

ASC 606 CONSIDERATIONS for Media and Publishing Companies

STEP ONE: IDENTIFY THE CONTRACT

- Evaluate the contract and verify that it creates a customer-vendor relationship, and not a collaborative partnership arrangement.
- An ASC 606 contract must be collectible. Consider a customer's ability and willingness to pay, especially for new or less financially stable customers.
- Evaluate whether the company is acting as a principal or an agent in the arrangement. Look to what is being provided to the end customer, by whom, and whether the company achieves ASC 606 control of the goods or services at any point. Consult ASC 606 for important indicators, or Withum for details. Subtle differences from existing guidance may change a company's previous conclusions.

EXAMPLE: Digital business models usually require careful analysis of principal vs. agent considerations.

STEP TWO: IDENTIFY THE PERFORMANCE OBLIGATIONS

- Review contract terms for ASC 606 implications, particularly custom arrangements for significant customers.
- Assess if bundled arrangements contain a single or multiple performance obligations, using the ASC 606 guidance on 'distinct'. Focus on whether a customer can benefit from a good or service on its own or together with resources readily available to it; and whether that good or service is distinct in the context of the contract. Consult the ASC 606 guidance in this area, and leverage the customer's perspective, when making this judgement
- Review customer options for additional products or services, or renewals, as they may be a separate performance obligation. Certain options for discounted future purchases may be a 'material right', which is a performance obligation, not variable consideration (see Step 3). Review special offers and pricing plans for this possibility. Consult ASC 606 or Withum for details.

EXAMPLE: A publishing arrangement provides a customer with different services, platforms, and benefits throughout the subscription period.

EXAMPLE: Providing a free banner ad along with a bundled sales arrangement as a way to promote an online sales campaign: if this is insignificant at the contract level, it would not be separate performance obligation. However, if banner ads are regularly sold for significant revenue, and create significant value to the customer, evaluate as a potential separate performance obligation.

STEP THREE: DETERMINE THE TRANSACTION PRICE

- Good-quality estimates of probable variable consideration (such as incentives, price protection, royalties, or cumulative volume discounts), not subject to a significant future reversal, are included.
- The application of ASC 606 may impact barter transactions (non-cash arrangements), and combination cash/non-cash arrangements. When estimating the value of the non-cash elements, ASC 606 prioritizes the fair value of the good or service received over the fair value of what is surrendered.
- The fair value of the total transaction price is measured at contract inception, and each reporting period thereafter (if the contract is incomplete), and subject to ASC 606's variable consideration restrictions.

EXAMPLE: Variable-rate, contingent fees earned as a customer's advertising goals are achieved.

STEP FOUR: ALLOCATE THE TOTAL TRANSACTION PRICE TO ALL THE PERFORMANCE OBLIGATIONS

- This step only applies if there is more than one performance obligation.
- Develop good quality standalone selling prices if they are not readily available. ASC 606 provides several methods to be used. This process may require significant judgement and identifying good-quality, relevant, and preferably third party, data.
- Software arrangements no longer require VSOE in order to separate bundled arrangements.

STEP FIVE: RECOGNIZE REVENUE FOR EACH PERFORMANCE OBLIGATION

- Revenue is recognized upon transferring control of, or satisfying, each performance obligation (the goods or services) to the customer. This may occur at a point in time, or over a period of time.
- In a sell through model, evaluate when ASC 606 control of the product is transferred to the customer. Based upon this assessment, revenue may be recognized earlier or later than under current practices.

Email us at info@withum.com for a deeper dive into a sample of revenue transactions.



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