nonfinancial asset by applying the guidance in ASC 810 and ASC 606.

[59] Paragraph BC58 of ASU 2017-05.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 2 — Transfer of Control

Case A — Control Transfers under Topics 810 and 606

610-20-55-11

Entity A owns 100 percent of Entity B, a consolidated subsidiary. Entity B holds title to land with a carrying amount of $5 million. Entity A concludes that the land is not an output of its ordinary activities within the scope of Topic 606 and that Entity B does not meet the definition of a business within the scope of Topic 810.

610-20-55-12

Entity A enters into a contract to transfer 60 percent of Entity B to Entity X for $6 million cash due at contract inception. For ease of illustration, assume that at contract inception the fair value of the 40 percent interest retained by Entity A is $4 million. Because all of the assets (the land) promised to Entity X in the contract are nonfinancial assets, Entity A concludes that it should derecognize the land in accordance with this Subtopic.

610-20-55-13

As described in paragraphs 610-20-25-2 through 25-7, Entity A first considers the guidance in Topic 810 and concludes that it no longer has a controlling financial interest in Entity B or in Entity X (the buyer). Entity A then determines that the contract meets the criteria in paragraph 606-10-25-1 and that control of the land has been transferred in accordance with the guidance in paragraph 606-10-25-30. Because Entity A continues to have a noncontrolling interest in Entity B, it evaluates the point in time at which Entity B, its former subsidiary, has control of the distinct nonfinancial asset as described in paragraph 610-20-25-7. Entity A concludes that it has transferred control of the distinct nonfinancial asset because Entity B controls the distinct nonfinancial asset. When evaluating the indicators of control in paragraph 606-10-25-30, Entity A concludes the following:

a. It has the present right to payment.

b. Entity B has legal title to the land.

c. It does not have physical possession of the asset because it cannot restrict or prevent other entities from accessing the land.

d. Entity B has the significant risks and rewards of ownership.

e. There is no acceptance clause (assumption).

610-20-55-14

Entity A derecognizes the land and calculates the gain or loss as the difference between the amount of consideration measured in accordance with the guidance in paragraphs 610-20-32-2 and 610-20-32-6 and the carrying amount of the land. The amount of the consideration is $10 million, which includes $6 million in cash plus $4 million for the fair value of the noncontrolling interest in Entity B. Entity A recognizes a gain of $5 million ($10 million consideration – $5 million carrying amount of the assets) and presents the gain in the income statement in accordance with the guidance in paragraph 360-10-45-5. In accordance with the guidance in paragraph 610-20-32-4, Entity A records the noncontrolling interest in Entity B at $4 million and subsequently accounts for that interest in accordance with other Topics.

The following example illustrates when a reporting entity may no longer have a controlling financial interest in another entity, but control of the underlying asset has not transferred.

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 2 — Transfer of Control

Case B — Control Transfers under Topic 810 but Not under Topic 606

610-20-55-15

Assume the same facts as in Case A, except that Entity A has the right but not the obligation to repurchase the 60 percent ownership interest in Entity B that it transferred to Entity X (that is, Entity A has a call option). The call option gives Entity A the right to repurchase the 60 percent ownership interest in 2 years for $7 million.

610-20-55-16

Entity A concludes that although the call option represents a **variable interest** in Entity B, it does not have a controlling financial interest in Entity B in accordance with the guidance in Topic 810. However, when evaluating whether control of the land has been transferred in accordance with the guidance in paragraph 606-10-25-30, Entity A considers the guidance on repurchase features in paragraphs 606-10-25-30(c) and 606-10-55-68 and concludes that it does not transfer control of the land. In addition, because the exercise price on the call option is an amount that is greater than the original selling price, the transaction is considered a financing agreement in accordance with the guidance in paragraph 606-10-55-68(b). Entity A does not derecognize the land and records a financial liability of $6 million in accordance with the guidance in paragraph 606-10-55-70. Entity A does not recognize an investment for its retained 40 percent ownership interest until it derecognizes the land.

4 Measuring the gain or loss

ASC 610-20 requires an entity to apply the measurement principles in ASC 606 to measure the consideration to be included in the calculation of the gain or loss recognized upon derecognition of a nonfinancial asset or an ISNFA as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Measurement

610-20-32-2

When an entity meets the criteria to derecognize a distinct nonfinancial asset or a distinct **in substance nonfinancial asset**, it shall recognize a gain or loss for the difference between the amount of consideration measured and allocated to that distinct asset in accordance with paragraphs 610-20-32-3 through 32-6 and the carrying amount of the distinct asset. The amount of consideration promised in a **contract** that is included in the calculation of a gain or loss includes both the **transaction price** and the carrying amount of liabilities assumed or relieved by a counterparty.

The gain or loss recognized upon the derecognition of a nonfinancial asset or an ISNFA is the difference between the amount of consideration measured and allocated to a distinct asset and the carrying amount of the distinct asset. ASC 610-20-32-3 through 32-6 requires an entity to apply the measurement principles in ASC 606-10-32-2 through 32-27 to determine the amount of consideration it is promised in a contract, which includes both the transaction price measured using the principles of ASC 606 and the carrying amount of liabilities assumed or relieved by a counterparty.

The measurement principles in ASC 606 that are required to be applied to transactions in the scope of ASC 610-20 are discussed in more detail below.

4.1 Determining the transaction price

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Measurement

610-20-32-3

To determine the transaction price, an entity shall apply the following paragraphs in Topic 606 on **revenue** from contracts with **customers**:

a. Paragraphs 606-10-32-2 through 32-27 on determining the transaction price, including all of the following:

   1. Estimating variable consideration
   2. Constraining estimates of variable consideration
   3. The existence of a significant financing component
   4. Noncash consideration
   5. Consideration payable to a customer.

b. Paragraphs 606-10-32-42 through 32-45 on accounting for changes in the transaction price.

The consideration promised in a contract to transfer nonfinancial assets commonly includes (1) fixed or variable amounts, or a combination of the two; (2) noncash consideration, such as a noncontrolling interest in the entity that holds the asset; and/or (3) liabilities assumed or relieved by a counterparty. When determining the transaction price, an entity must estimate the variable consideration it expects to be entitled to receive. The transaction price also will include the fair value of any noncash consideration (see section 4.1.3), the effect of a significant financing component (i.e., the time value of money) (see section 4.1.2) and the effect of any consideration payable to the counterparty (see section 4.1.4).

ASC 606 provides the following guidance on determining the transaction price:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Determining the Transaction Price

606-10-32-2

An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The 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 (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

606-10-32-2A

An entity may make an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process shall be excluded from the scope of the election. An entity that makes this election shall exclude from the transaction price all taxes in the scope of the election and shall comply with the applicable accounting policy guidance, including the disclosure requirements in paragraphs 235-10-50-1 through 50-6.

606-10-32-3

The nature, timing, and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following:

a. Variable consideration (see paragraphs 606-10-32-5 through 32-10 and 606-10-32-14)

b. Constraining estimates of variable consideration (see paragraphs 606-10-32-11 through 32-13)

c. The existence of a significant financing component in the contract (see paragraphs 606-10-32-15 through 32-20)

d. Noncash consideration (see paragraphs 606-10-32-21 through 32-24)

e. Consideration payable to a customer (see paragraphs 606-10-32-25 through 32-27).

606-10-32-4

For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed, or modified.

The transaction price is based on the amount to which the entity expects to be "entitled." This is meant to reflect the amount that the entity has rights to under the present contract. The amount to which the entity expects to be entitled excludes amounts collected on behalf of another party, such as sales taxes.[60] The Board decided,[61] that the transaction price should not include the effects of the customer's credit risk unless the contract includes a significant financing component (see section 4.1.2).

4.1.1 Variable consideration

The transaction price reflects an entity's expectation about the consideration it will be entitled to receive from the counterparty. This price may vary in amount and timing because of price concessions, incentives or bonuses. Consideration also may be contingent on the occurrence or nonoccurrence of a future event or may be based on performance or another metric (e.g., a percentage of sales/revenues the counterparty generates from the nonfinancial asset, amount of counterparty's usage of the nonfinancial asset). ASC 606 provides the following guidance to determine whether consideration is variable and, if so, how it should be treated under the model:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Variable Consideration

606-10-32-5

If the consideration promised in a **contract** includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a **customer**.

606-10-32-6

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The promised consideration also can vary if an entity's entitlement to the consideration is contingent on the occurrence or nonoccurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.

606-10-32-7

The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:

a. The customer has a valid expectation arising from an entity's customary business practices, published policies, or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry, or customer this offer may be referred to as a discount, rebate, refund, or credit.

b. Other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer.

These concepts are discussed in more detail below.

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[60] ASC 606-10-32-2A says an entity can make an accounting policy election to exclude sales taxes and other similar taxes from the measurement of the transaction price. An entity that makes this election should comply with the disclosure requirements of ASC 235-10-50-1 through 50-6. See section 5.1 of our FRD, ***Revenue from contracts with customers (ASC 606),*** for further details.

[61] Paragraph BC185 of ASU 2014-09.

4.1.1.1 Forms of variable consideration

ASC 606-10-32-6 describes "variable consideration" broadly to include discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses and penalties. Variable consideration can result from explicit terms in a contract that the parties to the contract agreed on or can be implied by an entity's past business practices or intentions under the contract. It is important for entities to appropriately identify all of the instances of variable consideration included in a contract because the second step of estimating variable consideration requires entities to apply a constraint (as discussed further in section 4.1.1.3) to all variable consideration.

The FASB noted[62] that consideration can be variable even when the stated price in the contract is fixed. This is because the entity may be entitled to consideration only upon the occurrence or nonoccurrence of a future event. For example, the description of variable consideration in ASC 606 includes amounts resulting from variability due to refunds or returns. As a result, a contract in the scope of ASC 610-20 to provide a noncustomer with machinery at a fixed price would be considered to include a variable component if the counterparty has the right to receive a refund if the machinery doesn't meet certain performance metrics (see sections 5.3 and 5.4 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on refund liabilities and rights of return, respectively).

Question 4-1 **Should liquidated damages, penalties or compensation from other similar clauses be accounted for as variable consideration or warranty provisions under the standard?**

Most liquidated damages, penalties and similar payments should be accounted for as variable consideration. However, in limited situations, we believe that amounts that are based on the actual performance of a delivered good may be considered similar to warranty payments (e.g., in situations in which an entity pays the counterparty's direct costs to remedy a defect).

Some contracts provide for liquidated damages, penalties or other damages if an entity fails to deliver future goods or if the goods fail to meet certain specifications. ASC 606-10-32-6 includes "penalties" as an example of variable consideration and describes how promised consideration in a contract can be variable if the right to receive the consideration is contingent on the occurrence or nonoccurrence of a future event (e.g., the contract specifies that an entity pays a penalty if it fails to perform according to the agreed-upon terms).

Cash fines or penalties paid to a counterparty generally should be accounted for under the guidance on consideration payable (which may be treated as variable consideration; see section 5.7 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on variable consideration). However, we believe there may be situations in which it is appropriate to account for cash payments as an assurance-type warranty (e.g., an entity's direct reimbursement to a counterparty for costs paid by the counterparty to a third party for repair of a product). See section 9.1 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on warranties.

Question 4-2 **If a contract is denominated in a currency other than that of the entity's functional currency, should changes in the contract price due to exchange rate fluctuations be accounted for as variable consideration?**

No. We believe that changes to the contract price due to exchange rate fluctuations do not result in variable consideration. These price fluctuations are a consequence of entering into a contract that is denominated in a foreign currency rather than a result of a contract term like a discount or rebate or one that depends on the occurrence or nonoccurrence of a future event, as described in ASC 606-10-32-6.

[62] Paragraph BC191 of ASU 2014-09.

This answer is consistent with the guidance on noncash consideration in ASC 606-10-32-23 that says that variability due to the form of noncash consideration should not be considered variable consideration. The variability resulting from changes in foreign exchange rates relates to the form of the consideration (i.e., it is in a currency other than the entity's functional currency) so, under the noncash consideration principles, it would not be considered variable consideration when determining the transaction price. This variability would be accounted for under ASC 830-20 on foreign currency transactions.

4.1.1.1.1 Implicit price concessions

For some contracts, the stated price has easily identifiable variable components. However, for other contracts, the consideration may be variable because the facts and circumstances indicate that the entity may accept a lower price than the amount stated in the contract (i.e., it expects to provide an implicit price concession).

Variable consideration also may result from extended payment terms in a contract and any resulting uncertainty about whether the entity will be willing to accept a lower payment amount in the future. That is, an entity has to evaluate whether the extended payment terms represent an implied price concession because the entity does not intend to collect all amounts due in future periods.

In some cases, it may be difficult to determine whether the entity has implicitly offered a price concession (i.e., variable consideration) or whether the entity has chosen to accept the risk of default by the counterparty of the contractually agreed-upon consideration (i.e., credit loss under ASC 326). The Board[63] did not develop detailed guidance in ASC 606 for distinguishing between price concessions (recognized as variable consideration in the transaction price) and credit loss. Therefore, entities should consider all relevant facts and circumstances when analyzing situations in which an entity is willing to accept a lower price than the amount stated in the contract.

If an entity determines at contract inception that a contract includes a price concession (i.e., variable consideration), the estimated amount of the concession is reflected in the transaction price (i.e., as a reduction to the stated contract price). Entities may estimate a transaction price that is significantly lower than the stated invoice or contractual amount but still consider the difference between those amounts to be variable consideration (e.g., a price concession) rather than a collectibility issue that would result in credit loss.

After the entity has determined the amount to assess for collectibility under ASC 606-10-25-1(e), an entity also has to determine whether an allowance for credit losses is required under ASC 326 for the receivable (or contract asset) that is recorded (i.e., after consideration of any variable consideration, such as an implicit price concession). If an allowance is required, the entity should record the allowance separately on the balance sheet and present the loss as a credit loss expense under ASC 326 on the income statement (i.e., not as a reduction of the transaction price).

After contract inception, entities need to update both their estimate of variable consideration (see section 4.1.1.4) and their assessment of credit loss under ASC 326, at each reporting date. When the amount an entity expects to collect changes after contract inception, the entity may need to exercise significant judgment to determine whether that change is due to (1) a change in estimate of the variable consideration identified at contract inception (and, therefore, should be accounted for as a change in the transaction price as discussed in section 4.1.6) or (2) a change in the expected credit loss under ASC 326, such as a decline in a counterparty's operations that should be accounted for as an increase in credit loss expense (i.e., not as a reduction of the transaction price).

[63] Paragraph BC194 of ASU 2014-09.

When making this evaluation, the entity needs to consider the facts and circumstances that led to its change in expectation about the amount it expects to collect. For example, if an entity that had contemplated an implicit price concession at contract inception decides to increase the amount of the concession it is willing to provide, it may conclude that this is variable consideration and, therefore, a reduction of the transaction price (i.e., it affects the gain or loss on sale). In contrast, if the entity determines it will collect less consideration than it originally estimated due to its counterparty filing for bankruptcy, it likely would conclude that this is a credit loss to be accounted for outside of ASC 610-20 (i.e., there would be no adjustment to the gain or loss on sale).

4.1.1.2 Estimating variable consideration

If a contract within the scope of ASC 610-20 includes variable consideration, an entity estimates the amount of consideration to which it will be entitled in exchange for transferring the promised nonfinancial asset or ISNFA to a counterparty. Entities are generally required to estimate variable consideration at contract inception and at the end of each reporting period (see section 4.1.1.4 for reassessment requirements). In Question 5-12 of our FRD, ***Revenue from contracts with customers (ASC 606)***, we discuss limited situations in which estimation of variable consideration may not be required.

An entity needs to estimate variable consideration using either an expected value method (sum of probability-weighted amounts) or a most likely amount method, as described below:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Variable Consideration

606-10-32-8

An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

a. The expected value — The expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

b. The most likely amount — The most likely amount is the single most likely amount in a range of possible consideration amounts (that is, the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not).

606-10-32-9

An entity shall apply one method consistently throughout the contract when estimating the effect of an uncertainty on an amount of variable consideration to which the entity will be entitled. In addition, an entity shall consider all the information (historical, current, and forecast) that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. The information that an entity uses to estimate the amount of variable consideration typically would be similar to the information that the entity's management uses during the bid-and-proposal process and in establishing prices for promised goods or services.

An entity should choose the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. That is, the method selected is not meant to be a "free choice." Rather, an entity selects the method based on the specific facts and circumstances of the contract.

The entity should apply the selected method consistently to each type of variable consideration throughout the contract term and update the estimated variable consideration at each reporting date. The entity also should apply that method consistently for similar types of variable consideration in similar contracts. The FASB noted[64] that a contract may contain different types of variable consideration and that it may be appropriate for an entity to use different methods (i.e., expected value or most likely amount) for estimating different types of variable consideration within a single contract.

Entities determine the expected value of variable consideration using the sum of probability-weighted amounts in a range of possible amounts under the contract. To do this, an entity needs to identify the possible outcomes of a contract and the probabilities of those outcomes. The FASB indicated[65] that the expected value method may better predict expected consideration when an entity has a large number of contracts with similar characteristics. This method also may better predict consideration when an entity has a single contract with a large number of possible outcomes. The FASB clarified[66] that an entity preparing an expected value calculation is not required to consider all possible outcomes, even if it has extensive data and can identify many possible outcomes. Instead, the FASB indicated that, in many cases, a limited number of discrete outcomes and probabilities can provide a reasonable estimate of the expected value.

Entities determine the most likely amount of variable consideration using the single most likely amount in a range of possible consideration amounts. The FASB indicated[67] that the most likely amount method may be the better predictor when the entity expects to be entitled to only one of two possible amounts (e.g., a contract in which an entity is entitled to receive all or none of a specified performance bonus, but not a portion of that bonus).

When applying either of these methods, an entity should consider all information (historical, current and forecast) that is reasonably available to the entity. See section 5.2.2 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

4.1.1.3 Constraining estimates of variable consideration

Before it can include any amount of variable consideration in the transaction price used in the calculation of the gain or loss on the transaction, an entity must consider whether the amount of variable consideration is required to be constrained. An entity includes its estimate of variable consideration in the transaction price only when it is probable that a significant reversal in the amount of cumulative consideration recognized will not occur when the uncertainty associated with the variable consideration is resolved.

The FASB said[68] that it did not intend to eliminate the use of estimates from the guidance. Instead, it wanted to make sure estimates are robust and result in useful information. Following this objective, the FASB concluded it was appropriate to include estimates of variable consideration in the transaction price only when an entity has "a high degree of confidence"[69] that revenue (consideration in a transaction under ASC 610-20) will not be reversed in a subsequent reporting period. Therefore, ASC 606 states that the constraint is aimed at preventing the over-recognition of revenue (or in the case of transactions

[64] Paragraph BC202 of ASU 2014-09.
[65] Paragraph BC200 of ASU 2014-09.
[66] Paragraph BC201 of ASU 2014-09.
[67] Paragraph BC200 of ASU 2014-09.
[68] Paragraph BC204 of ASU 2014-09.
[69] Paragraph BC204 of ASU 2014-09.

in the scope of ASC 610-20, the constraint is aimed at preventing the over-recognition of a gain or under-recognition of a loss). That is, the language from the following excerpt from ASC 606 focuses on potential significant reversals of revenue:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Constraining Estimates of Variable Consideration

606-10-32-11

An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 606-10-32-8 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 subsequently resolved.

606-10-32-12

In assessing whether it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

a. The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions, and a high risk of obsolescence of the promised good or service.

b. The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

c. The entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

d. The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

e. The contract has a large number and broad range of possible consideration amounts.

606-10-32-13

An entity shall apply paragraph 606-10-55-65 to account for consideration in the form of a sales-based or usage-based royalty that is promised in exchange for a license of intellectual property.

To include variable consideration in the estimated transaction price, the entity has to conclude that it is probable that a significant reversal of cumulative consideration will not occur in future periods once the uncertainty related to the variable consideration is resolved. For purposes of this analysis, the meaning of the term "probable" is consistent with the existing definition in US GAAP and is defined as "the future event or events are likely to occur." Further, the FASB noted[70] that an entity's analysis to determine whether its estimate of variable consideration should (or should not) be constrained largely will be qualitative. That is, an entity will need to use judgment to evaluate whether it has met the objective of the constraint (i.e., it is probable that a significant reversal of cumulative consideration will not occur in future periods) considering

[70] Paragraph BC212 of ASU 2014-09.

the factors provided in the standard that increase the probability of a significant reversal (which are discussed further below). In addition, conclusions about amounts that may result in a significant reversal of cumulative consideration may change as an entity transfers control of the underlying asset(s).

An entity will need to consider both the likelihood and magnitude of a reversal of cumulative consideration recognized to apply the constraint.

- **Likelihood** — Assessing the likelihood of a future reversal of cumulative consideration requires significant judgment, and entities need to make sure they adequately document the basis for their conclusions. The presence of any one of the indicators cited in the ASC excerpt above does not necessarily mean that a reversal will occur if the variable consideration is included in the transaction price. The standard includes "factors" rather than "criteria" to signal that the list of items to consider is not a checklist for which all items have to be met. In addition, the indicators provided are not meant to be an all-inclusive list, and entities may consider additional factors that are relevant to their facts and circumstances.

- **Magnitude** — When assessing the probability of a significant reversal of cumulative consideration, an entity also is required to assess the magnitude of that reversal. The constraint is based on the probability of a reversal of an amount that is "significant" relative to the cumulative consideration recognized for the contract. When assessing the significance of the potential reversal, the cumulative consideration recognized at the date of the potential reversal should include both fixed and variable consideration and should include cumulative consideration recognized from the entire contract, not only the transaction price allocated to a single asset.

An entity should carefully evaluate the factors that could increase the likelihood or the magnitude of a reversal of cumulative consideration, including these listed in ASC 606:

- The amount of consideration is highly susceptible to factors outside the entity's influence (e.g., volatility in a market, judgment or actions of third parties, weather conditions, high risk of obsolescence of the promised good or service).

- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.

- The entity's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.

- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

- The contract has a large number and broad range of possible consideration amounts.

When an entity determines that it cannot meet the probable threshold if it includes all of the variable consideration in the transaction price, the amount of variable consideration that must be included in the transaction price is limited to the amount that *will not* result in a significant reversal of cumulative consideration. That is, the estimate of variable consideration is reduced until it reaches an amount that, if reversed when the uncertainty associated with the variable consideration is resolved, would not result in a significant reversal of cumulative consideration recognized. When there is significant uncertainty about the ultimate pricing of a contract, entities should not default to constraining the estimate of variable consideration to zero.

How we see it

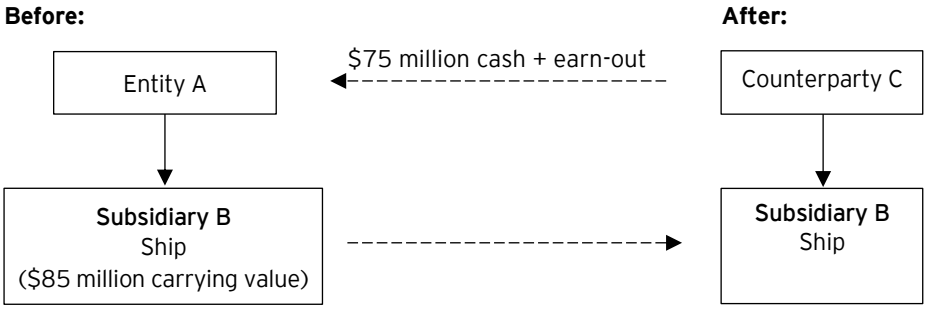
The constraint applies to all types of variable consideration that must be estimated in all transactions. If the transaction price includes variable consideration that is constrained at contract inception, an entity may be required to recognize a loss upon derecognition of a nonfinancial asset even though the entity may ultimately recognize a gain on the sale when the uncertainty related to the transaction price is resolved.

The following example shows how to consider variability in the transaction price for the sale of a nonfinancial asset in the scope of ASC 610-20:

Illustration 4-1: Sale of a nonfinancial asset for variable consideration

Entity A sells its ownership interest in Subsidiary B to Counterparty C for $75 million up front and additional cash over the next five years based on a percentage of Subsidiary B's annual earnings above an agreed-upon target (the earn-out).

Subsidiary B holds a ship with a carrying value of $85 million. Subsidiary B is not a business, and Counterparty C is not Entity A's customer in this transaction. Upon the sale of Subsidiary B to Counterparty C, Entity A determines it loses control of Subsidiary B under ASC 810 and that Subsidiary B controls the ship under ASC 606.[1]



Analysis

Based on its assessment of the factors in ASC 606-10-32-12, Entity A determines that the amount that it should include in the transaction price for the earn-out is $25 million. Entity A determines that it is probable that recognizing such an amount would not result in a significant reversal of the cumulative consideration recognized when the uncertainty about the earn-out is resolved. As a result, the gain on the sale of Subsidiary B at contract inception is calculated as follows:

Cash proceeds	$ 75
Variable consideration	25
Transaction price	100
Less: Carrying amount of Subsidiary B's net assets	85
Gain on sale	$ 15

Note: Entities are required to update their estimate of variable consideration at each reporting date or through the resolution of the uncertainties (i.e., through the settlement of the variable consideration), so the amount of gain or loss calculated will likely fluctuate in future periods. See section 4.1.1.4 for further details.

[1] See ASC 610-20-25-1.

The following example from ASC 610-20 illustrates applying the constraint to variable consideration:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Implementation Guidance and Illustrations

Example 3 — Sale of a Nonfinancial Asset for Variable Consideration

610-20-55-17

An entity sells (that is, does not out license) the rights to in-process research and development that it recently acquired in a business combination and measured at fair value of $50 million in accordance with Topic 805 on business combinations. The entity concludes that the transferred in-process research and development is not a business. The buyer of the in-process research and development agrees to pay a nonrefundable amount of $5 million at inception plus 2 percent of sales of any products derived from the in-process research and development over the next 20 years. The entity concludes that the sale of in-process research and development is not a good or service that is an output of the entity's ordinary activities.

610-20-55-18

Topic 350 on goodwill and other intangibles requires the entity to apply the guidance in this Subtopic to determine the amount and timing of income to be recognized. Therefore, the entity applies the derecognition guidance in this Subtopic as follows:

a. The entity concludes that it does not have a controlling financial interest in the buyer.

b. The entity concludes that the contract meets the criteria in paragraph 606-10-25-1.

c. The entity also concludes that on the basis of the guidance in paragraph 606-10-25-30, it has transferred control of the in-process research and development asset to the buyer. This is because the buyer can use the in-process research and development's records, patents, and supporting documentation to develop potential products and the entity has relinquished all substantive rights to the in-process research and development asset.

d. In estimating the consideration received, the entity applies the guidance in Topic 606 on determining the **transaction price**, including estimating and constraining variable consideration. The entity estimates that the amount of consideration that it will receive from the sales-based royalty is $100 million over the 20-year royalty period. However, the entity cannot assert that it is probable that recognizing all of the estimated variable consideration in other income would not result in a significant reversal of that consideration. The entity reaches this conclusion on the basis of its assessment of factors in paragraph 606-10-32-12. In particular, the entity is aware that the variable consideration is highly susceptible to the actions and judgments of third parties, because it is based on the buyer completing the in-process research and development asset, obtaining regulatory approval for the output of the in-process research and development asset, and marketing and selling the output. For the same reasons, the entity also concludes that it could not include any amount, even a minimum amount, in the estimate of the consideration. Consequently, the entity concludes that the estimate of the consideration to be used in the calculation of the gain or loss upon the derecognition of the in-process research and development asset is limited to the $5 million fixed upfront payment.

610-20-55-19

At inception of the contract, the entity recognizes a net loss of $45 million ($5 million of consideration, less the in-process research and development asset of $50 million). The entity reassesses the transaction price at each reporting period to determine whether it is probable that a significant reversal would not occur from recognizing the estimate as other income and, if so, recognizes that amount as other income in accordance with paragraphs 606-10-32-14 and 606-10-32-42 through 32-45.

4.1.1.4 Reassessment of variable consideration

Entities need to apply the following guidance from ASC 606 to reassess variable consideration:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Reassessment of Variable Consideration

606-10-32-14

At the end of each reporting period, an entity shall update the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. The entity shall account for changes in the transaction price in accordance with paragraphs 606-10-32-42 through 32-45.

When a contract includes variable consideration, an entity will need to update both its estimate of the variable consideration and its evaluation of the likelihood of a significant reversal of cumulative consideration at each reporting date or through the resolution of the uncertainties (i.e., through the settlement of the variable consideration). This will involve updating the estimate of the variable consideration (including any amounts that are constrained) to reflect an entity's revised expectations about the amount of consideration to which it expects to be entitled considering uncertainties that are resolved or new information that is gained about remaining uncertainties. Significant judgment will be required, and all facts and circumstances will need to be considered when determining whether it is probable that a significant reversal of cumulative consideration will not occur.

The FASB noted[71] that, in some cases, an estimate of variable consideration made at the end of an accounting period could be affected by subsequent events (i.e., information that arises after the end of the reporting period but before the release of the financial statements). The Board decided not to include guidance in ASC 606 on this situation because an entity would follow the accounting for subsequent events under ASC 855. See our Accounting Manual section S3, *Subsequent Events*, for further discussion on ASC 855.

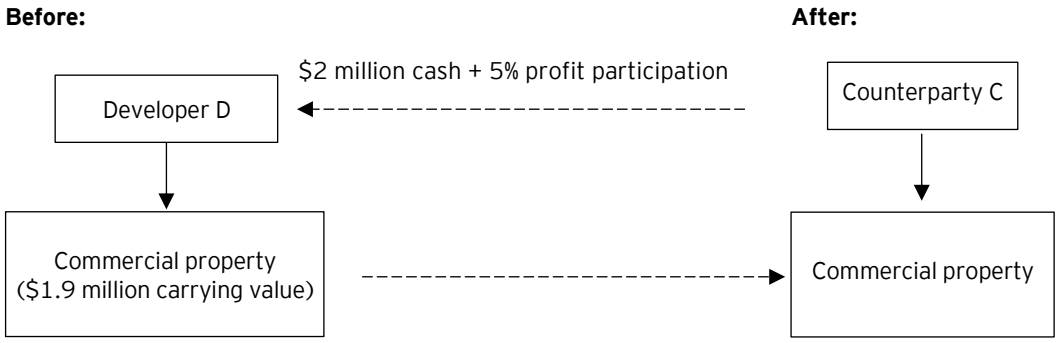
The following examples illustrate how an entity (1) considers variable consideration in the transaction price for the sale of a nonfinancial asset in the scope of ASC 610-20 and (2) updates its estimate of the transaction price (including updating its assessment of whether the estimate of variable consideration is constrained) at the end of each reporting date.

[71] Paragraph BC228 of ASU 2014-09.

Illustration 4-2: Determining and reassessing the estimate of variable consideration

Developer D sells a newly constructed commercial property to Counterparty C for $2 million and a right to receive 5% of future operating profit from the property for the first year. Developer D has no ongoing obligations.

The commercial property has a carrying value of $1.9 million. The commercial property is not a business, and Counterparty C is not Developer D's customer in this transaction. Upon the sale of the commercial building to Counterparty C, Developer D determines it loses control of the property under ASC 810, and Counterparty C controls the property considering the concepts in ASC 606.[1]



Developer D determines there are a number of possible outcomes of consideration to be received based on the performance of the property (e.g., Counterparty C's ability to effectively secure tenants for the entire property at favorable rental rates). Counterparty C currently has executed leases or letters of intent from prospective tenants for 50% of the property.

Analysis

Developer D determines that the "expected value" approach is the better predictor of the variable consideration since multiple outcomes are possible. Based on Counterparty C's current pre-leasing, Developer D estimates the following future profit participation:

Future profit participation (a)	Probability of outcome (b)	Expected value amount (a * b)
$ 50,000	10%	$ 5,000
25,000	70%	17,500
–	20%	–
	Total	$ 22,500

Assume for purposes of this illustration that the constraint does not limit the amount that can be included in the transaction price at contract inception (i.e., assume it is probable that a significant revenue reversal will not occur). Using the probability-weighted estimate, Developer D includes $22,500 in the transaction price associated with this variable consideration. That is, the transaction price is $2,022,500. As a result, the gain on the sale of the commercial property at contract inception is calculated as follows:

Cash proceeds	$ 2,000,000
Variable consideration	22,500
Transaction price	2,022,500
Less: Carrying amount of property	1,900,000
Gain on sale	$ 122,500

Developer D updates its estimate of the transaction price at the next reporting date, and after considering that Counterparty C now has letters of intent or executed leases for 75% of the property, estimates the following future profit participation:

Future profit participation (a)	Probability of outcome (b)	Expected value amount (a * b)
$ 50,000	75%	$ 37,500
25,000	25%	6,250
	Total	$ 43,750

As a result, Developer D's estimate of variable consideration is updated to $43,750 and additional gain on sale of $21,250[2] is recognized.

[1] See ASC 610-20-25-1.

[2] Calculated as revised variable consideration estimate of $43,750 less initial estimate of $22,500.

Illustration 4-3: Reassessing the estimate of variable consideration

Assume the same facts as in Illustration 4-2 through the first reporting period. However, for purposes of this illustration, Counterparty C has begun negotiations with prospective tenants in the next reporting period but has not signed lease agreements for a significant amount of space.

Analysis

Developer D uses the "expected value" approach and estimates the following future profit participation:

Future profit participation (a)	Probability of outcome (b)	Expected value amount (a * b)
$ 50,000	25%	$ 12,500
25,000	25%	6,250
–	50%	–
	Total	$ 18,750

Using a probability-weighted estimate, Developer D includes $18,750 in the transaction price associated with this variable consideration. That is, the revised transaction price is $2,018,750 before considering the constraint.

In this illustration, Developer D concludes that the constraint this period is set at $18,750 (i.e., the amount for which it's probable that a significant reversal will not occur). As a result, the full $18,750 is included in the transaction price and a reversal of gain of $3,750[1] is recognized during the reporting period.

[1] Calculated as initial estimate of variable consideration estimate of $22,500 (from Illustration 4-2) less revised estimate of $18,750.

4.1.2 Significant financing component

For some transactions, the receipt of consideration does not match the timing of the transfer of nonfinancial assets or ISNFAs to the counterparty (e.g., the consideration is prepaid or is paid after the assets are transferred). When the counterparty pays in arrears, the entity is effectively providing financing to the counterparty. Conversely, when the counterparty pays in advance, the entity has effectively received financing from the counterparty.

Entities transferring nonfinancial assets in the scope of ASC 610-20 need to apply the concepts in ASC 606 to determine whether a significant financing component exists and, if so, how to incorporate it in the transaction price.

ASC 606 states the following in relation to a significant financing component in a contract:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

The Existence of a Significant Financing Component in the Contract

606-10-32-15

In determining the transaction price, an entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the **contract** (either explicitly or implicitly) provides the **customer** or the entity with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

606-10-32-16

The objective when adjusting the promised amount of consideration for a significant financing component is for an entity to recognize **revenue** at an amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer (that is, the cash selling price). An entity shall consider all relevant facts and circumstances in assessing whether a contract contains a financing component and whether that financing component is significant to the contract, including both of the following:

a. The difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services

b. The combined effect of both of the following:

   1. The expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services

   2. The prevailing interest rates in the relevant market.

606-10-32-17

Notwithstanding the assessment in paragraph 606-10-32-16, a contract with a customer would not have a significant financing component if any of the following factors exist:

a. The customer paid for the goods or services in advance, and the timing of the transfer of those goods or services is at the discretion of the customer.

b. A substantial amount of the consideration promised by the customer is variable, and the amount or timing of that consideration varies on the basis of the occurrence or nonoccurrence of a future event that is not substantially within the control of the customer or the entity (for example, if the consideration is a sales-based royalty).

c. The difference between the promised consideration and the cash selling price of the good or service (as described in paragraph 606-10-32-16) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract.

606-10-32-18

As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

606-10-32-19

To meet the objective in paragraph 606-10-32-16 when adjusting the promised amount of consideration for a significant financing component, an entity shall use the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception. That rate would reflect the credit characteristics of the party receiving financing in the contract, as well as any collateral or security provided by the customer or the entity, including assets transferred in the contract. An entity may be able to determine that rate by identifying the rate that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer. After contract inception, an entity shall not update the discount rate for changes in interest rates or other circumstances (such as a change in the assessment of the customer's credit risk).

The Board explained[72] that, conceptually, a contract that includes a financing component includes two transactions — one for the sale of goods and one for the financing. Accordingly, the Board decided to require entities to adjust the amount of promised consideration for the effects of financing only if the timing of payments specified in the contract provides the customer (counterparty) or the entity with a significant benefit of financing. The FASB's objective[73] in requiring entities to adjust the promised amount of consideration for the effects of a significant financing component was for entities to recognize consideration received as the "cash selling price" of the underlying goods at the time of transfer.

Practical expedient

However, an entity is not required to adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a nonfinancial asset or an ISNFA to a counterparty and when the counterparty pays for that asset will be one year or less. The Board added[74] this practical expedient to ASC 606 because it simplifies the application of the guidance and because the effect of accounting for a significant financing component (or of not doing so) should be limited in financing arrangements with a duration of less than 12 months. If an entity uses this practical expedient, it should apply the expedient consistently to similar contracts in similar circumstances.[75]

It is important to note that if the period between when the entity transfers a promised nonfinancial asset or ISNFA to a counterparty and when the counterparty pays for that asset is more than one year and the financing component is deemed to be significant, the entity must account for the entire financing component. That is, an entity cannot exclude the first 12 months of the period between when the entity transfers a promised nonfinancial asset or ISNFA to a counterparty and when the counterparty pays for that asset from the calculation of the potential adjustment to the transaction price. An entity also cannot exclude the first 12 months from its determination of whether the financing component of a contract is significant.

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[72] Paragraph BC229 of ASU 2014-09.

[73] Paragraph BC230 of ASU 2014-09.

[74] Paragraph BC236 of ASU 2014-09.

[75] Paragraph BC235 of ASU 2014-09.

Existence of a significant financing component

Absent the use of the practical expedient, to determine whether a significant financing component exists, an entity will need to consider all relevant facts and circumstances, including (1) the difference between the cash selling price and the amount of promised consideration for the promised nonfinancial assets or ISNFAs and (2) the combined effect of the expected length of time between the transfer of the nonfinancial assets or ISNFAs and the receipt of consideration and the prevailing market interest rates. The Board acknowledged[76] that a difference in the timing between the transfer of and payment for goods and services (or nonfinancial assets or ISNFAs, when applied to a transaction within the scope of ASC 610-20) is not determinative, but the combined effect of timing and the prevailing interest rates may provide a strong indication that an entity is providing (or receiving) a significant benefit of financing.

Even if conditions in a contract otherwise would indicate that a significant financing component exists, the guidance includes several situations that the Board determined do not provide the customer or the entity with a significant benefit of financing. These situations, as described in ASC 606-10-32-17, include the following:

- The customer (counterparty) has paid for the goods in advance and the timing of the transfer of those goods is at the discretion of the customer (counterparty).
- A substantial amount of the consideration promised by the customer (counterparty) is variable and based on factors outside the control of the customer (counterparty) or entity.
- The difference between the promised consideration and the cash selling price of the good arises for reasons other than the provision of financing to either the customer (counterparty) or the entity (e.g., a payment is made in advance or in arrears in accordance with the typical payment terms of the industry or jurisdiction), and the difference between those amounts is proportional to the reason for the difference.

Advance payments

The Board decided[77] not to provide an overall exemption from accounting for the effects of a significant financing component arising from advance payments. This is because ignoring the effects of advance payments could skew the amount and timing of recognized gains or losses if the advance payment is significant and the purpose of the payment is to provide the entity with financing. For example, an entity may require a counterparty to make advance payments to avoid obtaining the financing from a third party. If the entity obtained third-party financing, it likely would charge the counterparty additional consideration to cover the finance costs incurred.

To conclude that an advance payment does not represent a significant financing component, we believe an entity will need to support why the advance payment does not provide a significant financing benefit and describe its substantive business purpose. As a result, it is important that entities analyze all of the facts and circumstances in a contract.

Determination of the discount rate

When an entity concludes that a financing component is significant to a contract, in accordance with ASC 606-10-32-19, it determines the transaction price by applying an interest rate to the amount of promised consideration. As stated above, the objective of requiring entities to adjust the promised consideration for the effects of a significant financing component is for the consideration recognized to approximate an amount that reflects the cash selling price that a counterparty would have paid for the promised asset. However, to achieve this objective, the entity does not need to estimate that cash selling price. Rather, the entity determines an interest rate to apply to the amount of the promised consideration.

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[76] Paragraph BC232(b) of ASU 2014-09.

[77] Paragraph BC238 of ASU 2014-09.

The entity uses the same interest rate that it would use if it were to enter into a separate financing transaction with the counterparty. The interest rate has to reflect the credit characteristics of the borrower in the contract, which could be the entity or the counterparty, depending on who receives the financing. Using the risk-free rate or a rate explicitly stated in the contract that does not correspond with a separate financing rate would not be acceptable.[78] ASC 606 illustrates a contractual discount rate that does not reflect the rate in a separate financing transaction in Example 28, Case B (included in section 4.1.2.1). Further, using a contract's implicit interest rate (i.e., the interest rate that would make alternative payment options economically equivalent) would also not be acceptable if that rate does not reflect the rate in a separate financing transaction (as illustrated in Example 29 from ASC 606 in section 4.1.2.1).

While this is not explicitly stated in the standard, we believe an entity should consider the expected term of the financing when determining the interest rate in light of the market conditions at contract inception. Also, ASC 606-10-32-19 is clear that an entity should not update the interest rate for changes in circumstances or market interest rates after contract inception.

How we see it

The guidance on evaluating significant financing components requires that the interest rate be a rate similar to one that the entity would have used in a separate financing transaction with the counterparty. Because most entities would not enter into freestanding financing arrangements with their counterparties in nonfinancial asset sale transactions, they may find it difficult to identify an appropriate rate. However, most entities perform some level of credit analysis before financing purchases for a counterparty, so they have some information about the counterparty's credit risk.

Entities likely have to exercise significant judgment to determine whether a significant financing component exists when there is more than one year between the transfer of nonfinancial assets and the receipt of contract consideration. Entities need to make sure that they sufficiently document their analyses to support their conclusions.

4.1.2.1 Significant financing component examples

ASC 606 includes several examples to illustrate these concepts. We have included two of these examples to illustrate how an entity would apply the ASC 606 guidance to a transaction in the scope of ASC 610-20 that has a significant financing component. See section 5.5 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

Example 28 from ASC 606 illustrates two situations. In one, a contractual discount rate reflects the rate the entity would expect in a separate financing transaction with the customer (counterparty). In the other, it does not.

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Implementation Guidance and Illustrations

Example 28 — Determining the Discount Rate

606-10-55-235

An entity enters into a contract with a customer to sell equipment. Control of the equipment transfers to the customer when the contract is signed. The price stated in the contract is $1 million plus a 5 percent contractual rate of interest, payable in 60 monthly installments of $18,871.

[78] Paragraph BC239 of ASU 2014-09.

Case A — Contractual Discount Rate Reflects the Rate in a Separate Financing Transaction

606-10-55-236

In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5 percent contractual rate of interest reflects the rate that would be used in a separate financing transaction between the entity and its customer at contract inception (that is, the contractual rate of interest of 5 percent reflects the credit characteristics of the customer).

606-10-55-237

The market terms of the financing mean that the cash selling price of the equipment is $1 million. This amount is recognized as revenue and as a loan receivable when control of the equipment transfers to the customer. The entity accounts for the receivable in accordance with Topic 310 on receivables, Subtopic 326-20 on financial instruments measured at amortized cost, and Subtopic 835-30 on the imputation of interest.

Case B — Contractual Discount Rate Does Not Reflect the Rate in a Separate Financing Transaction

606-10-55-238

In evaluating the discount rate in the contract that contains a significant financing component, the entity observes that the 5 percent contractual rate of interest is significantly lower than the 12 percent interest rate that would be used in a separate financing transaction between the entity and its customer at contract inception (that is, the contractual rate of interest of 5 percent does not reflect the credit characteristics of the customer). This suggests that the cash selling price is less than $1 million.

606-10-55-239

In accordance with paragraph 606-10-32-19, the entity determines the transaction price by adjusting the promised amount of consideration to reflect the contractual payments using the 12 percent interest rate that reflects the credit characteristics of the customer. Consequently, the entity determines that the transaction price is $848,357 (60 monthly payments of $18,871 discounted at 12 percent). The entity recognizes revenue and a loan receivable for that amount. The entity accounts for the loan receivable in accordance with Subtopic 310-10 on receivables, Subtopic 326-20 on financial instruments measured at amortized cost, and Subtopic 835-30 on the imputation of interest.

Example 29 from the standard illustrates a contract with an advance payment from the customer (counterparty) that the entity concludes represents a significant benefit of financing. It also illustrates a situation in which the implicit interest rate does not reflect the interest rate in a separate financing transaction between the entity and its customer (counterparty) at contract inception, as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Implementation Guidance and Illustrations

Example 29 — Advance Payment and Assessment of Discount Rate

606-10-55-240

An entity enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (that is, the performance obligation will be satisfied at a point in time). The contract includes 2 alternative payment options: payment of $5,000 in 2 years when the customer obtains control of the asset or payment of $4,000 when the contract is signed. The customer elects to pay $4,000 when the contract is signed.

606-10-55-241

The entity concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

606-10-55-242

The interest rate implicit in the transaction is 11.8 percent, which is the interest rate necessary to make the 2 alternative payment options economically equivalent. However, the entity determines that, in accordance with paragraph 606-10-32-19, the rate that should be used in adjusting the promised consideration is 6 percent, which is the entity's incremental borrowing rate.

606-10-55-243

The following journal entries illustrate how the entity would account for the significant financing component.

a. Recognize a contract liability for the $4,000 payment received at contract inception.

Cash	$ 4,000	
Contract liability		$ 4,000

b. During the 2 years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration (in accordance with paragraph 606-10-32-20) and accretes the contract liability by recognizing interest on $4,000 at 6 percent for 2 years.

Interest expense	$ 494[(a)]	
Contract liability		$ 494

(a) $494 = $4,000 contract liability x (6 percent interest per year for 2 years)

c. Recognize revenue for the transfer of the asset.

Contract liability	$ 4,494	
Revenue		$ 4,494

Question 4-3

ASC 606 states that a significant financing component does not exist if the difference between the promised consideration and the cash selling price of the good arises for reasons other than providing financing. How broadly should this factor be applied? [30 March 2015 TRG meeting; agenda paper no. 30]

There likely will be significant judgment involved in determining whether either party is providing financing or the payment terms are for another reason. The Board did not seem to intend to create a presumption that a significant financing component exists if the cash selling price is different from the promised consideration (or there is a long period of time between transfer of the goods and payment).

Although ASC 606-10-32-16 states the measurement objective for a significant financing component is to recognize revenue (consideration that is used to derive the gain or loss in a transaction under ASC 610-20) for the goods at an amount that reflects the cash selling price, this guidance is only followed when an entity has already determined that a significant financing component exists. The fact that there is a difference in the promised consideration and the cash selling price is not a principle for determining whether a significant financing component actually exists. It is only one factor to consider.

It will require significant judgment in some circumstances to determine whether a transaction includes a significant financing component. When entities consider whether the difference between the promised consideration and cash selling price is for a reason other than financing, they must consider whether the difference between those amounts is proportional to the reason for the difference as contemplated in ASC 606-10-32-17(c).

Question 4-4 **If the promised consideration is equal to the cash selling price, does a financing component exist?** [30 March 2015 TRG meeting; agenda paper no. 30]

Even if the list price, cash selling price and promised consideration of a good are all equal, an entity should not automatically assume that a significant financing component does not exist. This would be a factor to consider but would not be determinative.

As discussed in Question 4-3, while ASC 606-10-32-16 states that the measurement objective for a significant financing component is to recognize consideration for the goods at an amount that reflects the cash selling price, this guidance is only followed when an entity has already determined that a significant financing component exists. As discussed above, an entity needs to consider all facts and circumstances in this evaluation.

The list price might not always equal the cash selling price (i.e., the price that a counterparty would have paid for the promised goods if the counterparty had paid cash for those goods when (or as) they transfer to the counterparty, as defined in ASC 606-10-32-16). For example, if a counterparty offers to pay cash up front when the entity is offering "free" financing to counterparties, the counterparty that offers the up-front payment might be able to pay less than the list price. Determining a "cash selling price" may require judgment and the fact that an entity provides "zero interest financing" does not necessarily mean that the cash selling price is the same as the price another counterparty will pay over time. Entities should consider the cash selling price as compared to the promised consideration in making the evaluation based on the overall facts and circumstances of the arrangement.

Question 4-5 **If a significant financing component exists in a contract, how should an entity calculate the adjustment to the transaction price?** [30 March 2015 TRG meeting; agenda paper no. 30]

ASC 606 does not contain guidance on how to calculate the adjustment to the transaction price due to a significant financing component. A financing component will be recognized as interest expense (when the counterparty pays in advance) or interest income (when the counterparty pays in arrears). Entities should consider guidance outside of ASC 606 and ASC 610-20 to determine the appropriate accounting (i.e., ASC 835-30 on interest).

4.1.3 Noncash consideration (updated September 2026)

When an entity receives noncash consideration in exchange for a nonfinancial asset or an ISNFA, it applies the guidance in ASC 606 on noncash consideration. ASC 610-20 provides guidance for partial sale transactions in which the noncash consideration is in the form of a noncontrolling interest received or retained by the selling entity (see section 4.1.3.1). Additionally, the receipt of share-based noncash consideration is further discussed in section 4.1.3.2.

ASC 606 provides the following guidance for noncash consideration:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Noncash Consideration

606-10-32-21

To determine the **transaction price** for **contracts** in which a **customer** promises consideration in a form other than cash, an entity shall measure the estimated fair value of the noncash consideration at contract inception (that is, the date at which the criteria in paragraph 606-10-25-1 are met).

606-10-32-22

If an entity cannot reasonably estimate the fair value of the noncash consideration, the entity shall measure the consideration indirectly by reference to the **standalone selling price** of the goods or services promised to the customer (or class of customer) in exchange for the consideration.

606-10-32-23

The fair value of the noncash consideration may vary after contract inception because of the form of the consideration (for example, a change in the price of a share to which an entity is entitled to receive from a customer). Changes in the fair value of noncash consideration after contract inception that are due to the form of the consideration are not included in the transaction price. If the fair value of the noncash consideration promised by a customer varies for reasons other than the form of the consideration (for example, the exercise price of a share option changes because of the entity's performance), an entity shall apply the guidance on variable consideration in paragraphs 606-10-32-5 through 32-14. If the fair value of the noncash consideration varies because of the form of the consideration and for reasons other than the form of the consideration, an entity shall apply the guidance in paragraphs 606-10-32-5 through 32-14 on variable consideration only to the variability resulting from reasons other than the form of the consideration.

606-10-32-24

If a customer contributes goods or services (for example, materials, equipment, or labor) to facilitate an entity's fulfillment of the contract, the entity shall assess whether it obtains control of those contributed goods or services. If so, the entity shall account for the contributed goods or services as noncash consideration received from the customer.

The consideration received might be in the form of goods, services or other noncash consideration (e.g., property, plant and equipment; a financial instrument). When an entity (i.e., the seller) receives, or expects to receive, noncash consideration, the fair value of the noncash consideration at contract inception is included in the transaction price.[79]

The Board decided[80] not to specify how the fair value of noncash consideration should be measured (e.g., ASC 606 does not require an entity to apply ASC 820), in part because the form of noncash consideration varies widely. Rather, the FASB observed that the concept of fair value exists in other parts of ASC 606 (e.g., the guidance on consideration payable to a customer) and that choosing the appropriate basis for measuring the fair value of noncash consideration requires judgment. If an entity cannot reasonably estimate the fair value of noncash consideration, it should measure the noncash consideration indirectly by reference to the standalone selling price of the promised nonfinancial assets or ISNFAs. For contracts with both noncash and cash consideration, an entity will only use fair value principles to measure the value of the noncash consideration and will look to other guidance within ASC 606 for the cash consideration portion of the transaction price.

The Board also noted[81] that an entity should consider the accounting guidance in ASC 815 to determine whether an arrangement with a right to noncash consideration contains an embedded derivative. Based on feedback from stakeholders, the Board noted that one of the most common forms of noncash consideration is shares (or share options) of a nonpublic entity. Those stakeholders indicated that shares (or share options) of a nonpublic entity likely would not meet the definition of an embedded derivative in ASC 815 because they are not readily convertible to cash.

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[79] This statement applies to transactions that are in the scope of ASC 610-20. This guidance does not apply to nonreciprocal transactions, exchanges of financial assets that are outside the scope of ASC 860, nonmonetary service transactions and exchanges of like-kind inventory between entities in the same line of business, which are in the scope of ASC 845.

[80] Paragraph BC39 of ASU 2016-12.

[81] Paragraph BC39 of ASU 2016-12.

Because noncash consideration is measured at contract inception, any changes in the fair value of noncash consideration due to its form (e.g., a change in the price of a share an entity is entitled to receive from a counterparty) after contract inception are recognized following the relevant US GAAP guidance for the form of the noncash consideration (e.g., ASC 321 if the noncash received is an equity security). That is, entities should apply the relevant US GAAP guidance to determine whether and how any changes in fair value that occurred after contract inception due to the form of noncash consideration received or receivable from the transaction should be recognized.[82]

The fair value of noncash consideration could change both because of the form of consideration (e.g., a change in the price of a share an entity is entitled to receive from a counterparty) and for reasons other than the form of consideration (e.g., a change in the exercise price of a share option because of the entity's performance). Under ASC 606, the variable consideration guidance applies only to variability resulting from reasons other than the form of consideration (i.e., there is uncertainty about whether the entity will be entitled to the noncash consideration if a future event occurs or does not occur). The FASB decided[83] that entities should apply the variable consideration guidance to the same types of variability, regardless of the form (i.e., cash or noncash) in which the consideration will be received.

The initial classification of amounts related to noncash consideration depends on the timing of receipt of the consideration in relation to an entity's performance. If an entity performs by transferring nonfinancial assets or ISNFAs to a counterparty before the counterparty pays the noncash consideration or before payment of the noncash consideration is due, the FASB noted[84] that the entity presents the noncash consideration as a contract asset, excluding any amounts presented as a receivable. An entity should assess the contract asset or receivable for impairment. See section 6.1 for further discussion of contract assets and receivables.

See section 5.6 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion of noncash consideration.

How we see it

Under ASC 606 and applicable to transactions within the scope of ASC 610-20, an entity must consider the fair value of the noncash consideration received at contract inception and only considers the fair value (i.e., selling price) of the nonfinancial assets or ISNFAs surrendered if the fair value of what was received is not reasonably estimable. As a result, an entity's measurement of noncash consideration received from a counterparty may differ from the counterparty's measurement of the same noncash consideration granted.

Question 4-6

Is a contract with a transaction price stated as an amount of cash but that will be settled in a form of consideration other than cash (e.g., PP&E, shared-based payments, digital assets) subject to the noncash consideration guidance?

No. We believe that this guidance is intended to address contracts in which a counterparty promises to pay consideration in a form other than cash, rather than contracts in which the transaction price is stated as an amount of cash but will be settled in noncash consideration.

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[82] Paragraph BC40 of ASU 2016-12.

[83] Paragraph BC252 of ASU 2014-09 and paragraph BC42 of ASU 2016-12.

[84] Paragraph BC40 of ASU 2016-12.

4.1.3.1 Noncash consideration in the form of noncontrolling interests received or retained

Entities measure noncontrolling interests received or retained at fair value at contract inception following the guidance in ASC 606 on noncash consideration (see section 4.1.3). This may occur when a selling entity retains a noncontrolling interest in the legal entity that holds the nonfinancial asset after the transaction. Such transactions, often referred to as "partial sales," are common in certain industries (e.g., real estate). The noncontrolling interest may be in the form of an equity method investment (including an interest in a joint venture) or a financial asset. ASC 610-20 refers to the guidance on noncash consideration in ASC 606 for these types of transactions as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Measurement

610-20-32-4

If an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset in exchange for a **noncontrolling interest**, the entity shall consider the noncontrolling interest received from the counterparty as noncash consideration and shall measure it in accordance with the guidance in paragraphs 606-10-32-21 through 32-24. Similarly, if a **parent** transfers control of a distinct nonfinancial asset or in substance nonfinancial asset by transferring ownership interests in a consolidated **subsidiary** but retains a noncontrolling interest in its former subsidiary, the entity shall consider the noncontrolling interest retained as noncash consideration and shall measure it in accordance with the guidance in paragraphs 606-10-32-21 through 32-24. (See Case A of Example 2 in paragraphs 610-20-55-11 through 55-14.)

The FASB determined[85] that the economic substance of a partial sale is the transfer of a distinct asset in exchange for a noncontrolling interest in an entity. As a result, the accounting for both the sale of a nonfinancial asset and a partial sale to an entity that is not a customer results in the recognition of a full gain or loss. That is, there is no difference in the accounting for the two types of transactions and no intra-entity profit is eliminated for the partial sale transaction. The Board concluded[86] that recognizing a full gain in a partial sale transaction is justified because the nature of the asset has changed (i.e., from a nonfinancial asset to a financial asset). ASC 610-20 also requires the recognition of a full gain or loss for nonfinancial asset sales to equity method investees and joint ventures. However, if the asset being sold is an output of an entity's ordinary activities (i.e., the transaction is in the scope of ASC 606), profit from intra-entity transactions is eliminated until that profit is realized in a transaction with third parties. See section 4.2 for further details.

See section 5.2.3 of our FRD, ***Equity method investments and joint ventures***, for additional guidance on the initial measurement of an equity method investment upon the sale or contribution of businesses or assets.

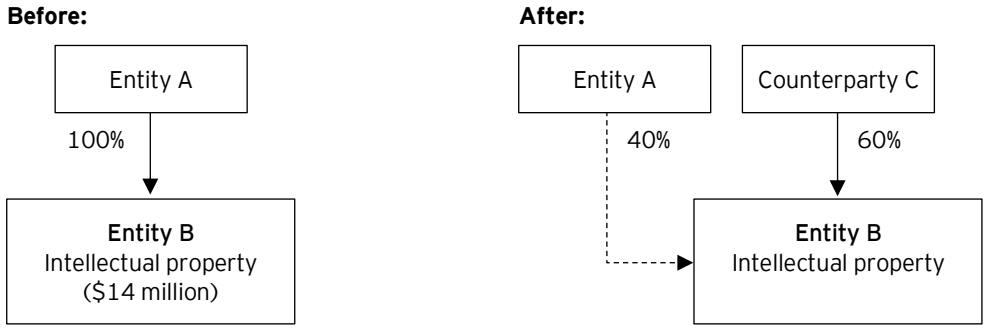
[85] Paragraph BC63 of ASU 2017-05.

[86] Paragraph BC64 of ASU 2017-05.

The following example illustrates the accounting for the sale of an equity interest in a consolidated subsidiary that holds a nonfinancial asset when the selling entity retains a noncontrolling interest in the former subsidiary:

Illustration 4-4: Transfer of a nonfinancial asset in exchange for a noncontrolling interest in the entity that holds the nonfinancial asset

Entity A owns a 100% controlling interest in Entity B. Entity B's only asset is previously acquired intellectual property that has a carrying value of $14 million. Entity A enters into a contract to sell a 60% controlling equity interest in Entity B to Counterparty C for $18 million. Entity A retains a 40% noncontrolling interest in Entity B. Entity B is not a business, and Counterparty C is not Entity A's customer in this transaction.



Analysis

Because Entity B is not a business, and Counterparty C is not Entity A's customer, the transaction is not in the scope of ASC 810 or ASC 606, respectively. Entity A concludes the sale of its ownership interest in Entity B is in the scope of ASC 610-20 because all of the fair value of the assets promised in the contract is concentrated in nonfinancial assets (i.e., intellectual property).[1]

On the transaction closing date, Entity A loses its controlling financial interest in Entity B under ASC 810 and does not have a controlling financial interest in Counterparty C. Because Entity A has a noncontrolling financial interest in Entity B, the legal entity holding the intellectual property, it evaluates the point in time at which Entity B, its former subsidiary, has control of the intellectual property considering the transfer of control principle in ASC 606.[2]

Entity A concludes that it has transferred control of the intellectual property on the transaction closing date because Entity B has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the intellectual property. Therefore, Entity A derecognizes the intellectual property and determines that it should account for the retained interest in Entity B as an equity method investment under ASC 323.

Entity A measures the transaction price considering the promised cash consideration and the fair value of the noncash consideration received (i.e., the noncontrolling interest in Entity B). Assume Entity A determines that the fair value of its 40% noncontrolling interest in Entity B is $12 million at contract inception, which becomes the initial measurement for that investment. The gain on the sale is calculated as follows:

Cash proceeds	$ 18m
Fair value of retained interest	12m
	30m
Less: Carrying amount of Entity A's net assets (intellectual property)	(14m)
Gain on sale	$ 16m

[1] See ASC 610-20-15-5.

[2] See ASC 610-20-25-7.

Case A of Example 2 in ASC 610-20 (see section 3.3) also illustrates the accounting for a retained noncontrolling interest in the entity that holds a nonfinancial asset.

As noted above, the accounting for all transactions in the scope of ASC 610-20 (including sales of nonfinancial assets to equity method investees or joint ventures) will result in a full gain or loss. ASC 970-323 illustrates how this guidance applies for real estate entities as follows:

Excerpt from Accounting Standards Codification

Real Estate — General — Investments — Equity Method and Joint Ventures

Initial Measurement

Contribution of Real Estate

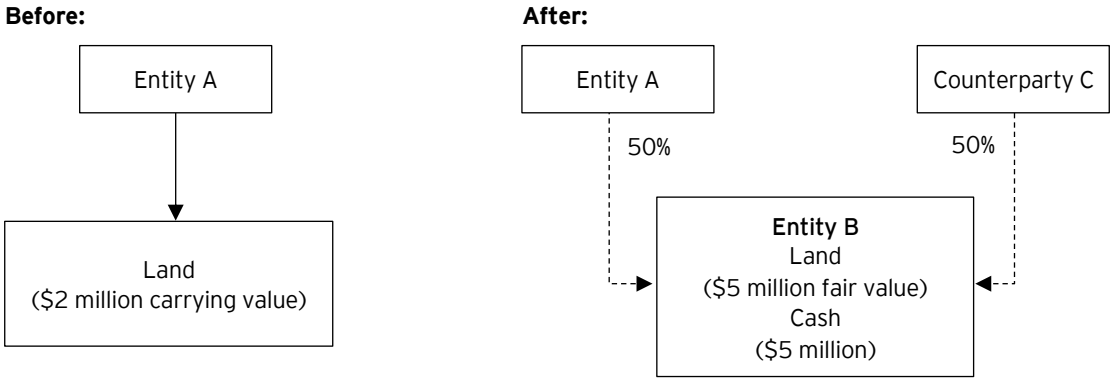
970-323-30-3

An investor that contributes real estate to the capital of a real estate venture generally should record its investment in the venture at fair value when the real estate is derecognized, regardless of whether the other investors contribute cash, property, or services. The transaction shall be accounted for in accordance with the guidance in paragraphs 360-10-40-3A through 40-3C. Some transactions are sales of an ownership interest that result in an entity being an investor in a real estate venture. An example of such a transaction includes one in which investor A contributes real estate with a fair value of $2,000 to a venture and investor B contributes cash in the amount of $1,000. The real estate is not considered a business or nonprofit activity and, therefore, is within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets. Investor A immediately withdraws the cash contributed by investor B and, following such contributions and withdrawals, each investor has a 50 percent interest in the venture (the only asset of which is the real estate). Assuming investor A does not have a controlling financial interest in the venture, investor A applies the guidance in paragraphs 610-20-25-5 and 610-20-25-7. When investor A meets the criteria to derecognize the property, investor A measures its retained ownership interest at fair value consistent with the guidance in paragraph 610-20-32-4 and includes that amount in the consideration used in calculating the gain or loss on derecognition of the property.

Real estate entities applying ASC 970-323 apply the guidance in ASC 610-20 to account for the derecognition of the real estate, including the guidance on noncash consideration in ASC 610-20-32-4. The following example illustrates the application of ASC 610-20 for a transaction in which a selling entity transfers real estate to a newly formed legal entity and receives a noncontrolling interest in the new entity:

Illustration 4-5: Transfer of a nonfinancial asset to a newly formed legal entity in exchange for a noncontrolling interest

Entity A and Counterparty C create a newly formed legal entity, Entity B. Entity A transfers land with a fair value of $5 million and a carrying value of $2 million. Counterparty C contributes $5 million cash to Entity B, and each party receives a 50% noncontrolling interest in Entity B. The land transferred to Entity B is not a business, and Counterparty C is not Entity A's customer in this transaction.



Analysis

Entity A measures the transaction price considering the fair value of the noncash consideration received (i.e., Entity A's noncontrolling interest in Entity B). Assume Entity A determines that the fair value of its 50% noncontrolling interest in Entity B is $5 million at contract inception, which becomes the initial measurement for that investment. Under ASC 610-20 and ASC 970-323-30-3, the gain on the sale is calculated as follows:

Fair value of retained interest	$ 5m
Less: Carrying amount of land contributed	(2m)
Gain on sale	$ 3m

4.1.3.2 Share-based noncash consideration (after the adoption of ASU 2025-07) (updated September 2026)

FASB amendments

In September 2025, the FASB issued ASU 2025-07 to clarify that an entity receiving share-based noncash consideration from a customer for the transfer of goods applies the guidance on noncash consideration in ASC 606-10-32-21 through 32-24. The entity would not apply the guidance in other topics, such as ASC 815 and ASC 321, unless and until its right to receive or retain the share-based noncash consideration is unconditional under ASC 606. The FASB included a similar clarification in ASC 610-20 for an entity receiving share-based consideration from a counterparty in exchange for the transfer of nonfinancial assets.

The guidance is effective for all entities for annual reporting periods beginning after 15 December 2026, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim or annual period for which an entity's financial statements have not been issued or made available for issuance.

For further discussion of this ASU, including information on transition, see section 5.6.1 in our FRD, ***Revenue from contracts with customers (ASC 606)***. For further discussion on the derivatives scope refinements in this ASU, see our To the Point publication, ***FASB expands derivative scope exceptions and clarifies guidance for share-based noncash consideration***.

As discussed above, when an entity receives noncash consideration in exchange for a nonfinancial asset or an ISNFA, it applies the guidance in ASC 606 on noncash consideration. After the adoption of ASU 2025-07, ASC 610-20 provides the following guidance for share-based noncash consideration received from a counterparty:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Scope and Scope Exceptions

Transactions

610-20-15-3A

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 606-10-65-3

An entity shall apply the guidance in this Subtopic, including the guidance on noncash consideration in paragraphs 610-20-32-3(a)(4) and 610-20-32-4, to a contract with share-based noncash consideration (for example, shares, share options, or other equity instruments) from a counterparty for the transfer

> of nonfinancial assets or in substance nonfinancial assets. The guidance in other Topics (including Topic 815 on derivatives and hedging and Topic 321 on equity securities) does not apply to share-based noncash consideration from a counterparty for the transfer of nonfinancial assets or in substance nonfinancial assets unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under this Subtopic. To assess whether the right is unconditional under this Subtopic, only the contract terms that relate to the entity's transfer of nonfinancial assets or in substance nonfinancial assets (or a specific outcome of the entity's transfer) within the scope of this Subtopic are evaluated. The determination of whether the right is unconditional is consistent with the guidance in paragraph 606-10-45-4, which states that a right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

ASU 2025-07 clarifies that an entity receiving share-based noncash consideration from a customer for the transfer of goods applies the guidance on noncash consideration in ASC 606-10-32-21 through 32-24. The entity would not apply the guidance in other topics, such as ASC 815 and ASC 321, until its right to receive or retain the share-based noncash consideration is unconditional under ASC 606.

The Board[87] aligned the noncash consideration guidance between ASC 610-20 with ASC 606 by adding a similar clarification for share-based noncash consideration received from a counterparty for the transfer of nonfinancial assets. That is, an entity receiving share-based noncash consideration from a counterparty for the transfer of nonfinancial assets or ISNFAs applies the guidance on noncash consideration in ASC 610-20-32-3(a)(4) and ASC 610-20-32-4 (see section 4.1.3). The entity would not apply the guidance in other topics, such as ASC 815 and ASC 321, until its right to receive or retain the share-based noncash consideration is unconditional under ASC 610-20. That is, a contract asset that represents the conditional right to receive share-based noncash consideration is not considered a financial instrument and is fully accounted for under ASC 610-20 until it becomes an unconditional right. ASC 610-20 refers to the guidance in ASC 606-10-45-1 through 45-4 for the presentation of a contract asset.

As discussed in ASC 606-10-45-4 (see section 6.1), a right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. An entity evaluates only the contract terms that relate to the entity's transfer of nonfinancial assets or ISNFAs or a specific outcome of the entity's transfer in the scope of ASC 610-20 when assessing whether the right is unconditional. These terms could include achieving a specified performance-related milestone (e.g., selling a certain number of units, completing performance in a certain period).

The Board noted[88] that once performance-related contingencies have been resolved, the entity's right to receive or retain the share-based noncash consideration from a counterparty is unconditional (other than by the passage of time), and the entity should begin accounting for the share-based noncash consideration under other topics (e.g., ASC 815, ASC 321).

A contingent event unrelated to an entity's transfer of nonfinancial assets or ISNFAs or a specific outcome of the entity's transfer (e.g., the occurrence of an initial public offering) is not relevant in assessing whether the right is unconditional under ASC 610-20. Significant judgment may be required to determine whether a contingent event relates to an entity's performance under ASC 610-20.

After the adoption of ASU 2025-07, ASC 606 includes example 31A. We have included this example to illustrate the concepts that apply to a transaction in the scope of ASC 610-20 involving share-based noncash consideration. See section 5.6.1 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

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[87] Paragraph BC64 of ASU 2025-07.

[88] Paragraph BC59 of ASU 2025-07.

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Implementation Guidance and Illustrations

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 606-10-65-3

Example 31A — Share-Based Noncash Consideration

606-10-55-250B

On January 1, 20X7, an entity enters into a contract with a customer to sell 5,000 units of Product A. The customer will pay $100 for each unit upon delivery. If the entity delivers all 5,000 units within 2 years from contract inception, the customer promises a performance bonus of 100 warrants for the customer's common stock. The estimated fair value of the 100 warrants at contract inception is $100,000. At contract inception, the entity concludes that each unit is a performance obligation that is satisfied at a point in time. Based on its experience, the entity expects that all 5,000 units will be delivered to the customer before the end of 20X8. Accordingly, it concludes that the variable consideration related to the 100 warrants is not constrained and the transaction price is $600,000 ([5,000 units × $100] + $100,000 estimated fair value of 100 warrants at contract inception). Accordingly, the transaction price allocated to each unit is $120 ($600,000/5,000 units).

606-10-55-250C

During 20X7, the entity delivers 3,000 units to the customer. At the end of 20X7, the entity continues to expect that the remaining 2,000 units will be delivered to the customer before the end of 20X8. Therefore, the transaction price determined at contract inception is unchanged. For 20X7, the entity recognizes revenue of $360,000 (3,000 units × $120), cash of $300,000, and a contract asset of $60,000 ($100,000 estimated fair value of 100 warrants at contract inception × [3,000 delivered units/5,000 units]). The entity does not reflect any changes in the fair value of the 100 warrants in the transaction price. However, the entity assesses the related contract asset for impairment.

606-10-55-250D

During 20X8, the entity delivers the remaining 2,000 units to the customer. For 20X8, the entity recognizes revenue of $240,000 (2,000 units × $120), cash of $200,000, and a contract asset of $40,000 ($100,000 estimated fair value of 100 warrants at contract inception × [2,000 delivered units/5,000 units]). The entity does not reflect any changes in the fair value of the 100 warrants in the transaction price. However, the entity assesses the related contract asset for impairment. When all 5,000 units have been delivered, the entity concludes that its right to receive or retain the 100 warrants is unconditional under this Topic. At that point, the entity derecognizes the contract asset and applies the guidance in other Topics to account for the 100 warrants.

If an entity that performs by transferring a nonfinancial asset or an ISNFA to a counterparty, either before or after the entity's right to receive or retain share-based noncash consideration is no longer contingent on the transfer or a specific outcome of the transfer, the entity applies the presentation guidance in ASC 606-10-45 (see section 6.1).

As illustrated in Example 31A above, an entity that performs by transferring nonfinancial assets or ISNFAs to a counterparty before the payment of the related share-based noncash consideration is received or due from the counterparty should present the share-based noncash consideration as a contract asset, excluding any amounts presented as a receivable, until the share-based noncash consideration is recognized. ASC 606-10-55-250C states that the contract asset, which represents the conditional right to receive share-based noncash consideration in this example, should be evaluated for impairment. See further discussion in section 6.1.

4.1.4 Consideration paid or payable to a counterparty (updated September 2026)

FASB amendment

In May 2025, the FASB issued ASU 2025-04 to clarify the accounting for share-based consideration payable to a customer in conjunction with selling goods or services (e.g., customer incentive awards).

The ASU revised the definition of a performance condition to include conditions based on a customer's purchases or other parties that purchase the grantor's goods or services from the customer. This is because awards that vest upon direct customer purchases and those that vest upon purchases made by a customer's customer are similar and, therefore, do not warrant different requirements for share-based consideration payable to customers.

It also clarified that the guidance on constraining estimates of variable consideration does not apply to share-based consideration payable to a customer that is measured and classified under ASC 718. Rather, the grantor assesses whether an award will vest using only the guidance in ASC 718. To clarify that the guidance applies to both equity instruments and liability-classified share-based consideration, the ASU also replaced the term "equity instruments" with "share-based consideration" in ASC 606.

The ASU also eliminated the policy election in ASC 718 allowing grantors to account for forfeitures of customer awards as they occur.

The guidance applies to all reporting entities that issue share-based consideration to a customer in the scope of ASC 606 and is effective for all entities for fiscal years beginning after 15 December 2026, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. An entity that adopts the guidance in an interim period will do so as of the beginning of the fiscal year that includes that interim period. The guidance can be applied either on a modified retrospective basis or a retrospective basis.

See section 5.7.2.1 in our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

Many entities make payments to a counterparty. In some cases, the consideration paid or payable represents purchases by the entity of goods or services offered by the counterparty that satisfy a business need of the entity. In other cases, the consideration paid or payable represents incentives given by the entity to entice the counterparty to purchase its nonfinancial assets or ISNFAs.

An entity that pays or promises to pay consideration to a counterparty in connection with the transfer of a nonfinancial asset or an ISNFA under ASC 610-20 applies the concepts in ASC 606 to determine whether and, if so, when the payment affects the gain or loss recognized. ASC 606 provides the following guidance for consideration paid or payable:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Consideration Payable to a Customer

606-10-32-25

Consideration payable to a **customer** includes:

a. Cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer)

b. Credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer)

c. Equity instruments (liability or equity classified) granted in conjunction with selling goods or services (for example, shares, share options, or other equity instruments).

An entity shall account for consideration payable to a customer as a reduction of the **transaction price** and, therefore, of **revenue** unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13.

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 606-10-65-2

606-10-32-25

Consideration payable to a **customer** includes:

a. Cash amounts that an entity pays, or expects to pay, to the customer (or to other parties that purchase the entity's goods or services from the customer)

b. Credit or other items (for example, a coupon or voucher) that can be applied against amounts owed to the entity (or to other parties that purchase the entity's goods or services from the customer)

c. Share-based consideration (liability or equity classified) granted to the customer (or to other parties that purchase the grantor's goods or services from the customer) in conjunction with selling goods or services. Share-based consideration encompasses the same instruments as **share-based payment arrangements** (for example, shares, cash-settled stock appreciation rights, share options and warrants, or other equity instruments), but the grantee (as a customer) need not be a supplier of goods or services to the grantor.

An entity shall account for consideration payable to a customer as a reduction of the **transaction price** and, therefore, of **revenue** unless the payment to the customer is in exchange for a distinct good or service (as described in paragraphs 606-10-25-18 through 25-22) that the customer transfers to the entity. If the consideration payable to a customer (other than share-based consideration) includes a variable amount, an entity shall estimate the transaction price (including assessing whether the estimate of variable consideration is constrained) in accordance with paragraphs 606-10-32-5 through 32-13. See paragraph 606-10-32-25A for guidance applicable to share-based consideration payable to a customer.

606-10-32-25A

Equity instruments granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The equity instrument shall be measured at the **grant date** in accordance with Topic 718 (for both equity-classified and liability-classified share-based payment awards). Changes in the measurement of the equity instrument (through the application of Topic 718) after the grant date that are due to the form of the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88B for implementation guidance on equity instruments granted as consideration payable to a customer.

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 606-10-65-2

606-10-32-25A

Share-based consideration granted by an entity in conjunction with selling goods or services shall be measured and classified under Topic 718 on stock compensation. The share-based consideration shall be measured at the **grant date** in accordance with Topic 718 (for both equity-classified and liability-classified awards). Changes in the measurement of the share-based consideration (through the application of Topic 718) after the grant date that are due to the form of the consideration shall not be included in the transaction price. Any changes due to the form of the consideration shall be reflected elsewhere in the grantor's income statement. See paragraphs 606-10-55-88A through 55-88C for implementation guidance on share-based consideration payable to a customer.

606-10-32-26

If consideration payable to a customer is a payment for a distinct good or service from the customer, then an entity shall account for the purchase of the good or service in the same way that it accounts for other purchases from suppliers. If the amount of consideration payable to the customer exceeds the fair value of the distinct good or service that the entity receives from the customer, then the entity shall account for such an excess as a reduction of the transaction price. If the entity cannot reasonably estimate the fair value of the good or service received from the customer, it shall account for all of the consideration payable to the customer as a reduction of the transaction price.

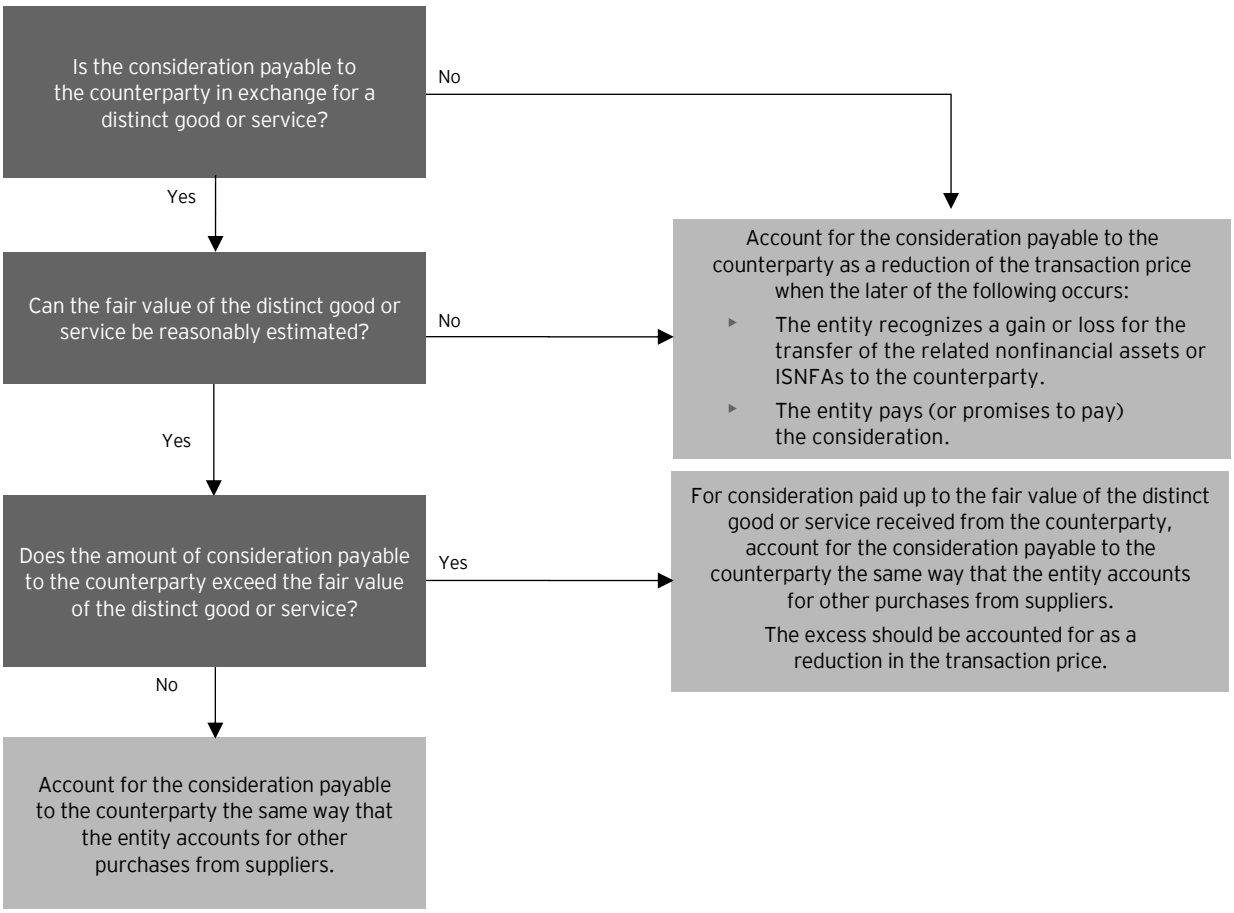
606-10-32-27

Accordingly, if consideration payable to a customer is accounted for as a reduction of the transaction price, an entity shall recognize the reduction of revenue when (or as) the later of either of the following events occurs:

a. The entity recognizes revenue for the transfer of the related goods or services to the customer.

b. The entity pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the entity's customary business practices.

The following flowchart illustrates this guidance:



To determine the appropriate accounting treatment, an entity must first determine whether the consideration paid or payable to a counterparty is a payment for a distinct good or service. As it does for transactions in the scope of ASC 606, an entity accounts for any cash paid to a counterparty as a reduction in the transaction price, which affects the amount of gain or loss on the transaction, unless it is for the exchange of distinct goods or services.[89] That is, for a payment by the entity to a counterparty to be treated as something other than a reduction of the transaction price, the good or service provided by the counterparty must be distinct (as discussed in section 3.2.2 above and in section 4.2.1 of our FRD, ***Revenue from contracts with customers (ASC 606)***).

If the consideration is in exchange for a distinct good or service at fair value, an entity accounts for consideration paid or payable to a counterparty the same way it accounts for other purchases from suppliers. However, if the payment to the counterparty exceeds the fair value of the distinct good or service received, the entity must account for the excess as a reduction of the transaction price. If an entity cannot reasonably estimate the fair value of the good or service received from the counterparty, it is required to account for all of the consideration payable as a reduction in the transaction price.

If the consideration paid or payable to a counterparty is accounted for as a reduction of the transaction price, the guidance on consideration payable says this reduction of the transaction price (and thus a reduction of a gain or an increase to a loss) should be recognized at the later of when (1) the entity recognizes the gain or loss for the transfer of the promised assets to the counterparty or (2) the entity pays or promises to pay the consideration (even if the payment is conditional on a future event).

[89] Paragraph BC17 of ASU 2017-05.

Question 4-7 **Which payments to a customer (counterparty) are in the scope of the guidance on consideration payable to a customer?** [30 March 2015 TRG meeting; agenda paper no. 28, and 13 July 2015 TRG meeting; agenda paper no. 37]

An entity may not have to separately analyze each payment to a customer (counterparty) if it is apparent that the payment is for a distinct good or service acquired in the normal course of business at a market price. However, if the business purpose of a payment to a customer (counterparty) is unclear or the goods or services are acquired in a manner that is inconsistent with market terms other entities would receive when purchasing the customer's (counterparty's) goods or services, the payment should be evaluated under this guidance.

The amount of consideration received from a customer (counterparty) for goods or services, and the amount of any consideration paid to that customer (counterparty) for goods or services, could be linked even if they are separate events. [90] See also Question 4-8 for a discussion of payments that may be made to third parties on behalf of a customer (counterparty), which should also be evaluated under this guidance.

Question 4-8 **How should an entity evaluate payments made to third parties on behalf of a counterparty?**

Entities may make payments to third parties on behalf (or for the benefit) of their counterparties. For example, an entity may pay a fee to a third party to provide a loan to its counterparty in which the counterparty will use the proceeds to purchase the entity's nonfinancial asset or an ISNFA. In these situations, the entity will need to carefully evaluate the specific facts and circumstances, including the nature and purpose of any payments made to the third party, to determine whether those payments are linked to a contract with its counterparty within the scope of 610-20 and are, therefore, in substance consideration payable to a counterparty (despite being paid to a third party). This determination could require the application of significant judgment.

If the entity determines that the payments made to the third party are consideration payable to a counterparty and not in exchange for a distinct good or service, the entity should treat those payments as a reduction to the transaction price in the entity's contract with its counterparty to sell nonfinancial assets or ISNFAs.

Update: In June 2026, the Emerging Issues Task Force (EITF) recommended that the FASB add a project to its technical agenda on consideration payable to a customer.

The EITF recommended that payments made on behalf of a customer, or to a customer of an entity's customer, should be evaluated as consideration payable to a customer when there is either (1) an explicit or implicit promise to the customer that such payments would be made or (2) the payment represents an in-substance price concession to the customer that has a reasonable expectation that the payment will be made to the customer's customer.

An entity that promises to pay consideration to a counterparty in connection with the transfer of a nonfinancial asset or an ISNFA under ASC 610-20 applies the ASC 606 guidance on consideration payable to a customer to determine whether and, if so, when the payment affects the gain or loss recognized.

Status: In August 2026, the FASB decided to add this project to its technical agenda and is expected to issue a proposed ASU that would apply to all entities in the fourth quarter of 2026. Readers should monitor developments.

[90] Paragraph BC257 of ASU 2014-09.

4.1.5 Liabilities assumed or relieved

The consideration promised in a contract to transfer (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs includes the carrying amount of liabilities assumed or relieved by a counterparty as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Measurement

610-20-32-5

If a counterparty promises to assume or relieve a liability of an entity in exchange for a transfer of nonfinancial assets or in substance nonfinancial assets within the scope of this Subtopic, the transferring entity shall include the carrying amount of the liability in the consideration used to calculate the gain or loss. Although a liability assumed or relieved by a counterparty shall be included in the consideration used to calculate a gain or loss, an entity shall not derecognize the liability until it has been extinguished in accordance with the guidance in paragraph 405-20-40-1 (see paragraph 610-20-45-3 on how to present the liability if it is extinguished before or after the entity transfers control of the nonfinancial assets or in substance nonfinancial assets). If an entity transfers control of the nonfinancial assets or in substance nonfinancial assets before a liability is extinguished, it shall apply the guidance on constraining estimates of variable consideration in paragraph 606-10-32-11 to determine the carrying amount of the liability to be included in the gain or loss calculation.

Other Presentation Matters

610-20-45-3

If an entity meets the criteria in paragraph 405-20-40-1 to derecognize a liability assumed (or relieved) by a counterparty before transferring control of a distinct nonfinancial asset, the liability shall be derecognized but no gain or loss shall be recognized. Instead, the entity shall record a **contract liability**, which represents consideration received before transferring control of the asset. If an entity transfers control of a distinct nonfinancial asset before meeting the criteria to derecognize a liability assumed by a counterparty, the entity shall recognize a **contract asset** to the extent the carrying amount of the liability is included in the calculation of the gain or loss.

Any liabilities assumed or relieved by a counterparty (e.g., mortgage loan assumed by the counterparty that purchases a building from an entity) are included in the consideration promised in the contract at their carrying amount. The Board noted[91] that including the carrying amount of a liability assumed or relieved by a counterparty as consideration received reflects the substance of the transaction because if the counterparty did not assume the liability, the counterparty would have to provide additional consideration to acquire the asset. A selling entity then applies other US GAAP guidance (e.g., ASC 405) to determine when to derecognize the liability that is to be assumed or relieved by the counterparty.

The FASB also decided[92] that an entity should recognize the gain or loss on the asset at the same time and in the same financial statement line item as the gain or loss on the liability that is assumed or relieved by the counterparty. Recognizing the gains or losses on the asset and liability separately would have required an entity to allocate the total gain or loss between the asset and liability derecognized. In addition, the FASB concluded that there is no need to consider the fair value of the liability being assumed by the counterparty because adjusting consideration to equal the fair value of the liability assumed would not change the total net gain or loss recognized.[93]

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[91] Paragraph BC34 of ASU 2017-05.

[92] Paragraph BC35 of ASU 2017-05.

[93] Paragraph BC36 of ASU 2017-05.

If the selling entity meets the criteria in ASC 405 to derecognize a liability before transferring control of a nonfinancial asset or an ISNFA, the liability is derecognized but no gain or loss is recognized. Instead, the entity recognizes a contract liability that represents consideration received before transferring control of the asset. The Board decided[94] that reclassifying the existing liability to a contract liability better reflects the entity's remaining obligation, which is to transfer control of a distinct nonfinancial asset. If the entity transfers control of a nonfinancial asset or an ISNFA before meeting the criteria to derecognize a liability, the entity recognizes a contract asset for the amount of the liability that is included in the calculation of the gain or loss. The amount of the liability included in the contract asset would be less than the carrying amount of the liability if a portion of the liability amount is constrained, considering the guidance on constraining estimates of variable consideration.

4.1.6 Changes in transaction price after contract inception

ASC 610-20-32-3(b) refers entities to the guidance in ASC 606 to determine how to account for changes in the transaction price after contract inception. ASC 610-20 requires entities to determine the transaction price at contract inception. However, there could be changes to the transaction price after contract inception. For example, as discussed in section 4.1.1, when a contract includes variable consideration, an entity needs to update its estimate of the transaction price at the end of each reporting period to reflect any changes in circumstances. Changes in the transaction price can also occur due to contract modifications (see section 3.4 in our FRD, ***Revenue from contracts with customers (ASC 606)***. ASC 606 provides the following guidance on accounting for changes in the transaction price after contract inception:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Changes in the Transaction Price

606-10-32-42

After contract inception, the **transaction price** can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration to which an entity expects to be entitled in exchange for the promised goods or services.

606-10-32-43

An entity shall allocate to the **performance obligations** in the contract any subsequent changes in the transaction price on the same basis as at contract inception. Consequently, an entity shall not reallocate the transaction price to reflect changes in **standalone selling prices** after contract inception. Amounts allocated to a satisfied performance obligation shall be recognized as revenue, or as a reduction of **revenue**, in the period in which the transaction price changes.

606-10-32-44

An entity shall allocate a change in the transaction price entirely to one or more, but not all, performance obligations or distinct goods or services promised in a series that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b) only if the criteria in paragraph 606-10-32-40 on allocating variable consideration are met.

[94] Paragraph BC37 of ASU 2017-05.

606-10-32-45

An entity shall account for a change in the transaction price that arises as a result of a contract modification in accordance with paragraphs 606-10-25-10 through 25-13. However, for a change in the transaction price that occurs after a contract modification, an entity shall apply paragraphs 606-10-32-42 through 32-44 to allocate the change in the transaction price in whichever of the following ways is applicable:

a. An entity shall allocate the change in the transaction price to the performance obligations identified in the contract before the modification if, and to the extent that, the change in the transaction price is attributable to an amount of variable consideration promised before the modification and the modification is accounted for in accordance with paragraph 606-10-25-13(a).

b. In all other cases in which the modification was not accounted for as a separate contract in accordance with paragraph 606-10-25-12, an entity shall allocate the change in the transaction price to the performance obligations in the modified contract (that is, the performance obligations that were unsatisfied or partially unsatisfied immediately after the modification).

When applying the guidance in ASC 606-10-32-43 and 32-44 to transactions in the scope of ASC 610-20, an entity generally allocates changes in the total transaction price to the distinct nonfinancial assets and ISNFAs on the same basis as the initial allocation (see section 5), regardless of whether they are allocated based on the relative standalone selling price (i.e., using the same proportionate share of the total) or they are allocated to individual nonfinancial assets and ISNFAs under the allocation exceptions discussed in sections 5.3 and 5.4. As discussed in section 5.1, standalone selling prices are not updated after contract inception, unless the contract has been modified and the contract modification is accounted for as a new or separate contract. Further, any amounts allocated to nonfinancial assets or ISNFAs that have already been transferred to the counterparty should be recognized in the period in which the transaction price changes (i.e., on a cumulative catch-up basis). This could result in either an increase or decrease in the gain or loss in relation to a transferred nonfinancial asset or an ISNFA.

If the change in the transaction price is due to a contract modification, the contract modification guidance in ASC 606-10-25-10 through 25-13 must be followed (see section 3.4 in our FRD, ***Revenue from contracts with customers (ASC 606)***, for a discussion of contract modifications). See Question 3-20 in section 3.4 in our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on how an entity should distinguish between a contract modification and a change in the estimated transaction price due to variable consideration after contract inception.

In addition, when contracts include variable consideration, it is possible that changes in the transaction price can arise after a modification, and such changes may or may not be related to distinct assets that existed before the modification. For changes in the transaction price arising after a contract modification that was not treated as a separate contract, an entity must apply one of the two approaches described in ASC 606-10-32-45.

4.2 Intra-entity profits on transactions with equity method investees or joint ventures

ASC 610-20 requires the recognition of a full gain or loss for sales to equity method investees and joint ventures, as it does for retained noncontrolling interests or noncontrolling interests received in a transaction (see section 4.1.3.1). For example, an entity may transfer a nonfinancial asset to its joint venture or equity method investee for cash or other assets (i.e., a downstream transaction). While ASC 323 requires elimination of certain intra-entity profits and losses to equity method investees or joint ventures until they are realized by the investee in transactions with third parties, there is no intra-entity profit elimination in a downstream transaction that is at arm's length if the sale is in the scope of ASC 610-20 as follows:

Excerpt from Accounting Standards Codification

Investments — Equity Method and Joint Ventures

Subsequent Measurement

323-10-35-7

Intra-entity profits and losses shall be eliminated until realized by the investor or investee as if the investee were consolidated. Specifically, intra-entity profits or losses on assets still remaining with an investor or investee shall be eliminated, giving effect to any income taxes on the intra-entity transactions, except for any of the following:

a. A transaction with an investee (including a joint venture investee) that is accounted for as a deconsolidation of a subsidiary or a derecognition of a group of assets in accordance with paragraphs 810-10-40-3A through 40-5

b. A transaction with an investee (including a joint venture investee) that is accounted for as a change in ownership transaction in accordance with paragraphs 810-10-45-21A through 45-24.

c. A transaction with an investee (including a joint venture investee) that is accounted for as the derecognition of an asset in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.

Real Estate — General — Investments — Equity Method and Joint Ventures

Subsequent Measurement

970-323-35-14

Intra-entity profit shall be eliminated by the investor in relation to the investor's **noncontrolling interest** in the investee, unless one of the exceptions in paragraph 323-10-35-7 applies. An investor that controls the investee and enters into a transaction with the investee shall eliminate all of the interentity profit on assets remaining within the group. (See Subsection 323-30-35 for accounting guidance concerning partnership ownership interest.)

970-323-35-15

A sale of property in which the seller holds or acquires a noncontrolling interest in the buyer shall be evaluated in accordance with the guidance in paragraphs 360-10-40-3A through 40-3B. No profit shall be recognized if the seller controls the buyer.

Property, Plant, and Equipment – Overall

Derecognition

360-10-40-3A

An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset and an asset subject to a lease, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a **contract** with a **customer** shall be accounted for in accordance with Topic 606 on **revenue** from contracts with customers.

There is an exception to the subsequent measurement guidance for equity method investments and joint ventures for arm's-length transactions in the scope of ASC 610-20. This exception excludes arm's-length transactions in the scope of ASC 610-20 from the requirement in ASC 323 to eliminate intra-entity profits and losses until they are realized by the investor or investee.

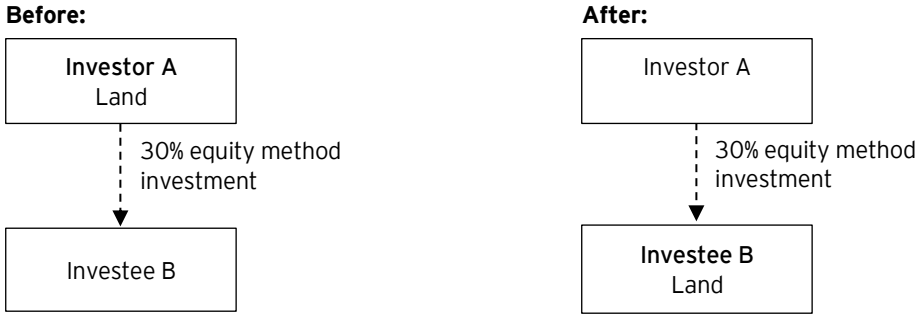
This exception does not affect the elimination of intra-entity profits or losses for transactions with equity method investees or joint ventures that are in the scope of ASC 606. That is, if the asset being sold is an output of an entity's ordinary activities, an investor will eliminate the profit or loss from an intra-entity transaction until that profit is realized in a transaction with a third party. If the transaction is not at arm's length, all profit or loss is eliminated until realized through transactions with third parties, regardless of whether it's in the scope of ASC 606 or ASC 610-20.

The following example illustrates the difference in accounting under ASC 323 for the transfer of a nonfinancial asset to an equity method investee under ASC 606 and ASC 610-20:

Illustration 4-6: Transfer of a nonfinancial asset to an existing equity method investee

Investor A sells land to Investee B for $12 million on 1 January 20X1. The transaction doesn't affect Investor A's 30% equity method investment in Investee B. That is, Investor A has a 30% equity method investment in Investee B before and after the transaction.

At the transaction closing date, the land had a cost basis to Investor A of $8 million. At the end of the reporting period, Investee B has not sold the land, and the profit has not been realized in a transaction with third parties. Investor A determines that the transaction is at arm's length.



Example 1: measurement under ASC 610-20

Assume that Investor A is a real estate investment trust in the business of owning and operating real estate properties. Investor A concludes that the land is not a business, and Investee B is not Investor A's customer in this transaction because Investor A does not consider selling land to be part of its ordinary activities.

Investor A concludes that the transaction is in the scope of ASC 610-20. On the transaction closing date, Investor A determines it does not have a controlling financial interest in Investee B and that it has transferred control of the land to Investee B using the principles of ASC 606. As a result, Investor A derecognizes the land on the transaction closing date.

Because the transaction is in the scope of ASC 610-20, Investor A recognizes a gain of $4 million ($12 million – $8 million) on 1 January 20X1. No intra-entity profit is eliminated because the transaction is in the scope of ASC 610-20 and is at arm's length.

Cash	$12,000,000	
Land		$ 8,000,000
Gain on sale		4,000,000

Example 2: measurement under ASC 606

Assume that Investor A is a land developer. Investor A concludes that Investee B is a customer in this transaction because selling land is part of its ordinary activities.

Investor A concludes that the transaction is in the scope of ASC 606. On the transaction closing date, Investor A determines that it has transferred control of the land to Investee B under ASC 606. As a result, Investor A derecognizes the land on the transaction closing date and recognizes revenue of $12 million, cost of goods sold of $8 million and a gross profit of $4 million.

In accordance with ASC 323 (because the transaction is in the scope of ASC 606 and the land remains on the books of Investee B), Investor A eliminates its intra-entity portion of the profit or $1.2 million ($4 million x 30% interest in Investee B). Thus, Investor A recognizes a net profit of $2.8 million on 1 January 20X1 ($4 million original gross profit – $1.2 million of profit eliminated).

Note: The journal entries below illustrate one method of eliminating the intra-entity profit. The elimination of the intra-entity profit might be presented in Investor A's financial statements in various ways, depending on what is most meaningful in the circumstances.[1]

Cash	$12,000,000	
Cost of goods sold	5,600,000[2]	
Revenue from contracts with customers		$ 8,400,000[3]
Land		8,000,000
Equity method investment		1,200,000

[1] ASC 323-10-55-28.
[2] Calculated as $8,000,000 carrying amount of land * 70% of the cost attributable to third parties.
[3] Calculated as $12,000,000 transaction price * 70% of revenue attributable to third parties.

See section 6.2.1 of our FRD, ***Equity method investments and joint ventures***, for additional guidance on the elimination of intra-entity profits.

How we see it

The determination of whether an asset being sold to an equity method investee or joint venture is an output of the entity's ordinary activities is important because it determines whether intra-entity profits are eliminated if the profit has not been realized in a transaction with third parties.

The Board acknowledged[95] that the accounting treatment under ASC 610-20 is inconsistent with the accounting for revenue transactions that are in the scope of ASC 606 with equity method investees. However, the accounting for transfers in the scope of ASC 610-20 to an equity method investee is aligned with transfers in the scope of ASC 810 (e.g., transfers of businesses). The Board chose to eliminate differences between the derecognition of assets and the derecognition of businesses rather than align ASC 606 and ASC 610-20.

[95] Paragraph BC67 of ASU 2017-05.

5 Allocating the consideration to more than one distinct nonfinancial asset or ISNFA

When a contract to sell (1) nonfinancial assets or (2) nonfinancial assets and ISNFAs includes more than one distinct nonfinancial asset or ISNFA that are transferred at different points in time, an entity allocates the consideration promised in the contract to each distinct nonfinancial asset or ISNFA as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Measurement

610-20-32-6

An entity shall allocate the consideration calculated in accordance with the guidance in paragraphs 610-20-32-2 through 32-5 to each distinct nonfinancial asset or in substance nonfinancial asset by applying the guidance in paragraphs 606-10-32-28 through 32-41.

When an entity derecognizes nonfinancial assets or ISNFAs, control of each asset typically will transfer at the same time. Therefore, in practice, an entity often may not need to separate and allocate consideration to each distinct nonfinancial asset or ISNFA. If that's the case (or if a contract includes only one distinct asset), an entity would not need to apply the ASC 606 allocation guidance.

If an entity transfers nonfinancial assets or ISNFAs at different times, ASC 610-20 requires an entity to allocate the consideration that is calculated in accordance with ASC 610-20-32-2 through 32-5 (see section 4) to each distinct nonfinancial asset or ISNFA by applying the allocation guidance in ASC 606, which generally requires an entity to allocate the transaction price to the distinct goods in proportion to their standalone selling prices (i.e., on a relative standalone selling price basis). ASC 606-10-32-28 states that the objective of this allocation "is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) 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." ASC 606 includes the following allocation guidance:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Allocating the Transaction Price to Performance Obligations

606-10-32-28

The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) 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.

606-10-32-29

To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the **contract** on a relative **standalone selling price** basis in accordance with paragraphs 606-10-32-31 through 32-35, except as specified in paragraphs 606-10-32-36 through 32-38 (for allocating discounts) and paragraphs 606-10-32-39 through 32-41 (for allocating consideration that includes variable amounts).

606-10-32-30

Paragraphs 606-10-32-31 through 32-41 do not apply if a contract has only one performance obligation. However, paragraphs 606-10-32-39 through 32-41 may apply if an entity promises to transfer a series of distinct goods or services identified as a single performance obligation in accordance with paragraph 606-10-25-14(b) and the promised consideration includes variable amounts.

When allocating on a relative standalone selling price basis, an entity generally allocates any discount in the contract proportionately to all of the distinct nonfinancial assets and ISNFAs in the contract. However, as discussed further below, there are some exceptions. For example, an entity would allocate variable consideration to a single distinct asset in some situations (see section 5.3). An entity would also allocate any discount in a contract to only certain distinct assets, if specified criteria are met (see section 5.4).

5.1 Determining standalone selling prices

To allocate the transaction price on a relative standalone selling price basis, an entity must first determine the standalone selling price of each distinct nonfinancial asset or ISNFA (which might represent a bundle of goods and services). Under ASC 606, this is the price at which an entity would sell a distinct good or service on a standalone (or separate) basis at contract inception (i.e., the price at which an entity would sell a nonfinancial asset or ISNFA). If multiple non-distinct goods or services are bundled to form a single performance obligation, the standalone selling price is determined at the price the entity would sell the bundle separately to the customer. This amount is not always the sum of the prices at which the entity would sell the individual goods or services that make up the bundle.

The observable price of a nonfinancial asset or an ISNFA sold separately (in similar circumstances and to similar counterparties) provides the best evidence of standalone selling price. A contractually stated or list price for a good or service may be (but cannot be presumed to be) the standalone selling price of that good or service. However, if an entity determines that the standalone selling price is not directly observable, the entity is required to estimate the standalone selling price by considering all information (including market conditions, entity-specific factors, and information about the counterparty) that is reasonably available to the entity. In doing so, an entity should maximize the use of observable inputs and apply estimation methods consistently in similar circumstances. ASC 606 provides the following guidance on determining standalone selling prices, which may require estimation:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Allocation Based on Standalone Selling Prices

606-10-32-31

To allocate the **transaction price** to each **performance obligation** on a relative **standalone selling price** basis, an entity shall determine the standalone selling price at contract inception of the distinct good or service underlying each performance obligation in the **contract** and allocate the transaction price in proportion to those standalone selling prices.

606-10-32-32

The standalone selling price is the price at which an entity would sell a promised good or service separately to a **customer**. The best evidence of a standalone selling price is the observable price of a good or service when the entity sells that good or service separately in similar circumstances and to similar customers. A contractually stated price or a list price for a good or service may be (but shall not be presumed to be) the standalone selling price of that good or service.

606-10-32-33

If a standalone selling price is not directly observable, an entity shall estimate the standalone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective in paragraph 606-10-32-28. When estimating a standalone selling price, an entity shall consider all information (including market conditions, entity-specific factors, and information about the customer or class of customer) that is reasonably available to the entity. In doing so, an entity shall maximize the use of observable inputs and apply estimation methods consistently in similar circumstances.

606-10-32-34

Suitable methods for estimating the standalone selling price of a good or service include, but are not limited to, the following:

a. Adjusted market assessment approach — An entity could evaluate the market in which it sells goods or services and estimate the price that a customer in that market would be willing to pay for those goods or services. That approach also might include referring to prices from the entity's competitors for similar goods or services and adjusting those prices as necessary to reflect the entity's costs and margins.

b. Expected cost plus a margin approach — An entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service.

c. Residual approach — An entity may estimate the standalone selling price by reference to the total transaction price less the sum of the observable standalone selling prices of other goods or services promised in the contract. However, an entity may use a residual approach to estimate, in accordance with paragraph 606-10-32-33, the standalone selling price of a good or service only if one of the following criteria is met:

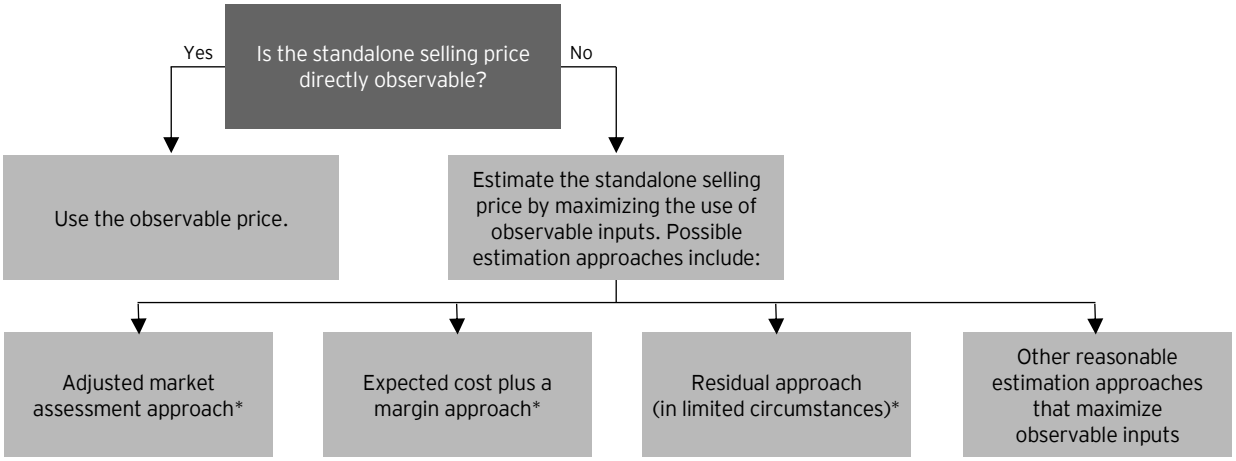
    1. The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (that is, the selling price is highly variable because a representative standalone selling price is not discernible from past transactions or other observable evidence).

    2. The entity has not yet established a price for that good or service, and the good or service has not previously been sold on a standalone basis (that is, the selling price is uncertain).

606-10-32-35

A combination of methods may need to be used to estimate the standalone selling prices of the goods or services promised in the contract if two or more of those goods or services have highly variable or uncertain standalone selling prices. For example, an entity may use a residual approach to estimate the aggregate standalone selling price for those promised goods or services with highly variable or uncertain standalone selling prices and then use another method to estimate the standalone selling prices of the individual goods or services relative to that estimated aggregate standalone selling price determined by the residual approach. When an entity uses a combination of methods to estimate the standalone selling price of each promised good or service in the contract, the entity shall evaluate whether allocating the transaction price at those estimated standalone selling prices would be consistent with the allocation objective in paragraph 606-10-32-28 and the guidance on estimating standalone selling prices in paragraph 606-10-32-33.

The following flowchart illustrates how an entity might determine the standalone selling price of an asset:



* See section 5.1.2 for further discussion of these estimation approaches, including when it might be appropriate to use a combination of approaches.

Standalone selling prices are determined at contract inception and are not updated to reflect changes between contract inception and when performance is complete. However, for future contracts involving the same or similar types of assets, the entity would need to determine whether the change in circumstances (e.g., a significant increase in the market value of the asset) warrants a revision in the standalone selling price. If so, the entity would use that revised price for future allocations in future contracts.

Standalone selling prices are also not updated when a contract is modified and the modification is treated as part of the existing contract. However, new estimates of standalone selling prices are used if the modification creates a new or separate contract, as in the following situations:

- If the modification is treated as a termination of the existing contract and the creation of a new contract (in accordance with ASC 606-10-25-13(a)), the entity would update its estimates of standalone selling prices at the time of the modification.
- If the modification is treated as a separate contract (in accordance with ASC 606-10-25-12), the accounting for the original contract would not be affected (and the standalone selling prices of the assets in the original contract would not be updated), but the standalone selling prices of the distinct assets in the separate contract would have to be determined at the time of the modification.

See section 3.4 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on contract modifications.

5.1.1 Factors to consider when estimating the standalone selling price

To estimate the standalone selling price of a nonfinancial asset or ISNFA that is not directly observable, an entity may consider the stated prices in the contract, but the guidance says an entity cannot presume that a contractually stated price for an asset is the standalone selling price. As stated in ASC 606-10-32-33, an "entity shall consider all information (including market conditions, entity-specific factors, and information about the customer or class of customer) that is reasonably available to the entity" to estimate a standalone selling price. An entity also needs to maximize the use of observable inputs in its estimate. This is a very broad requirement that requires an entity to consider a variety of data sources. [96]

[96] Paragraph BC269 of ASU 2014-09.

The following list, which is not all inclusive, provides examples of market conditions to consider:

- Potential limits on the selling price of the asset
- Market pricing for a similar or identical asset
- Market awareness of and perception of the asset
- Current market trends that will likely affect the pricing (e.g., supply and demand for the asset, competition)
- Effects of the geographic area on pricing
- Effects of customization on pricing
- Expected life of the asset, including whether significant technological advances are expected in the market in the near future

Examples of entity-specific factors include:

- Profit objectives and internal cost structure
- Pricing practices and pricing objectives (including desired profit margin)
- Effects of customization on pricing
- Effects of a proposed transaction on pricing (e.g., the size of the deal, the characteristics of the targeted counterparty)

Examples of information about the counterparty include:

- Type of counterparty
- Geographic region

An entity should also consider its customary business practices when determining the standalone selling price. To document its estimated standalone selling price, an entity should describe in detail what information it considered (e.g., the factors listed above), especially if there is limited observable data or none at all.

5.1.2 Possible estimation approaches

ASC 606-10-32-34 discusses three estimation approaches: (1) the adjusted market assessment approach, (2) the expected cost plus a margin approach and (3) the residual approach, all of which are discussed further below. When estimating the standalone selling price, an entity may need to use a different estimation approach for each of the distinct nonfinancial assets and ISNFAs in a contract. In addition, an entity may need to use a combination of approaches to estimate the standalone selling prices of the assets promised in a contract if two or more of those assets have highly variable or uncertain standalone selling prices.

Further, these are not the only estimation approaches permitted. ASC 606 allows any reasonable estimation approach as long as it is consistent with the notion of a standalone selling price, maximizes the use of observable inputs and is applied on a consistent basis.

In some cases, an entity may have observable data in the market to estimate the standalone selling price of an asset. For example, an entity may be able to estimate the standalone selling price of a building or land based on comparable assets that have been recently sold in the market. In such situations, while the market data may help provide baseline information, some estimation may be necessary to adjust the transaction price for the specific asset(s) being sold by the entity.

Also, an entity should not disregard any observable inputs when estimating the standalone selling price of an asset. An entity should consider all factors contemplated in negotiating the contract with the counterparty and factor in the most objective and reliable information that is available.

The standard includes the following estimation approaches:

Adjusted market assessment approach — This approach focuses on the amount that the entity believes a participant in the market in which it sells an asset is willing to pay for an asset. For example, an entity might refer to prices for similar assets in the market and adjust those prices as necessary to reflect the entity's cost and margin. When using the adjusted market assessment approach, an entity should consider market conditions, such as those listed in section 5.1.1.

Expected cost plus margin approach — This approach focuses more on internal factors (e.g., the entity's cost basis) but has an external component as well. That is, the markup included in this approach must reflect the markup the market would be willing to pay, not just the entity's desired markup. The markup may have to be adjusted for differences in assets, geographies, counterparties and other factors.

Residual approach — This approach allows an entity to estimate the standalone selling price of a promised asset as the difference between the total transaction price and the observable (i.e., not estimated) standalone selling prices of other promised assets in the contract, provided that one of the following criteria are met:

- The entity sells the same good or service to different customers (at or near the same time) for a broad range of amounts (i.e., the selling price is highly variable because a representative standalone selling price is not determinable from past transactions or other observable evidence).
- The entity has not yet established a price for that good or service and the good or service has not previously been sold on a standalone basis (i.e., the selling price is uncertain).

We expect the use of the residual approach will be limited because the standard indicates that it only can be applied to contracts with multiple promised assets when (1) the selling price of one or more assets is unknown because one of the two criteria above are met and (2) the remaining promised assets (of which there needs to be at least one) in the contract have observable (i.e., not estimated) standalone selling prices. That is, the residual approach cannot be used if the selling price for all the assets in the contract are unknown. However, allowing entities to use a residual technique provides relief to entities that rarely or never sell assets on a standalone basis, which may be the case for entities that sell assets that are not an output of their ordinary activities.

The Board noted[97] that the use of the residual approach cannot result in a standalone selling price of zero if the asset is distinct. This is because for an asset to be distinct, it must have value on a standalone basis. The Board further stated that an entity should reevaluate whether the use of the residual approach is appropriate if it results in allocating "no, or very little, consideration" to a good.

Entities need to tailor the approach(es) used to estimate standalone selling prices to their specific facts and circumstances. However, regardless of whether an entity uses a single approach or a combination of approaches to estimate the standalone selling prices, it should evaluate whether the resulting allocation of the transaction price is consistent with the overall allocation objective. That is, the objective is for an entity to allocate the transaction price to each asset in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the assets to the counterparty.

See sections 6.1 through 6.1.4 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion on determining standalone selling prices.

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[97] Paragraph BC273 of ASU 2014-09.

5.2 Applying the relative standalone selling price method

Once an entity has determined the standalone selling price for the distinct nonfinancial assets and ISNFAs in a contract, the entity allocates the transaction price to those assets. Entities are required to use the relative standalone selling price method to allocate the transaction price except in the two specific circumstances that are described in sections 5.3 and 5.4.

Under the relative standalone selling price method, the transaction price is allocated to each distinct nonfinancial asset and ISNFA based on the proportion of the standalone selling price of each asset to the sum of the standalone selling prices of all of the assets in the contract. See section 6.2 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further guidance and illustrations.

Illustration 5-1: Relative standalone selling price allocation

Real Estate Co. enters into a contract with a noncustomer to sell land and machinery for $1,000,000 that Real Estate Co. determines is in the scope of ASC 610-20. Assume that Real Estate Co. determines there are two distinct nonfinancial assets that are transferred at different points in time, and the standalone selling prices of those assets are as follows: land – $900,000 and machinery – $300,000.

The aggregate of the standalone selling prices ($1,200,000) exceeds the total transaction price of $1,000,000, indicating there is a discount inherent in the contract that is allocated to each of the distinct assets based on their relative standalone selling prices. Therefore, the $1,000,000 transaction price is allocated to each asset as follows:

Asset	Standalone selling price		Allocated transaction price
Land	$ 900,000	($900,000 ÷ $1,200,000) x $1,000,000	$ 750,000
Machinery	300,000	(300,000 ÷ 1,200,000) x 1,000,000	250,000
Total	$ 1,200,000		$ 1,000,000

Real Estate Co. recognizes separately the amount of the transaction price allocated to the land ($750,000) and machinery ($250,000) when control of each asset transfers to the counterparty.

As described in section 2.7, when a contract is partially in the scope of ASC 610-20 and partially in the scope of other guidance (e.g., ASC 606), the transaction price (excluding amounts for parts of the contract initially measured in accordance with other guidance) is allocated to each distinct promise based on the proportion of the standalone selling price of each asset to the sum of the standalone selling prices of all of the assets in the contract.

Consider the following illustration:

Illustration 5-2: Relative standalone selling price allocation for the transfer of land and management services

Assume the same facts as in Illustration 2-12.

Hotel Company A enters into a contract to transfer (1) a hotel with a fair value of $2,000,000 and (2) three years of management services at no additional cost to Counterparty C. Hotel Company A concludes that (1) the hotel is in the scope of ASC 610-20 because selling hotel properties is not an output of its ordinary activities and (2) the management services are in the scope of other US GAAP (in this case, ASC 606). Hotel Company A applies the guidance in ASC 606-10-15-4[1] to determine how to separate and initially measure the consideration received for the hotel and the management services.

The hotel has a carrying value of $1,500,000 on the date of sale.

Analysis

Assume Hotel Company A determines that the hotel and the management services are capable of being distinct and are distinct within the context of the contract. As a result, the hotel and the management services are two separate promises in the contract. Hotel Company A allocates the consideration of $2,000,000 to the hotel and the management services on a relative standalone selling price basis.

Assume Hotel Company A determines the standalone selling price of the hotel and the management services is $2,000,000 and $300,000 ($100,000 per year), respectively. Hotel Company A allocates the $2,000,000 transaction price based on the relative standalone selling prices of the separate promises as follows:

Promise	Standalone selling price		Allocated transaction price
Hotel	$ 2,000,000	($2,000,000 ÷ $2,300,000) x 2,000,000	$1,739,130
Management services	300,000	(300,000 ÷ 2,300,000) x 2,000,000	260,870
Total	$ 2,300,000		$2,000,000

Hotel Company A recognizes separately the amount of the transaction price allocated to the property ($1,739,130) and management services ($260,870).

Hotel Company A recognizes profit of $239,130[2] when control of the property transfers. The amount allocated to the management services ($260,870) is recognized as the services are transferred to Counterparty C based on Hotel Company A's selected measure of progress (e.g., time elapsed).

[1] See ASC 610-20-15-9.

[2] Calculated as the allocated transaction price of $1,739,130 less $1,500,000 carrying value.

5.3 Allocating variable consideration

The relative standalone selling price method is the default method for allocating the transaction price. However, the FASB noted[98] that this method may not always result in a faithful depiction of the amount of consideration to which an entity expects to be entitled from the counterparty. Therefore, the guidance provides two exceptions to the relative standalone selling price method to allocate the transaction price.

The first relates to the allocation of variable consideration (see section 5.4 for the second exception on the allocation of a discount). This exception requires variable consideration to be allocated entirely to a specific part of a contract, such as one or more (but not all) distinct assets in the contract.

Two criteria must be met to apply this exception, as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Allocation of Variable Consideration

606-10-32-39

Variable consideration that is promised in a **contract** may be attributable to the entire contract or to a specific part of the contract, such as either of the following:

a. One or more, but not all, **performance obligations** in the contract (for example, a bonus may be contingent on an entity transferring a promised good or service within a specified period of time)

b. One or more, but not all, distinct goods or services promised in a series of distinct goods or services that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b) (for example, the consideration promised for the second year of a two-year cleaning service contract will increase on the basis of movements in a specified inflation index).

606-10-32-40

An entity shall allocate a variable amount (and subsequent changes to that amount) entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b) if both of the following criteria are met:

a. The terms of a variable payment relate specifically to the entity's efforts to satisfy the performance obligation or transfer the distinct good or service (or to a specific outcome from satisfying the performance obligation or transferring the distinct good or service).

b. Allocating the variable amount of consideration entirely to the performance obligation or the distinct good or service is consistent with the allocation objective in paragraph 606-10-32-28 when considering all of the performance obligations and payment terms in the contract.

606-10-32-41

The allocation requirements in paragraphs 606-10-32-28 through 32-38 shall be applied to allocate the remaining amount of the transaction price that does not meet the criteria in paragraph 606-10-32-40.

[98] Paragraph BC280 of ASU 2014-09.

The FASB noted[99] that this exception is necessary because allocating contingent amounts to all distinct assets in a contract may not reflect the economics of a transaction in all cases. Allocating variable consideration entirely to a distinct asset may be appropriate when the amount allocated to that particular asset is reasonable, given all of the other assets and payment terms in the contract. Subsequent changes in variable consideration should be allocated in a consistent manner.

Entities may need to exercise significant judgment to determine whether they meet the requirements to allocate variable consideration to distinct assets. Entities need to first determine whether they meet the first criterion in ASC 606-10-32-40, which requires that the terms of a variable payment specifically relate to either (1) an entity's efforts to transfer a distinct asset or (2) a specific outcome from transferring a distinct asset. In performing this assessment, an entity needs to consider the nature of its promise and how it has been defined. In addition, the entity should clearly understand the variable payment terms and how those payment terms align with the entity's promise. This includes evaluating any clawbacks or potential adjustments to the variable payment.

After assessing the first criterion, entities need to determine whether they meet the second criterion in ASC 606-10-32-40 and confirm that allocating the consideration in this manner is consistent with the overall allocation objective in ASC 606-10-32-28. That is, an entity should allocate to a distinct asset the portion of the transaction price that reflects the amount of consideration the entity expects to be entitled in exchange for transferring that asset to the counterparty.

It is important to note that allocating variable consideration to one or more, but not all, distinct assets is a requirement, not a policy election. If the above criteria are met, the entity must allocate the variable consideration to the related asset(s).

5.4 Allocating a discount

The second exception to the relative standalone selling price allocation (see section 5.3 for the first exception) relates to discounts inherent in contracts.

Under this exception, an entity that determines that a discount is not related to all of the promised assets in a contract allocates the contract's entire discount to only those assets to which it relates. An entity would make this determination when the price of certain assets is largely independent of other assets in the contract.

We note that the discount allocation guidance in ASC 606 likely won't apply to contracts in the scope of ASC 610-20 because this guidance can only be applied if the contract includes a bundle of assets that are sold regularly by the entity[100] and the sale of assets that are an output of an entity's ordinary activities are scoped out of ASC 610-20.

[99] Paragraph BC284 of ASU 2014-09.

[100] See ASC 606-10-32-37(b).

ASC 606 states the following:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Measurement

Allocation of a Discount

606-10-32-36

A **customer** receives a discount for purchasing a bundle of goods or services if the sum of the **standalone selling prices** of those promised goods or services in the **contract** exceeds the promised consideration in a contract. Except when an entity has observable evidence in accordance with paragraph 606-10-32-37 that the entire discount relates to only one or more, but not all, **performance obligations** in a contract, the entity shall allocate a discount proportionately to all performance obligations in the contract. The proportionate allocation of the discount in those circumstances is a consequence of the entity allocating the **transaction price** to each performance obligation on the basis of the relative standalone selling prices of the underlying distinct goods or services.

606-10-32-37

An entity shall allocate a discount entirely to one or more, but not all, performance obligations in the contract if all of the following criteria are met:

a. The entity regularly sells each distinct good or service (or each bundle of distinct goods or services) in the contract on a standalone basis.

b. The entity also regularly sells on a standalone basis a bundle (or bundles) of some of those distinct goods or services at a discount to the standalone selling prices of the goods or services in each bundle.

c. The discount attributable to each bundle of goods or services described in (b) is substantially the same as the discount in the contract, and an analysis of the goods or services in each bundle provides observable evidence of the performance obligation (or performance obligations) to which the entire discount in the contract belongs.

606-10-32-38

If a discount is allocated entirely to one or more performance obligations in the contract in accordance with paragraph 606-10-32-37, an entity shall allocate the discount before using the residual approach to estimate the standalone selling price of a good or service in accordance with paragraph 606-10-32-34(c).

6 Presentation and disclosure

The presentation and disclosure guidance in ASC 610-20 refers to certain requirements in ASC 360 and ASC 606 as follows:

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Other Presentation Matters

610-20-45-1

See paragraph 360-10-45-5 for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (**disposal group**).

610-20-45-2

When either party to a **contract** has performed, an entity shall apply the guidance in paragraphs 606-10-45-1 through 45-5 to present the relationship between the entity's performance and the counterparty's payment.

Disclosure

610-20-50-1

See paragraphs 360-10-50-3 through 50-3A for guidance on disclosure of a gain or loss recognized upon the derecognition of a long-lived asset (**disposal group**).

6.1 Presentation (updated September 2025)

ASC 610-20 refers to ASC 360-10-45-5 (see excerpt below) for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group). We believe entities should follow this guidance for all transactions in the scope of ASC 610-20, even if the assets were not accounted for under ASC 360 before disposal. This guidance requires that a gain or loss recognized on the sale of a long-lived asset that does not qualify as a discontinued operation is included in income from continuing operations before income taxes in the income statement. If a subtotal such as income from operations is presented, it includes a gain or loss recognized upon the sale of a long-lived asset that does not qualify as a discontinued operation.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-5

A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (**disposal group**) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

ASC 610-20 also refers to the guidance in ASC 606-10-45-1 through 45-4 on the presentation of a contract asset or a contract liability. A contract asset or contract liability is generated when either party to a contract performs, depending on the relationship between the entity's performance and the

counterparty's payment. That is, if the selling entity receives consideration before transferring control of the asset(s) promised in the contract, it will recognize a contract liability. If the selling entity transfers control of the asset(s) before it receives consideration from the counterparty, it will recognize a contract asset. The guidance requires that an entity present these contract assets or contract liabilities in the statement of financial position (balance sheet) as follows:

Excerpt from Accounting Standards Codification

Revenue from Contracts with Customers — Overall

Other Presentation Matters

606-10-45-1

When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

606-10-45-2

If a **customer** pays consideration, or an entity has a right to an amount of consideration that is unconditional (that is, a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

606-10-45-3

If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a **contract asset**, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for credit losses in accordance with Subtopic 326-20 on financial instruments measured at amortized cost. A credit loss of a contract asset shall be measured, presented, and disclosed in accordance with Subtopic 326-20 (see also paragraph 606-10-50-4(b)).

606-10-45-4

A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognize a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Topic 310 and Subtopic 326-20. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with Subtopic 326-20 and the corresponding amount of **revenue** recognized shall be presented as a credit loss expense.

606-10-45-5

This guidance uses the terms *contract asset* and *contract liability* but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and contract assets.

Contract assets may represent conditional or unconditional rights to consideration. The right is conditional, for example, when an entity first must transfer another asset in the contract before it is entitled to payment from the counterparty. If an entity has an unconditional right to receive consideration from the

counterparty, the contract asset is accounted for as a receivable and presented separately from other contract assets.[101] A right is unconditional if nothing other than the passage of time is required before payment of that consideration is due.

After initial recognition, as discussed in ASC 606-10-45-3 and 45-4, receivables and contract assets are assessed for credit losses in accordance with ASC 326-20. Under that guidance, entities are required to estimate lifetime expected credit losses for their accounts receivable and contract assets. Refer to section 2.11.2 of our FRD, ***Credit impairment under ASC 326***, for more information.

In addition, ASC 606-10-45-4 states that if there is a difference between the initial measurement of the receivable under ASC 326-20 and the corresponding amount of revenue, that difference should be presented as a credit loss expense. This is the case when the difference is attributable to counterparty credit risk rather than an implied price concession. Implied price concessions are deducted from the contract price to derive the transaction price, which is used to determine the amount of a gain or loss. Distinguishing between implied price concessions and expense due to counterparty credit risk requires judgment (see section 4.1.1.1.1). Credit losses resulting from contracts with counterparties are disclosed separately from losses on other contracts in accordance with ASC 606-10-50-4(b).

Contract assets or receivables may be realized in a form of consideration other than cash (e.g., PPE, share-based payments, digital assets). ASC 606-10-55-250 states (see section 5.6 of our FRD, ***Revenue from contracts with customers (ASC 606)***) that an entity should assess contract assets or receivables for impairment, which would include those that will be realized in noncash consideration. As discussed above, ASC 606-10-45-3 and 45-4 reference the credit loss model in ASC 326-20, but ASC 326-20 does not address impairments for any valuation risk other than credit. This is likely because many contract assets or receivables are realized through the receipt of cash from a counterparty. However, for any contract assets or receivables that will be realized in noncash consideration, a credit risk-based impairment model might not address all sources of possible impairment.

How we see it

As discussed above, ASC 606 does not explicitly address an impairment model for contract assets or receivables that will be realized in a form of consideration other than cash. As such, we believe it would be acceptable for an entity to only assess such contract assets or receivables for credit losses under ASC 326-20 (as discussed in ASC 606-10-45-3 and 45-4) prior to receipt of the noncash consideration. At receipt, an entity would apply the guidance in ASC 606-10-55-250 that states that, upon receipt, an entity would apply the guidance related to the form of the noncash consideration to determine whether and how any changes in the fair value that occurred after contract inception should be recognized.

However, we also believe it would be acceptable for an entity to "look through" to the impairment guidance that will ultimately directly apply to the noncash item (e.g., ASC 360 for PPE) and record any impairments to the related contract asset or receivable prior to its receipt.

Other acceptable approaches could also exist, but an entity should consistently apply whatever approach it selects. If an entity does record an impairment of a contract asset or receivable that is not attributable to ASC 326-20, we believe it should disclose those impairment losses separately from impairment losses on other noncustomer-related contracts.

[101] Paragraphs BC323 and BC324 of ASU 2014-09.

Entities are not required to use the terms "contract asset" or "contract liability," but they must disclose sufficient information so that users of the financial statements can clearly distinguish between unconditional rights to consideration (receivables) and conditional rights to receive consideration (contract assets). In addition, entities with a classified balance sheet should consider the guidance in ASC 210-10-45 on classification of current assets and liabilities when determining whether their contract assets and contract liabilities should be presented as current or noncurrent.

For further discussion on contracts assets and liabilities, see section 10.1 of our FRD, ***Revenue from contracts with customers (ASC 606)***.

6.1.1 Other presentation considerations

If a contract to transfer a nonfinancial asset in the scope of ASC 610-20 includes a liability that is assumed or relieved by the counterparty to the contract, the selling entity should recognize the gain or loss on the asset at the same time and in the same line item as the gain or loss on the liability. See section 4.1.5 for further discussion.

6.2 Disclosure (updated September 2026)

FASB amendments

In November 2024, the FASB issued ASU 2024-03 requiring a public business entity to disclose, on an annual and interim basis, disaggregated information about certain income statement line items in a tabular format in the notes to the financial statements.

The ASU amends ASC 360-10-50-3 to refer to certain paragraphs in ASC 220-40 for additional disclosure requirements. Refer to our FRD, ***Disaggregation of income statement expenses***, for further discussion.

This guidance is effective for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning after 15 December 2027. Entities may apply the guidance prospectively or retrospectively. Early adoption is permitted.

FASB amendments

In December 2025, the FASB issued ASU 2025-11 clarifying interim disclosure requirements and the applicability of ASC 270. The guidance does not change the fundamental nature or expand or reduce the disclosure requirements of interim reporting.

The amendments are effective for public business entities for interim reporting periods within annual reporting periods beginning after 15 December 2027. They are effective for all other entities for interim reporting periods within annual reporting periods beginning after 15 December 2028. The guidance may be applied prospectively or retrospectively by all entities that provide interim financial statements and notes in accordance with US GAAP. Early adoption is permitted.

ASC 610-20 refers to ASC 360-10-50-3 and 50-3A for guidance on disclosure of a sale of a long-lived asset (disposal group). We believe entities should provide the same (or equivalent) disclosures for all transactions in the scope of ASC 610-20, even if the assets were not accounted for under ASC 360 before disposal. ASC 360 requires quantitative and qualitative information as follows:

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Disclosure

360-10-50-3

For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

a. A description of the facts and circumstances leading to the disposal or the expected disposal.

b. The expected manner and timing of that disposal.

c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.

d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.

e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

Pending Content:

Transition Date: *(P) December 16, 2026; (N) December 16, 2026* | **Transition Guidance:** 220-40-65-1

360-10-50-3

For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

a. A description of the facts and circumstances leading to the disposal or the expected disposal.

b. The expected manner and timing of that disposal.

c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.

d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.

e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

360-10-50-3A

In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant **component of an entity** that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations), a **public business entity** and a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall disclose the information in (a). All other entities shall disclose the information in (b).

a. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, both of the following:

    1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9

    2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

b. For all other entities, both of the following:

    1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9

    2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

Pending Content:

Transition Date: *(P) December 16, 2027; (N) December 16, 2028* | **Transition Guidance:** 270-10-65-1

360-10-50-3A

In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant **component of an entity** that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a

discontinued operation (see Subtopic 205-20 on discontinued operations), a **public business entity** and a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall disclose the information in (a). All other entities shall disclose the information in (b). The following disclosures are required in interim and annual reporting periods:

a. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, both of the following:

   1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9

   2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

b. For all other entities, both of the following:

   1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9

   2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

The guidance requires certain disclosures, which include:

- The facts and circumstances leading to the disposal
- The expected manner and timing of the disposal
- The gain or loss recognized
- The caption that includes the gain or loss if the gain or loss is not separately presented on the face of the income statement

The guidance also requires disclosures about the disposal of individually significant components that do not qualify as discontinued operations. The guidance defines a component of an entity as one that "comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group." The guidance doesn't describe when a component is individually significant, so entities will need to apply judgment to make this determination.

See further discussion of ASC 360's disclosure requirements in section 4.5 of our FRD, ***Impairment or disposal of long-lived assets***.

A Summary of important changes

September 2026 edition

The list below summarizes the significant changes we made in our September 2026 edition.

Section 3 Derecognizing a nonfinancial asset or an in substance nonfinancial asset (ISNFA)

- Section 3.2.1.2 was updated to clarify the initial accounting for consideration received before the ASC 606 contract criteria are met.

Section 4 Measuring the gain or loss

- Section 4.1.3 was updated to add Question 4-6 to address whether a contract with a transaction price stated as an amount of cash but settled in noncash consideration is subject to the noncash consideration guidance.
- Section 4.1.3.2 was added to discuss the accounting for share-based noncash consideration received from a counterparty after the adoption of ASU 2025-07.
- Section 4.1.4 was updated to discuss the FASB's technical agenda project related to the scoping of the consideration payable to a customer guidance.

Section 6 Presentation and disclosure

- Section 6.2 was updated to reflect the issuance of (1) ASU 2024-03, which requires a public business entity to disclose disaggregated information about certain income statement expense line items and (2) ASU 2025-11, which clarifies interim disclosure requirements.

September 2025 edition

Section 3 Derecognizing a nonfinancial asset or an in substance nonfinancial asset (ISNFA)

- Section 3.2.3.2 was updated to include discussion of the application of the repurchase guidance to one or more, but not all, performance obligations in a contract in certain circumstances.

Section 4 Measuring the gain or loss

- Section 4.1.3 was updated to discuss the status of the FASB's proposed amendments related to share-based payments received from a customer as consideration for the transfer of goods or services.
- Section 4.1.4 was updated to reflect the issuance of ASU 2025-04, which clarifies the accounting for share-based consideration payable to a customer in conjunction with selling goods or services.

Section 6 Presentation and disclosure

- Section 6.1 was updated to include discussion of impairment of contract assets and receivables that will be realized in a form of consideration other than cash.

B Index of ASC references used in this publication

ASC Paragraph	Section	
310-10-20	2.4.2	Acquisition, development and construction arrangements
310-10-40-2 through 40-5	2.4.2	Acquisition, development and construction arrangements
323-10-35-7	4.2	Intra-entity profits on transactions with equity method investees or joint ventures
350-10-40-3	3.2.1.2	Accounting for consideration received when the contract criteria are not met
360-10-40-3A	4.2	Intra-entity profits on transactions with equity method investees or joint ventures
360-10-40-3C	3.2.1.2	Accounting for consideration received when the contract criteria are not met
360-10-45-5	6.1	Presentation
360-10-50-3 through 50-3A	6.2	Disclosure
606-10-15-4	2.7	Contracts partially in the scope of other guidance
606-10-25-1 through 25-2	3.2.1	Determining the existence of a contract
606-10-25-5	3.2.1	Determining the existence of a contract
606-10-25-6 through 25-8	3.2.1.2	Accounting for consideration received when the contract criteria are not met
606-10-25-19 through 25-22	3.2.2	Identifying the distinct nonfinancial assets or ISNFAs
606-10-25-26	3.2.3.2	Repurchase agreements
606-10-25-30	3.2.3	Transferring control of the nonfinancial asset or ISNFA
606-10-32-2 through 32-4	4.1	Determining the transaction price
606-10-32-5 through 32-7	4.1.1	Variable consideration
606-10-32-8 through 32-9	4.1.1.2	Estimating variable consideration
606-10-32-11 through 32-13	4.1.1.3	Constraining estimates of variable consideration
606-10-32-14	4.1.1.4	Reassessment of variable consideration
606-10-32-15 through 32-19	4.1.2	Significant financing component
606-10-32-21 through 32-24	4.1.3	Noncash consideration
606-10-32-25 through 32-27	4.1.4	Consideration paid or payable to a counterparty
606-10-32-28 through 32-30	5	Allocating the consideration to more than one distinct nonfinancial asset or ISNFA
606-10-32-31 through 32-35	5.1	Determining standalone selling prices
606-10-32-36 through 32-38	5.4	Allocating a discount
606-10-32-39 through 32-41	5.3	Allocating variable consideration
606-10-32-42 through 32-45	4.1.6	Changes in transaction price after contract inception
606-10-45-1 through 45-5	6.1	Presentation
606-10-55-66 through 55-67	3.2.3.2	Repurchase agreements

ASC Paragraph	Section	
606-10-55-68 through 55-71	3.2.3.2.1	Forward or call option held by the entity
606-10-55-72 through 55-78	3.2.3.2.2	Put option held by the counterparty
606-10-55-235 through 55-243	4.1.2.1	Significant financing component examples
606-10-55-250B through 55-250D	4.1.3.2	Share-based noncash consideration (after the adoption of ASU 2025-07)
610-20-05-1 through 05-2	1.1	Overview
610-20-15-1 through 15-4	2	Scope
610-20-15-3A	4.1.3.2	Share-based noncash consideration (after the adoption of ASU 2025-07)
610-20-15-5 through 15-8	2.6	Contracts containing (1) nonfinancial assets or (2) nonfinancial assets and in substance nonfinancial assets (ISNFAs)
610-20-15-9	2.7	Contracts partially in the scope of other guidance
610-20-25-1	3	Derecognizing a nonfinancial asset or an in substance nonfinancial asset (ISNFA)
610-20-25-2	3.1	Step 1: determining whether the entity has a controlling financial interest
610-20-25-3 through 25-4	3.1.5	Accounting when the entity does or does not retain a controlling financial interest
610-20-25-5	3.2.1	Determining the existence of a contract
610-20-25-6	3.2.2	Identifying the distinct nonfinancial assets or ISNFAs
610-20-25-7	3.2.3.1	Transferring control of nonfinancial assets held in a legal entity
610-20-32-2	4	Measuring the gain or loss
610-20-32-3	4.1	Determining the transaction price
610-20-32-4	4.1.3.1	Noncash consideration in the form of noncontrolling interests received or retained
610-20-32-5	4.1.5	Liabilities assumed or relieved
610-20-32-6	5	Allocating the consideration to more than one distinct nonfinancial asset or ISNFA
610-20-45-1 through 45-2	6	Presentation and disclosure
610-20-45-3	4.1.5	Liabilities assumed or relieved
610-20-50-1	6	Presentation and disclosure
610-20-55-2 through 55-10	2.8	Examples
610-20-55-11 through 55-16	3.3	Examples
610-20-55-17 through 55-19	4.1.1.3	Constraining estimates of variable consideration
810-10-15-8	3.1.4	Control of a voting interest entity
810-10-15-14	3.1.2	Variable interest entities
810-10-25-21 through 25-22	3.1.1	Variable interests
810-10-25-25	3.1.1	Variable interests
810-10-25-27	3.1.1	Variable interests
810-10-25-29	3.1.1	Variable interests

ASC Paragraph	Section	
810-10-25-38 through 25-38A	3.1.3	Determining the primary beneficiary (i.e., control of a VIE)
810-10-40-3A	2.6	Contracts containing (1) nonfinancial assets or (2) nonfinancial assets and in substance nonfinancial assets (ISNFAs)
810-10-45-21A	2.6	Contracts containing (1) nonfinancial assets or (2) nonfinancial assets and in substance nonfinancial assets (ISNFAs)
810-10-45-21A through 45-24	3.1.5	Accounting when the entity does or does not retain a controlling financial interest
845-10-15-2	2.5.2	Nonmonetary exchanges
845-10-15-4	2.5.2	Nonmonetary exchanges
860-10-15-3 through 15-5	2.4	Transfer of financial assets, including equity method investments (consideration of ASC 860)
970-323-30-3	4.1.3.1	Noncash consideration in the form of noncontrolling interests received or retained
970-323-35-14 through 35-15	4.2	Intra-entity profits on transactions with equity method investees or joint ventures

C Guidance abbreviations used in this publication

Abbreviation	Full title of guidance reference
ASC 210-10	FASB ASC Topic 210-10, *Balance Sheet — Overall*
ASC 220-40	FASB ASC Topic 220-40, Income Statement — *Reporting Comprehensive Income — Expense Disaggregation Disclosures*
ASC 235-10	FASB ASC Topic 235-10, *Notes to Financial Statements — Overall*
ASC 270	FASB ASC Topic 270, *Interim Reporting*
ASC 310	FASB ASC Topic 310, *Receivables*
ASC 320	FASB ASC Topic 320, *Investments — Debt Securities*
ASC 321	FASB ASC Topic 321, *Investments — Equity Securities*
ASC 323	FASB ASC Topic 323, *Investments — Equity Method and Joint Ventures*
ASC 325	FASB ASC Topic 325, *Investments — Other*
ASC 326	FASB ASC Topic 326, *Financial Instruments — Credit Losses*
ASC 350	FASB ASC Topic 350, *Intangibles — Goodwill and Other*
ASC 360	FASB ASC Topic 360, *Property, Plant, and Equipment*
ASC 405	FASB ASC Topic 405, *Liabilities*
ASC 460	FASB ASC Topic 460, *Guarantees*
ASC 505	FASB ASC Topic 505, *Equity*
ASC 606	FASB ASC Topic 606, *Revenue from Contracts with Customers*
ASC 610-20	FASB ASC Topic 610-20, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets*
ASC 718	FASB ASC Topic 718, *Compensation — Stock Compensation*
ASC 720-25	FASB ASC Topic 720-25, *Other Expenses — Contributions Made*
ASC 805	FASB ASC Topic 805, *Business Combinations*
ASC 810	FASB ASC Topic 810, *Consolidation*
ASC 815	FASB ASC Topic 815, *Derivatives and Hedging*
ASC 820	FASB ASC Topic 820, *Fair Value Measurement*
ASC 825	FASB ASC Topic 825, *Financial Instruments*
ASC 830-20	FASB ASC Topic 830-20, *Foreign Currency Matters — Foreign Currency Transactions*
ASC 835-30	FASB ASC Topic 835-30, *Interest — Imputation of Interest*
ASC 842	FASB ASC Topic 842, *Leases*
ASC 842-40	FASB ASC Topic 842-40, *Leases — Sale and Leaseback Transactions*
ASC 845	FASB ASC Topic 845, *Nonmonetary Transactions*
ASC 850	FASB ASC Topic 850, *Related Party Disclosures*
ASC 855	FASB ASC Topic 855, *Subsequent Events*
ASC 860	FASB ASC Topic 860, *Transfers and Servicing*
ASC 908-350	FASB ASC Topic 908-350, *Airlines — Intangibles — Takeoff and Landing Slots*
ASC 932	FASB ASC Topic 932, *Extractive Activities — Oil and Gas*

Abbreviation	Full title of guidance reference
ASC 932-360	FASB ASC Topic 932-360, *Extractive Activities — Oil and Gas — Property, Plant, and Equipment*
ASC 958-605	FASB ASC Topic 958-605, *Not-for-Profit Entities — Revenue Recognition*
ASC 970-323	FASB ASC Topic 970-323, *Real Estate — General — Investments — Equity Method and Joint Ventures*
ASU 2014-09	Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*
ASU 2016-10	Accounting Standards Update No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*
ASU 2016-12	Accounting Standards Update No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*
ASU 2017-05	Accounting Standards Update No. 2017-05, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*
ASU 2024-03	Accounting Standards Update No. 2024-03, *Othe Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40)*
ASU 2025-04	Accounting Standards Update No. 2025-04, *Compensation — Stock Compensation (Topic 718) and Revenue from Contracts with Customers (Topic 606)*
ASU 2025-07	Accounting Standards Update No. 2025-07, *Derivatives and Hedging (Topic 815) and Revenue from Contracts with Customers (Topic 606): Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract*
ASU 2025-11	Accounting Standards Update No. 2025-11, *Interim Reporting (Topic 270): Narrow-Scope Improvements*

D Glossary

Excerpt from Accounting Standards Codification

Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets

Glossary

610-20-20

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Cash

Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. All charges and credits to those accounts are cash receipts or payments to both the entity owning the account and the bank holding it. For example, a bank's granting of a loan by crediting the proceeds to a customer's demand deposit account is a cash payment by the bank and a cash receipt of the customer when the entry is made.

Cash Equivalents

Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:

a. Readily convertible to known amounts of cash

b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. For example, both a three-month U.S. Treasury bill and a three-year U.S. Treasury note purchased three months from maturity qualify as cash equivalents. However, a Treasury note purchased three years ago does not become a cash equivalent when its remaining maturity is three months. Examples of items commonly considered to be cash equivalents are Treasury bills, commercial paper, money market funds, and federal funds sold (for an entity with banking operations).

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Contract Asset

An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Contract Liability

An entity's obligation to transfer goods or services to a **customer** for which the entity has received consideration (or the amount is due) from the customer.

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Disposal Group

A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.

In Substance Nonfinancial Asset

Paragraphs 610-20-15-5 through 15-8 define an in substance nonfinancial asset.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a **business** or a for-profit business entity.

Parent

An entity that has a controlling financial interest in one or more subsidiaries. (Also, an entity that is the primary beneficiary of a variable interest entity.)

Performance Obligation

A promise in a **contract** with a **customer** to transfer to the customer either:

a. A good or service (or a bundle of goods or services) that is distinct

b. A series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Subsidiary

An entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. (Also, a variable interest entity that is consolidated by a primary beneficiary.)

Transaction Price

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.

Variable Interests

The investments or other interests that will absorb portions of a variable interest entity's (VIE's) expected losses or receive portions of the entity's expected residual returns are called variable interests. Variable interests in a VIE are contractual, ownership, or other pecuniary interests in a VIE that change with changes in the fair value of the VIE's net assets exclusive of variable interests. Equity interests with or without voting rights are considered variable interests if the legal entity is a VIE and to the extent that the investment is at risk as described in paragraph 810-10-15-14. Paragraph 810-10-25-55 explains how to determine whether a variable interest in specified assets of a legal entity is a variable interest in the entity. Paragraphs 810-10-55-16 through 55-41 describe various types of variable interests and explain in general how they may affect the determination of the primary beneficiary of a VIE.

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