

Snapshot

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Breaking down standalone selling price in ASC 606

ASC 606 introduced a five-step revenue recognition model to assist an entity in accounting for each contract with a customer:

- Step 1 – Ensure the contract is within the scope of ASC 606 and is eligible to move to Step 2.
- Step 2 – Identify the performance obligations in the contract.
- Step 3 – Determine the transaction price for the contract.
- Step 4 – Allocate the transaction price to the performance obligations.
- Step 5 – Recognize revenue when or as the entity satisfies its performance obligation to the customer.

This publication focuses on establishing the standalone selling price under Step 4 and can be read in conjunction with the [Standalone Selling Price \(SASP\) Quick Start Card](#). For a comprehensive interpretation of ASC 606 and breakdown of all other steps, refer to [Revenue from contracts with customers: Navigating the guidance in ASC 606 and ASC 340-40](#).

In Step 4, an entity is required to allocate the transaction price determined in Step 3 to performance obligations identified in Step 2. The goal in Step 4 is for an entity to allocate the transaction price to each performance obligation in an amount that best represents the consideration that the entity expects to be entitled to for transferring each performance obligation to the customer (referred to as the “allocation objective”). With certain exceptions, an entity is required to allocate the transaction price to each of the identified performance obligations on a relative standalone selling price basis.

The Codification’s Master Glossary defines “standalone selling price” as the price at which an entity would sell a promised good or service separately to a customer. Under ASC 606, an entity determines the standalone selling price for each performance obligation at contract inception. The best evidence of standalone selling price is the observable price of a good or service sold separately in similar circumstances and to similar customers. However, if standalone selling price is not observable, the guidance in ASC 606-10-32-33 requires an entity to estimate it using all information that is reasonably available to the entity (including market conditions, entity-specific factors, and information about the customer or class of customer), while maximizing the use of observable inputs and applying estimation

methods consistently in similar circumstances. ASC 606 provides three potential methods for entities to apply in estimating standalone selling price, acknowledging that other methods may be appropriate: the **adjusted market assessment approach**, the **expected cost plus a margin approach**, and, in certain circumstances only, the **residual approach**. For many entities, determining the standalone selling price of a performance obligation requires a high degree of judgment at several points in the analysis.

The process that entities use to determine the standalone selling price for each performance obligation typically includes the following steps:

1. Establish the appropriate cadence for determining standalone selling price.
2. Determine the scope of the standalone selling price analysis.
3. Evaluate at what level of aggregation (or disaggregation) to determine standalone selling price.
4. Determine the standalone selling price for each performance obligation.
5. Allocate the transaction price to each performance obligation using the standalone selling prices in place at the contract inception date.
6. Monitor for changes on an ongoing basis.

Each of these six steps is discussed in greater detail below.

Establish cadence

For each revenue contract, an entity allocates the transaction price to each performance obligation using the standalone selling prices in place at contract inception. Although the standalone selling prices within a contract are not subsequently revised unless the contract is modified, each new contract with a customer should reflect the contract inception date standalone selling prices. Selling prices are likely to change over time due to changes in market conditions or other factors. Because many entities enter into frequent revenue transactions (in some cases, multiple transactions per day), it might be inferred that these entities are required to continuously assess standalone selling prices so that each contract's transaction price is allocated using the most current standalone selling price for each performance obligation. In practice, standalone selling prices are unlikely to change significantly on a day-to-day basis, and it would be impracticable to attempt to quantify pricing changes on such a frequent basis. Operationally, an entity determines an appropriate cadence for assessing its standalone selling prices, taking into consideration the expected frequency and magnitude of price fluctuations. The appropriate cadence may shift based on changes in expected price fluctuations.

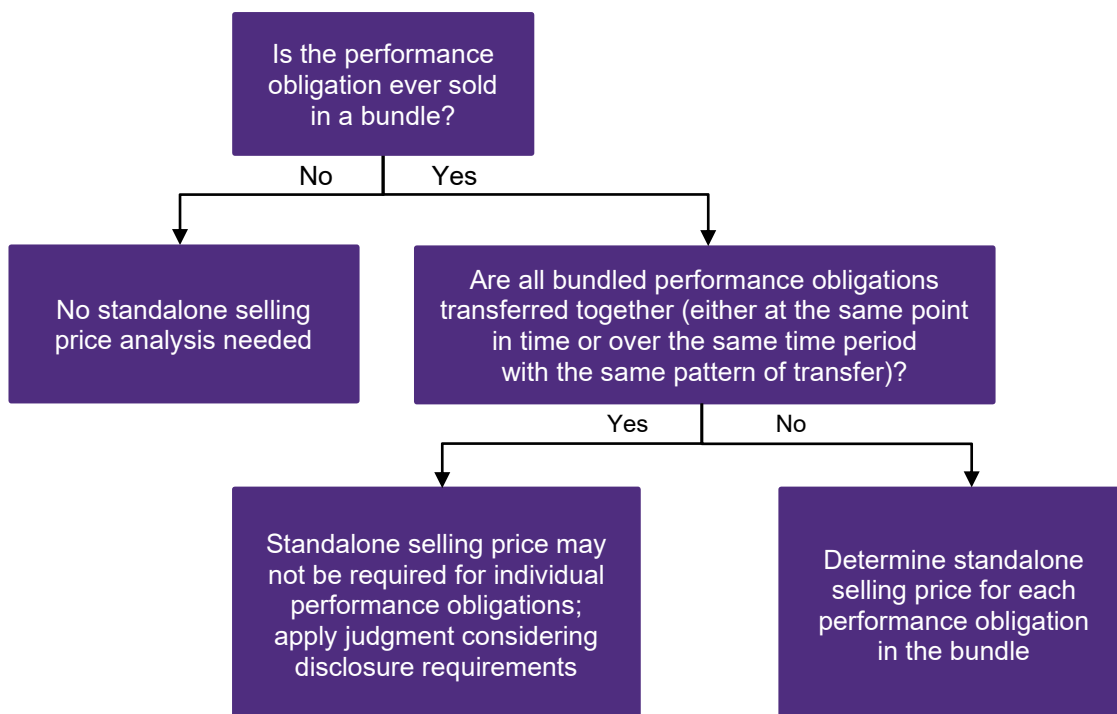
In our experience, entities typically perform a full standalone selling price analysis on an annual basis and develop a process to monitor for conditions that indicate prices have changed significantly between each annual analysis. Public business entities (PBEs) commonly perform a full standalone selling price analysis on an annual basis and monitor prices on a quarterly basis to determine whether a new standalone selling price analysis is necessary for impacted performance obligations. Non-PBEs that do not report financial information externally on an interim basis commonly perform a full standalone selling price analysis on an annual basis, with more frequent updates if prices are expected to change significantly. Despite the lack of an interim reporting requirement, these entities need to evaluate the likelihood of price fluctuations between each annual analysis in order to ensure that the transaction prices of revenue transactions with multiple performance obligations entered into during these periods are allocated appropriately to the various performance obligations.

Determine scope

The entity then determines the scope of its standalone selling price analysis—that is, it identifies those performance obligations for which it is required to evaluate standalone selling prices. If a performance obligation is sold only on a standalone basis (meaning it is never sold together with other performance obligations), the entity does not need to determine its standalone selling price because no allocation will be required.

Generally, entities will need to evaluate the standalone selling price for each performance obligation that may be sold in a bundled arrangement. However, when bundled arrangements contain only performance obligations that are all transferred to the customer either at the same point in time or over the same time period with the same pattern of transfer (for example, all utilizing a percentage completion or time elapsed method), an entity may not need to determine the standalone selling price for those performance obligations if they are sold only as part of these bundled arrangements. This is because allocation of the transaction price to various performance obligations will not impact revenue recognized in the reporting period if all of the performance obligations are transferred to the customer at the same time or over the same time period with the same pattern of transfer. Entities should also consider financial statement presentation and disclosure requirements in ASC 606 or other financial reporting rules in evaluating whether they need to determine the standalone selling price for performance obligations transferred to the customer either at the same point in time or over the same time period with the same pattern of transfer. For example, an entity may be required by Rule 5-03 of SEC Regulation S-X to separately present revenue from products and services.

Figure 1: Determining the scope of the standalone selling price analysis



Evaluate level of aggregation/disaggregation

Under ASC 606, an entity evaluates the level of aggregation or disaggregation to use for determining the standalone selling price for each performance obligation. A single performance obligation may have more than one standalone selling price if there are different types of customers (for example, stratified by class or volume), differing geographies, or other meaningful reasons for disaggregation, but the standalone selling price generally cannot be customer- or contract-specific. On the other hand, certain performance obligations may be so similar that they can be aggregated for the purpose of determining standalone selling price. For example, an entity may conclude that product version 1.0 is so similar to product version 1.1 that it can aggregate the two similar products to determine standalone selling price.

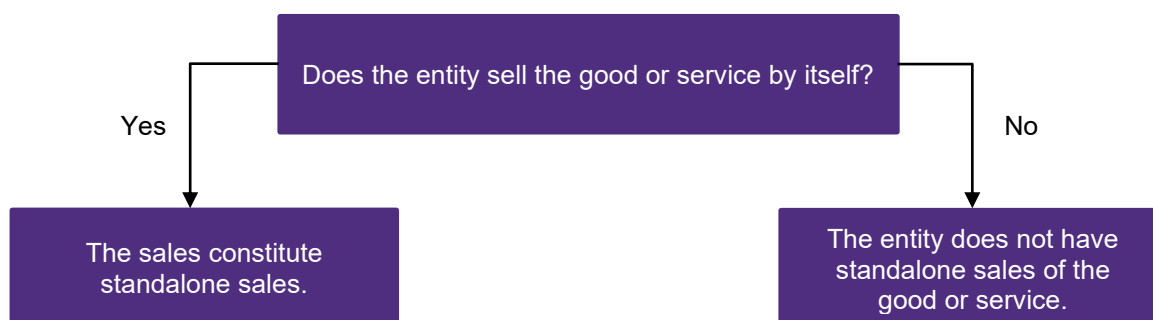
Determine standalone selling price

When the entity performs its full analysis to determine the standalone selling price for each in-scope performance obligation at the appropriate level of aggregation or disaggregation, it typically begins by reviewing its historical sales data. The entity determines the appropriate lookback period for the historical data used in the standalone selling price analysis. Many entities consider evidence from the year prior to the analysis date, but a shorter period may be appropriate when prices, including inputs to estimated standalone selling prices, fluctuate more frequently.

Observable prices

The entity first considers whether it has standalone sales. A standalone sale occurs when the entity sells a good or service alone—that is, not bundled with any other performance obligations in the contract. Typically, the entity isolates all standalone sales of a performance obligation for the lookback period, excluding any sales with multiple performance obligations, regardless of whether the individual performance obligations are separately priced within the contract and even if the pricing is consistent for these bundled sales. (Bundled sales *do not provide observable evidence* of the standalone selling prices for the individual performance obligations within the bundle.)

Figure 2: Identifying standalone sales





Example: Back to basics – Standalone sales

Scenario	Description	Does the sale of the machine(s) constitute a standalone sale?
1	Entity A sells machine A to Customer B for \$100 on January 1, 20X0.	Yes
2	Entity A sells machine B to Customer B for \$500 on June 30, 20X2.	Yes
3	Entity A sells machines C and D to Customer B for \$800 and \$1,200, respectively, on December 31, 20X3.	No – even if Entity A consistently prices machines C and D.

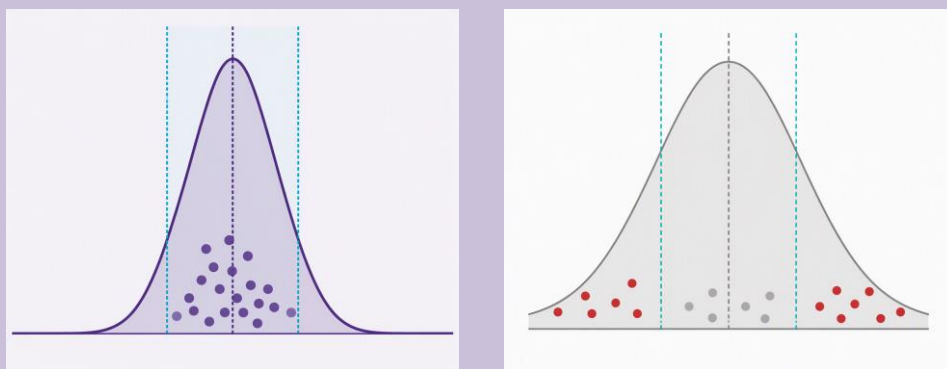
A standalone sale of a good or service may or may not provide sufficient evidence of an observable standalone selling price. As used in ASC 606, an “observable” price generally means that a *high percentage* of the standalone sales are priced within a *narrow range* of the midpoint. This is often analyzed using a bell curve approach. Said differently, the entity needs to have a sufficient volume of standalone sales priced within a narrow range in order to provide meaningful evidence of an observable standalone selling price.

In some cases, there is more than one cluster of standalone sales priced within a narrow range of more than one sales price. This may indicate that the entity needs to reevaluate whether the performance obligation should be disaggregated, for example, by customer class or geography, as discussed above.



Grant Thornton insight: Bell curve analysis and thresholds

Because U.S. GAAP does not define the terms “high percentage” or “narrow range” as used in the definition of “observable” prices, there are no bright line compliance thresholds when making this determination. In practice, an entity may plot its standalone sales of a good or service to visually demonstrate whether there is a high percentage of sales within a narrow range of the sales price to support its standalone selling price for that good or service. The X axis, or horizontal axis, typically represents the unit price for which an entity sells a particular good or service, while the Y axis, or vertical axis, represents the volume of transactions at a particular price point. This analysis is often referred to as a “bell curve analysis.” The bell curve on the left below suggests that the entity has sufficient sales within a narrow range, while the graph on the below right does not.



Bell curve analyses used to support vendor-specific objective evidence (VSOE) of selling price for multiple-element revenue arrangements prior to the adoption of ASC 606. These analyses were commonly structured to determine whether 80 percent of historical standalone sales were within ± 15 percent of the median price. Deliverables with historical pricing within these thresholds were generally considered to have VSOE of standalone selling price under ASC 605, which is a similar concept to observable standalone selling price of performance obligations under ASC 606. Under ASC 606, a bell curve analysis of historical standalone sales with a compliance rate of close to 80 percent and a range approximating ± 15 percent may be acceptable evidence of observable standalone selling price. Appropriate judgment is required.

In some cases, bundled sales may provide evidence of the standalone selling price *for the entire bundle* of goods or services sold together, which can be further disaggregated into standalone selling prices for individual performance obligations using another method, such as by reference to the relative value of the individual performance obligations. However, the stated contract prices in bundled sales typically cannot be used as evidence of the standalone selling price for the individual performance obligations in the bundle, and only in rare cases would these contract prices be used as the sole support for the standalone selling price of an individual performance obligation.

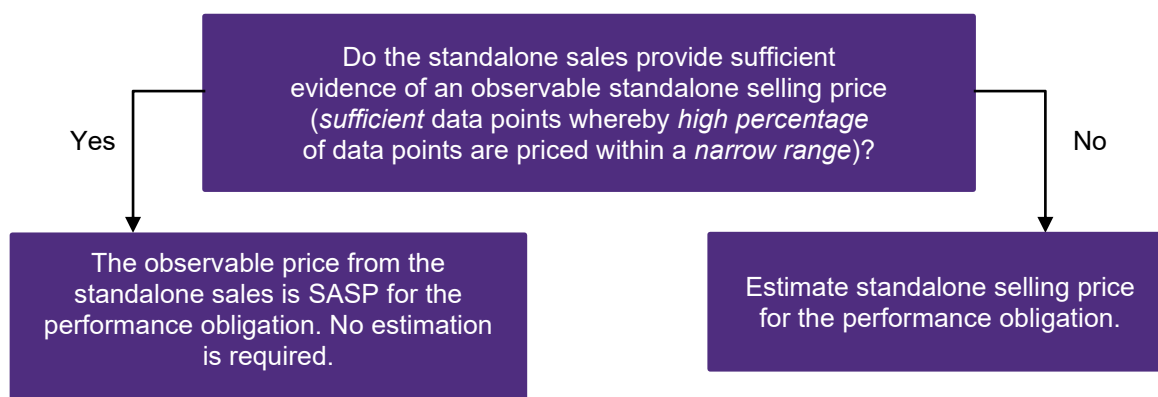


Grant Thornton insight: Common pitfalls when performing a bell curve analysis

1. Insufficient data points exist for the historical lookback period.
2. Performance obligations have not been appropriately aggregated or disaggregated.
3. Historical sales used in a bundled bell curve analysis include bundled sales transactions.
4. The range of sales prices considered compliant is set unreasonably wide.
5. The acceptable compliance rate is set unreasonably low.
6. The entity determines the acceptable range by expanding the range around the midpoint until sufficient historical transactions fall within the range.

When an entity does not have standalone sales or it determines that standalone sales do not provide meaningful evidence of an observable standalone selling price, it needs to estimate the standalone selling price at an amount that would result in the allocation of the transaction price meeting the allocation objective in ASC 606.

Figure 3: Evaluating standalone sales



Estimating standalone selling price

If there is not sufficient standalone sales data or the data is not narrowly grouped around a proposed standalone selling price (in other words, the standalone selling price is not directly observable), the standalone selling price must be estimated. The entity estimates the standalone selling price for these performance obligations by considering all reasonably available information and maximizing the use of observable inputs. The entity may use one of the estimation methods provided in ASC 606 or another appropriate method (for example, a discounted cash flow analysis for a drug license), as long as the estimate is a faithful representation of the price at which the entity would sell the performance obligation separately. The method used to determine the standalone selling price for an individual performance obligation is not a free selection but rather a determination of the most appropriate method given the specific facts and circumstances. The method used should maximize the use of observable data, including any standalone sales data that provides insufficient evidence of an observable standalone selling price. The method selected should be applied consistently to estimate the standalone selling price of other goods or services with similar characteristics. While consistency is generally expected, entities would select a method that is most appropriate based on the facts and circumstances and that maximizes the use of observable inputs. For example, an entity may determine the standalone selling prices for two similar performance obligations for which the most observable data and evidence available varies, which may result in two different methods being employed for these two similar performance obligations.



Grant Thornton insight: Contract and list price not presumed to be standalone selling price

ASC 606-10-32-32 states, “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.”

This Codification excerpt means that an entity cannot presume that the contractual price or list price for a good or service is its standalone selling price. While a contract price may form part of an entity’s analysis, we believe that an entity may support its estimate of standalone selling price using solely the stated prices in bundled arrangements *only in rare cases*. A list price on its own is *not sufficient evidence* for the entity to determine standalone selling price, but a list price supported by a market study or other sufficient evidence may be appropriate.

The examples of suitable estimation methods provided by ASC 606 include the following.

Adjusted market assessment approach

The adjusted market assessment approach employs available market data in estimating a performance obligation’s standalone selling price. The entity may evaluate the market where 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. The entity may also refer to competitors’ prices for similar goods or services and adjust those prices as necessary to reflect entity-specific factors.

The adjusted market assessment approach may not be appropriate if the entity is selling new goods or services. In some cases, however, the entity may use relevant market data for *similar* goods or services, if available, and make appropriate adjustments for the new goods or services.

Cost plus margin approach

A cost plus margin approach involves a forecast of the entity’s expected costs of satisfying a performance obligation plus an appropriate margin for that good or service. This method is appropriate when the incremental cost of the performance obligation to be transferred is meaningful and can be reasonably estimated. This method is typically used for performance obligations with significant incremental labor or materials costs, such as those for an equipment manufacturer. Very high margins, however, may indicate that margins are not meaningful, such as in the software and software-as-a-service industry.

Residual approach

In the residual approach, an entity subtracts the sum of the observable standalone selling prices for other performance obligations in the contract from the total transaction price, to arrive at an estimated standalone selling price for the remaining goods or services. This method is *only* permitted in the following circumstances:

- The selling prices of all of the other performance obligations in the contract are observable (that is, they are not estimated), and either:
 - The selling price of the good or service is highly variable, meaning the entity sells the same goods or services to different customers at varying prices; or

- The selling price of the good or service is uncertain, meaning the good or service has not yet been sold on its own and the entity has not yet established a price.



Grant Thornton insight: Scope of residual approach

ASC 606-10-32-34 stipulates that a standalone selling price measured using the residual approach equals the total transaction price, minus the sum of the observable standalone selling prices of other goods or services in the contract. Based upon our discussions with standard setters, the word “observable” in this paragraph is intentional and serves to narrow the use of the residual approach to those contracts in which one or more performance obligations have highly variable or uncertain standalone selling prices and each of the remaining performance obligations has observable, not estimated, standalone selling prices.



Example: Back to basics – residual approach

Scenario	Description	Does Entity A qualify to use the residual approach for software B?
1	Entity A sells machine A and software B to Customer B for \$100 on January 1, 20X0. Entity A has an observable standalone selling price for machine A, but the selling price of software B is uncertain.	Yes, because Entity A has an observable standalone selling price for machine A and the selling price of software B is uncertain.
2	Entity A sells machine A and software B to Customer B for \$100 on January 1, 20X0. Entity A does not have an observable standalone selling price for machine A, and instead estimates standalone selling price using a cost plus margin approach. The selling price of software B is uncertain.	No, because Entity A does not have an observable standalone selling price for the other goods and services in the contract—that is, machine A.

Other methods

In some circumstances, entities may find it challenging to determine the standalone selling price using one of the estimation methods noted in ASC 606, and may instead estimate standalone selling price using another method, such as a discounted cash flow model. Under ASC 606, an alternative method may be acceptable if observable inputs are maximized and the allocation objective is met.

In certain circumstances, entities may use a combination of methods to estimate the standalone selling prices of performance obligations in a contract if those estimated standalone selling prices are consistent with the allocation objective in ASC 606 and the estimation guidance in ASC 606-10-32-33 is followed (that is, an entity uses all reasonably available information, maximizing the use of observable inputs and applying estimation methods consistently). For example, an entity that has an observable standalone selling price for one performance obligation may use the residual approach to estimate the aggregate of the standalone selling prices for two other performance obligations with highly variable or uncertain prices in the same contract. It would then use another method to estimate the standalone selling prices of the individual variable or uncertain performance obligations on a relative basis, either to one another or to the estimated aggregate standalone selling price for the two variable or uncertain performance obligations. When using a combination of methods to estimate the standalone selling price of each performance obligation in a bundled contract, an entity needs to evaluate whether allocating the transaction price at those estimated prices is consistent with both the allocation objective of ASC 606 and the guidance on estimating standalone selling prices in ASC 606-10-32-33.

Standalone selling price range

An entity may determine that a standalone selling price is a sufficiently narrow range rather than a single observable amount or point estimate. The sufficiently narrow range is derived in a manner that maximizes the use of observable inputs and represents a range of prices the entity would actually accept if the good or service were sold separately. In this case, the entity estimates the standalone selling price range, rather than determining a single observable amount or point estimate and then adding a range on either side of that amount to create the standalone selling price range.

Allocate the transaction price

The entity allocates the transaction price to each performance obligation in a bundled transaction using the standalone selling price that was determined using the process outlined above.

When a standalone selling price is determined for prior periods (for example, to recast prior periods when initially preparing financial statements in accordance with U.S. GAAP), the entity needs to ensure that it does not use data from periods subsequent to the transaction date to determine the standalone selling prices used to allocate the transaction price.



Grant Thornton insight: Multiple performance obligations of the same type

In certain arrangements, entities may bundle performance obligations comprising different quantities, time intervals, or date ranges for the same item. For example, in data licensing arrangements, an entity will often sell or license historical and future data of the same type, and the transaction price may need to be allocated between the historical data delivered initially and future data deliveries. In these types of arrangements, it may be more meaningful to establish a value relationship between the historical and future data deliveries than to determine a specific standalone selling price for each data delivery performance obligation. These relative values may be based on the volume/quantity/time interval or the age of the data, or on other characteristics meaningful for the specific facts and circumstances. The entity, however, may not default to the contract prices for the multiple data delivery performance obligations.

Allocation when standalone selling price is a range

When standalone selling price is a range estimate, the entity does not need to reallocate the transaction price when the contract price of each performance obligation falls within the standalone selling price range. When one or more performance obligations fall outside the range, the entity allocates the transaction price by establishing and consistently applying a reasonable policy. In our experience, entities employing a range typically allocate transaction price using either (1) the midpoint of the standalone selling price range, or (2) the high end or low end of that range, depending on whether the contract price for the performance obligation is above or below its standalone selling price range.

Monitor for changes

The entity needs to monitor prices, including inputs to estimated standalone selling prices, on an ongoing basis between full standalone selling price analyses, and the nature and extent of monitoring activities will vary from entity to entity. The entity may need to perform an updated standalone selling price analysis for impacted performance obligations if its monitoring indicates that certain events may have occurred, including the following:

- Price fluctuations, including inputs to estimated standalone selling prices
- Changes in pricing strategies
- New markets or products
- Changes in customer bases

Judgments

Entities may need to make significant judgments in determining standalone selling prices, including the following (this list is noncomprehensive):

- Cadence of standalone selling price analysis and degree of monitoring required during interim reporting periods
- Determination of which, if any, performance obligations to exclude from the standalone selling price analysis
- Level of aggregation or disaggregation of performance obligations
- Period of historical data to use in the standalone selling price analysis
- Determination of whether there are sufficient standalone sales in the historical lookback period to provide meaningful evidence of observable standalone selling price
- Thresholds for the compliance rate and range sufficient to provide meaningful evidence of observable standalone selling price
- Determination of which methods to apply to estimate standalone selling prices
- Identification of which data used in the estimate of standalone selling prices is the most observable in the specific facts and circumstances
- Sufficiency of available data used in estimating standalone selling price.

Internal control over financial reporting

The entity designs, implements, and maintains effective controls related to the determination of standalone selling prices and the allocation of transaction price to performance obligations. The nature of, as well as the frequency with which these controls operate, depends on the entity's facts and circumstances. Such controls often include procedures designed to ensure the accuracy and completeness of data used in determining standalone selling prices, as well as controls over the review and approval of significant assumptions and estimates. Because determining standalone selling prices often involves significant judgment, estimates, and assumptions, entities frequently implement management review controls. For additional guidance related to management review controls, refer to our [Snapshot 2025-11](#), "Management review controls."

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