Revenue Recognition

Accounting & Finance

The five-step model, and the judgement in each step.

The five-step model.

1. **Identify the contract**
   Enforceable rights and obligations, with collection probable.
2. **Identify performance obligations**
   Each distinct good or service promised to the customer.
3. **Determine the price**
   Including variable consideration, constrained where uncertain.
4. **Allocate the price**
   Across obligations by relative standalone selling price.
5. **Recognise as satisfied**
   At a point in time, or over time where control transfers gradually.

Bundled sales are where this bites: a phone with a two-year plan splits into separate obligations recognised differently.