

## ASC 606 CONSIDERATIONS for Vacation Ownership Entities

### VACATION OWNERSHIP SALES

#### STEP ONE: IDENTIFY THE CONTRACT

- An industry-standard, signed, written contract for vacation ownership intervals ("VOI"), together with probable collection of the transaction price (see below) will generally satisfy the requirements of ASC 606.
- An ASC 606 contract must be probable of collection. Perform evaluations of buyer credit worthiness and historical collections experience to assess whether collection of substantially all the consideration is probable. An analysis may include factors such as: available lending terms, down payment sufficiency, borrower creditworthiness, and historical experience with similar customers.

**EXAMPLE:** If an entity can support, from prior historical experience, that collection of substantially all the transaction price is probable once a credit-worthy customer has provided a certain percentage of the purchase price, than that history (including collection history with a specific buyer from previous transactions) may satisfy the requirement that an ASC 606 contract must be probable of collection. On the other hand, if there is no historical support for sales with zero down payments, the entity may be unable mitigate the credit risk associated with the sale and may not be able substantiate that a valid ASC 606 contract exists.

#### STEP TWO: IDENTIFY THE PERFORMANCE OBLIGATIONS

- Review contract terms, particularly for customized contracts.
- Noncash sales incentives** usually represent separate performance obligations from both VOI and club membership if they do not need to be used in conjunction with VOI or club membership.

**EXAMPLE:** credits for future occupancy as they are offered by other hospitality entities.

- Club memberships** and **exchange services**, offered as a separate customer option that does not change or modify the VOI, usually represent separate performance obligations unless they exist as a condition of VOI use (not common).

#### STEP THREE: DETERMINE THE TRANSACTION PRICE

- In order to reflect the impact of variable consideration under ASC 606, entities should use contract price, net of expected defaults (static pool analysis) and cash incentives (i.e. closing costs or maintenance fees).

## STEP FOUR: ALLOCATE THE TRANSACTION PRICE

- The best evidence of a standalone selling price is the observable price of a VOI (or sales incentive) as sold separately.
  - Utilize market prices for sales incentives (tickets, flights, etc.). Good quality estimates should be developed if no market price exists.

## STEP FIVE: RECOGNIZE REVENUE

- The 10% buyers' commitment is no longer a factor in determining if a sale has occurred.
- **VOI Sales** are generally recognized at closing since control and risk/rewards are deemed to be transferred from the seller to the buyer at that time.
- **Non-cash incentives provided by the seller** are recognized as deferred revenues at closing. Recognize as revenues when the incentive is delivered to or redeemed by the buyer. In some cases, this may be at closing.
- **Non-cash incentives provided by third parties (including related parties)** should be evaluated as to whether the seller is acting as the principal (i.e. controls the underlying good or service), or not. If not, the related revenue should be recorded at time of transfer, net of related costs (commissions, etc.). In some cases, this may be at closing.

## MANAGEMENT SERVICES

**STEP 1:** A standard written management contract will generally satisfy the requirements of ASC 606.

**STEP 2:** Management services are performed simultaneously over a period of time and generally represent one performance obligation.

**STEP 3:** Total transaction price is generally stipulated in the contract.

**STEP 4:** Since services provided generally represent one performance obligation, no allocation is necessary.

**STEP 5:** Revenues should be recognized straight line over the period of the contract.

**Email us at [info@withum.com](mailto:info@withum.com) for a deeper dive into a sample of revenue transactions or please contact a member of the Vacation Ownership Services Team.**



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