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Sales and transfers of nonfinancial assets

Applying ASC 610-20



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Contents

Introduction 4
1. Scope of ASC 610-20 6
1.1 Transfers of nonfinancial assets to customers 9
1.2 Transfers of businesses or nonprofit activities 10
1.3 Nonfinancial and in substance nonfinancial assets 10
1.3.1 In substance nonfinancial assets 10
1.3.2 Transfers of ownership interests in consolidated subsidiaries 12
1.4 Applying ASC 610-20 to a contract transferring multiple assets 14
1.4.1 Contracts fully within scope of ASC 610-20 14
1.4.2 Contracts partially within scope of ASC 610-20 15
1.5 Share-based noncash consideration received in exchange for nonfinancial assets 19
2. Derecognizing the asset 21
2.1 Accounting when an entity retains control of assets in a separate legal entity 21
2.2 Accounting when an entity does not retain control of assets in a separate legal entity 22
2.2.1 Determining whether a contract exists 23
2.2.2 Identifying distinct nonfinancial assets and in substance nonfinancial assets 27
2.2.3 Assessing when control transfers 31
2.2.4 Repurchase agreements 34
2.3 Partial sales 39
3. Calculating the gain or loss 41
3.1 Transaction price 41
3.1.1 Variable consideration 44
3.1.2 Significant financing components 45
3.1.3 Noncash consideration 48
3.1.4 Consideration payable to a counterparty 50
3.1.5 Changes in transaction price after contract inception 51
3.2 Counterparty assumes or relieves a liability 52
3.3 Sales of nonfinancial assets between an investor and equity method investee 53
4. Allocating the gain or loss 55
4.1 Determining stand-alone selling price 56
5. Presentation and disclosure 59
Appendix: FASB guidance abbreviations 63

Introduction

Sales of nonfinancial assets include the sale of tangible assets, such as finished goods, land, buildings, equipment, and furniture and fixtures, as well as the sale of intangible assets, such as intellectual property. The guidance in ASC 606 applies to sales of nonfinancial assets made by an entity to a customer when the nonfinancial assets sold are an output of the entity's ordinary activities. However, when nonfinancial assets sold by an entity are *not* an output of its ordinary activities, the sale may instead be subject to the guidance in ASC 610-20. What constitutes an "output" of an entity's ordinary activities is a matter of judgment.

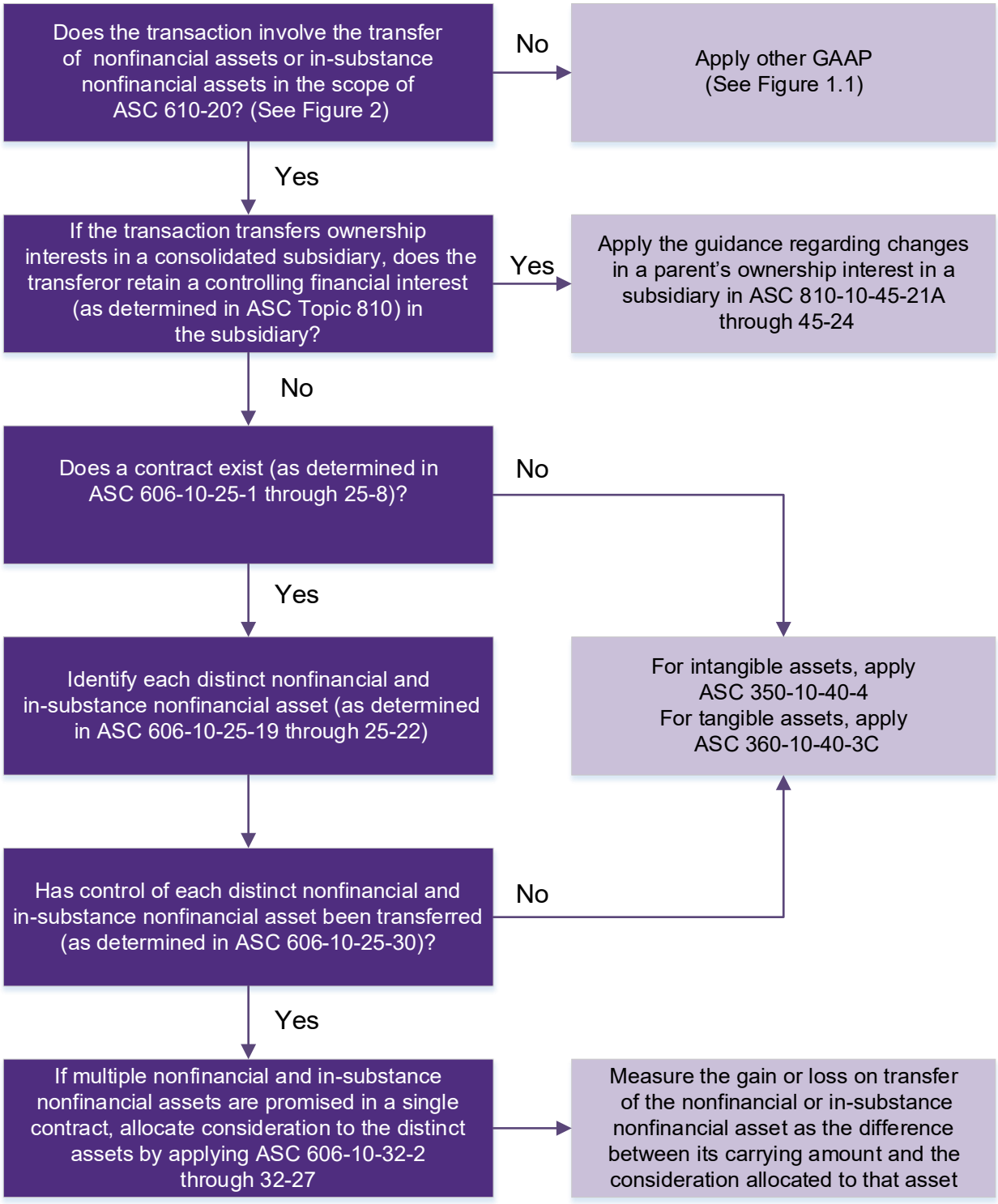
Prior to the issuance of ASU 2014-09 (subsequently modified by ASU 2017-05), sales of nonfinancial assets were accounted for under various Topics in the FASB Codification. For instance, sales of real estate were addressed in ASC 360-20, sales of intangible assets were addressed by the limited guidance in ASC 350, and sales of property, plant, and equipment were addressed in ASC 360. These different areas of guidance had different criteria for derecognizing transferred assets and for recognizing gains on sales of nonfinancial assets, as well as different disclosure requirements. ASC 610-20 consolidates much of this disparate guidance into a single subtopic in the Codification and aligns the financial statement impact of these economically similar transactions.

The guidance in ASC 610-20 is based on the concepts in ASC 606, requiring entities to apply the guidance in ASC 606 on contract existence, control, and measurement. The FASB noted that there is little economic difference between the sale of an asset that is, and one that is not, an output of the entity's ordinary activities, and decided to generally align the accounting for the sale of assets that are not part of an entity's ordinary activities with the guidance for sales of assets that are an output an entity's ordinary activities. As a result, the most significant ways in which sales of nonfinancial and in substance nonfinancial assets within the scope of ASC 610-20 are distinguished from sales within the scope of ASC 606 is how they are presented in the income statement—transactions within the scope of ASC 610-20 are presented as gains or losses instead of revenue—as well as how they are disclosed. Additionally, there are some differences in how intra-entity profits in downstream sales to an equity method investee are treated under ASC 610-20.

This publication explains which transactions are within the scope of ASC 610-20 and how those transactions are accounted for under that guidance.

The following flowchart provides a summary of the guidance for the derecognition of assets in U.S. GAAP.

Figure 1: Derecognition of assets under U.S. GAAP

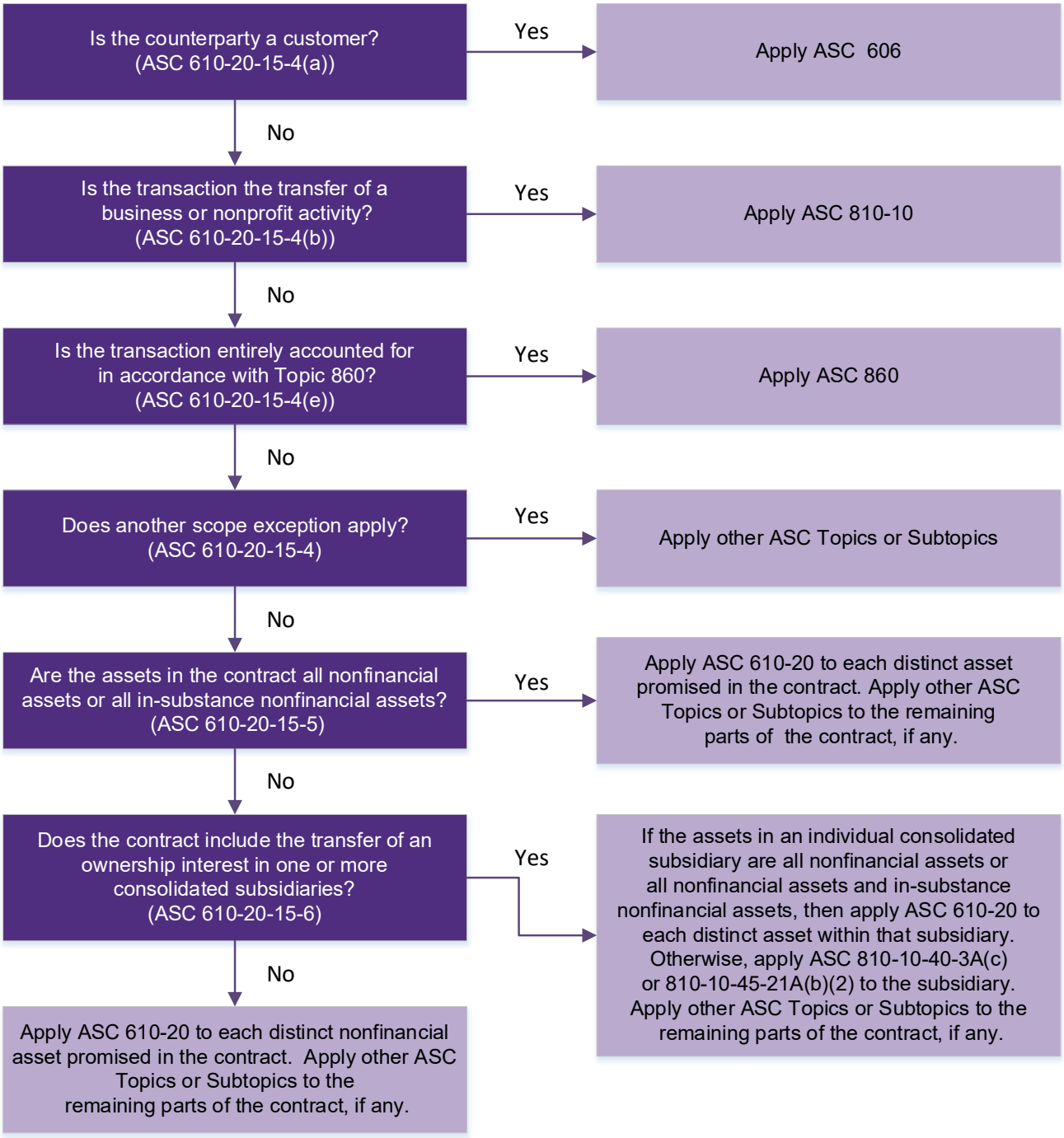


1. Scope of ASC 610-20

The FASB Codification contains guidance spread out among various Topics that could apply to the derecognition of an asset, depending on both the type of asset being derecognized and the nature of the relationship between the counterparties involved in the transaction. For example, sales of assets that are an output of an entity's ordinary activities to customers are addressed by the revenue recognition guidance in ASC 606, transfers of assets leased back to the seller are addressed by the sale-and-leaseback guidance in ASC 842-40, and transfers of subsidiaries that constitute a business or nonprofit activity are addressed by the consolidation guidance in ASC 810-10-40. The guidance in ASC 610-20, however, is a residual standard—that is, it applies when the derecognition of a nonfinancial asset (or an in substance nonfinancial asset) is not addressed by other guidance in U.S. GAAP.

The following flowchart walks through the various other Codification Topics that should be considered before applying ASC 610-20.

Figure 2: Scoping decision tree (ASC 610-20-15-10)



ASC 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.

ASC 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.

ASC 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

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.

As illustrated in Figure 1 above, determining whether a transaction should be accounted for under ASC 610-20 requires an entity to make a variety of determinations about both the assets being transferred (that is, are they a business, financial assets, or nonfinancial or in substance nonfinancial assets) and the nature of the relationship between the entity and the counterparty (that is, is the counterparty a customer).

1.1 Transfers of nonfinancial assets to customers

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.

Whether an entity's counterparty in the sale of assets is considered to be a "customer" depends primarily upon whether the asset transferred is an "output of the entity's ordinary activities." Further, whether an asset is the output of the entity's ordinary activities is a matter of judgment based on an entity's individual facts and circumstances.

Although neither ASC 606 nor ASC 610-20 defines "output of the entity's ordinary activities," Paragraph 53 in the Basis for Conclusions (BC53) of ASU 2014-09 notes that "an output of the entity's ordinary activities" is derived from the definition of "revenue" in the FASB's Statement of Financial Accounting Concepts 6 (CON 6), which refers to an entity's "ongoing major or central operations."

Accordingly, two entities may sell seemingly identical assets to seemingly identical counterparties, but one may apply ASC 606 to the transaction while the other may apply ASC 610-20, depending on whether the asset comprises an "output" of the entity's ordinary activities. For example, Entity A, a widget manufacturer, sells land to Entity B for cash, while Entity C, a real estate company, also sells land to Entity B for cash. Entity A determines that land is not an output of its ordinary activities and therefore applies ASC 610-20 to the transaction, while Entity C determines that land is an output of the entity's ordinary activities and therefore applies ASC 606 to the transaction.

Grant Thornton insight: Fewer nonmonetary transactions within the scope of ASC 845

With the introduction of ASC 610-20, many transactions that were formerly accounted for under the guidance in ASC 845 now fall under the guidance in ASC 610-20 if they do not involve a "customer," as defined in the Codification. However, ASC 845 continues to apply to exchanges of inventory between entities in the same line of business to facilitate a sale to a customer. We believe this generally occurs for logistical or economic convenience.

Additionally, an entity may enter into an agreement with a counterparty to transfer both nonfinancial assets that are not an output of its ordinary activities as well as goods or services that are an output of its ordinary activities. In such a transaction, the counterparty would be treated as a customer for the transfer of the goods and services that are an output of the entity's ordinary activities, but not for the transfer of the nonfinancial asset that is not an output of the entity's ordinary activities. Accordingly, the transfer of the goods and services for which the counterparty is considered a customer would be accounted for under ASC 606, while the transfer of the nonfinancial asset would be accounted for under ASC 610-20.

1.2 Transfers of businesses or nonprofit activities

Sales of businesses (whether embodied in legal entities or sets of assets and related liabilities) or nonprofit activities are not within the scope of ASC 610-20. Sales of businesses are generally within the scope of ASC 810.

To determine whether a legal entity or a set of assets and related liabilities constitutes a business, entities should apply the guidance both in ASC 805-10-55-3A through 55-6 and in ASC 805-10-55-8 through 55-9 in their entirety. The application of this guidance requires the exercise of judgment.

See our Viewpoint, "Identifying business combinations," for further guidance on the definition of a business, including how to apply the single or similar asset threshold when assessing whether a set of assets and related liabilities constitutes a business under U.S. GAAP.

1.3 Nonfinancial and in substance nonfinancial assets

ASC 610-20 addresses the recognition of gains or losses when nonfinancial assets and in substance nonfinancial assets are derecognized.

The term "nonfinancial asset" is not defined in U.S. GAAP, but is a descriptive term that includes all assets that do not meet the definition of a financial asset. Nonfinancial assets include intangible assets, land, buildings, materials, and supplies, which may have zero carrying value. That is, a nonfinancial asset does not have to have a carrying amount on the balance sheet to be within the scope of this guidance.

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

1.3.1 In substance nonfinancial assets

If the substance of a transaction comprises a transfer of nonfinancial assets, then all of the assets in the transaction should be accounted for using the guidance in ASC 610-20, the FASB concluded in paragraphs 497 and 498 of the Basis for Conclusions to ASU 2014-09. According to ASC 610-20, financial assets are considered to be "in substance nonfinancial assets" when substantially all of the fair value of the assets that are promised to a counterparty in a contract is concentrated in nonfinancial assets.



ASC 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.



Grant Thornton insight: Determining what constitutes 'substantially all'

The guidance in ASC 610-20 does not define what constitutes "substantially all" of the fair value of the assets in a contract. With no bright lines to use in this assessment, entities will need to exercise judgment when determining whether substantially all of the fair value of the assets are concentrated in nonfinancial assets. In BC19 of ASU 2017-05, the FASB noted that "substantially all" represents a higher threshold than "predominantly," as the Board believes the use of the higher threshold will more likely result in an appropriate assessment of the substance of the transaction.

The FASB also notes in BC19 that the term "substantially all" is used throughout the Codification and therefore the Board believes that it does not need to be defined. For example, "substantially all" is used in both the leasing guidance in ASC 842 and in the revenue guidance ASC 606 to assess whether an entity has obtained the right to enjoy substantially all of the economic benefits of an asset being transferred. While neither Topic uses a set percentage to define "substantially all," the FASB included implementation guidance in ASC 842 that allows entities to use a 90 percent threshold. Specifically, BC73 of ASU 2016-02 states:

> Nevertheless, the Board understands that entities need to ensure the leases guidance is operational in a scalable manner, which often requires the establishment of internal accounting policies and controls. As a result, the Board included implementation guidance in Topic 842 that states that one reasonable application of the lease classification guidance in that Topic is to conclude, consistent with previous GAAP, that … 90 percent or greater is "substantially all" the fair value of the underlying asset. …

Therefore, we believe that using 90 percent as a benchmark when evaluating whether substantially all of the fair value of the assets promised is concentrated in nonfinancial asset will generally be appropriate. Still, entities should consider both qualitative and quantitative facts and circumstances to assess the substance of the transaction.

When evaluating whether substantially all of the fair value of the assets transferred in a given contract is concentrated in nonfinancial assets, any cash and cash equivalents transferred, as well as any liabilities assumed or relieved, should be disregarded. The reason for this exclusion is that the FASB wanted to prevent entities from achieving a particular accounting outcome by contributing cash to a counterparty (or assuming a counterparty's liabilities) and increasing the transaction price by an equivalent amount.



ASC 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.

1.3.2 Transfers of ownership interests in consolidated subsidiaries

When transferring controlling ownership interests in consolidated subsidiaries that do not qualify as a business (as defined in ASC 805), entities should evaluate the underlying assets of the subsidiary and determine whether substantially all of the fair value of the subsidiary's assets is concentrated in nonfinancial assets. If substantially all of the fair value of the subsidiary's assets is concentrated in nonfinancial assets, transfers of controlling ownership interests in that subsidiary are within the scope of the guidance in ASC 610-20. Case C of Example 1 in ASC 610-20-55-9 through 55-10 illustrates this analysis (see Section 1.4.2).

Transfers of ownership interests in a consolidated subsidiary that do not result in transferring a controlling interest in the subsidiary (and therefore do not result in the deconsolidation of the subsidiary in accordance with ASC 810) are not within the scope of ASC 610-20. Rather, transfers of ownership interests in a consolidated subsidiary in which the reporting entity retains a controlling financial interest in the subsidiary are accounted for as equity transactions in accordance with ASC 810-10-45-21A through 45-24.



ASC 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.

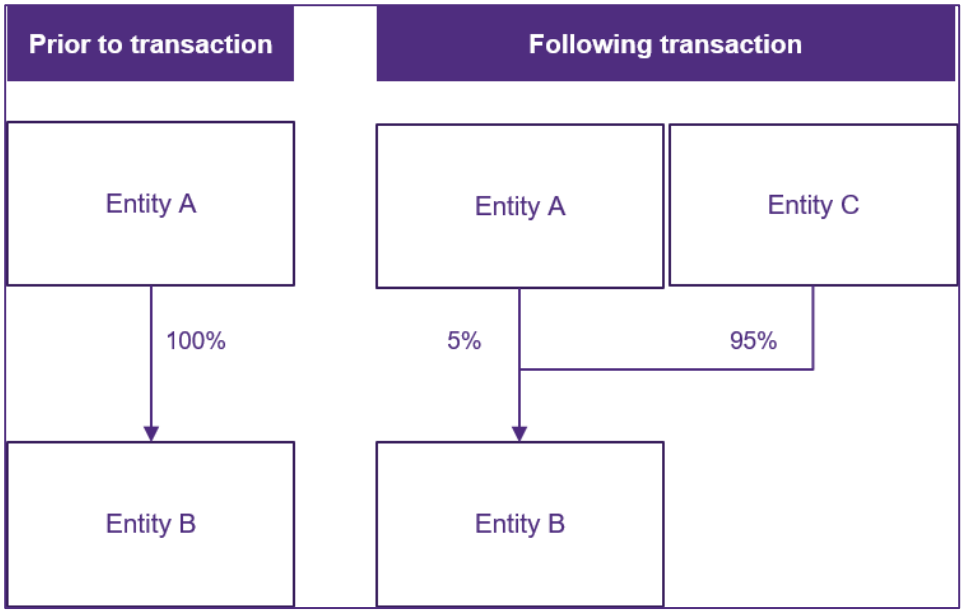
However, an entity transferring ownership interests in nonconsolidated entities (for example, equity method investments or equity investments accounted for under ASC 321) would *not* look through to the underlying assets of the nonconsolidated entity to determine if the ownership interests are in substance nonfinancial assets. Transfers of ownership interests in nonconsolidated entities would only be evaluated as in substance nonfinancial assets if they are included in a contract in which substantially all of the assets promised to the counterparty are nonfinancial assets.

Transfer of financial assets – Determining whether ASC 610-20 applies

Scenario 1 – Entity A consolidates Entity B prior to transaction

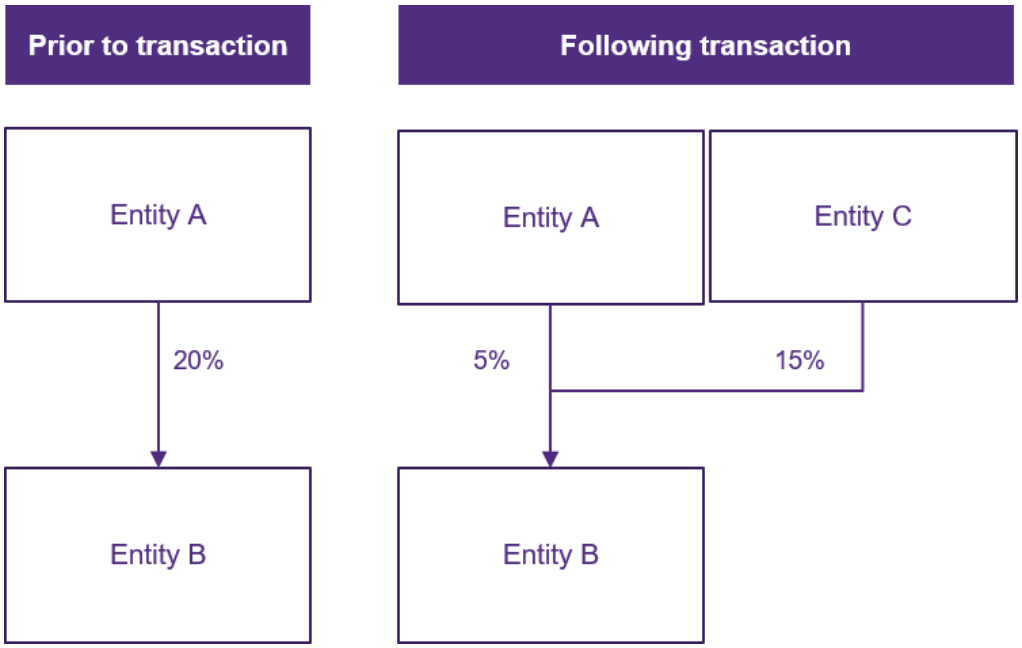
Entity B is a 100 percent-owned subsidiary of Entity A. Substantially all of the fair value of Entity B's assets is concentrated in nonfinancial assets. Entity A sells 95 percent of its ownership interests in Entity B to Entity C, but retains a 5 percent interest in Entity B.

In this scenario, Entity A determines that it will no longer have a controlling financial interest in Entity B after the transaction. Entity A also determines that Entity B is not a business (and therefore is not within the scope of ASC 810) and that the sale of Entity B to Entity C is not the output of its ordinary activities to a customer (and therefore is not within the scope of ASC 606). Entity A looks through to the underlying assets of Entity B and determines that substantially all of Entity B's assets are concentrated in nonfinancial assets. Entity A therefore concludes that its transfer of 95 percent of its ownership interest in Entity B represents the sale of an in substance nonfinancial asset within the scope of ASC 610-20.



Scenario 2 – Entity A does not consolidate Entity B prior to transaction

Entity A owns a 20 percent equity interest in Entity B and accounts for its investment in Entity B using the equity method of accounting in ASC 323. Substantially all of the fair value of Entity B's assets is concentrated in nonfinancial assets. Entity A sells 15 percent of its 20 percent ownership interest in Entity B to Entity C, retaining a 5 percent interest in Entity B.



In this scenario, Entity A holds a financial asset in the form of an equity method investment in Entity B and therefore does not look through to the underlying assets of Entity B. Since the only asset transferred to Entity C in the contract is the ownership interests in Entity B, Entity A concludes that the ownership interests in Entity B are not in substance nonfinancial assets. As a result, Entity A applies ASC 860 to its transfer of the ownership interests in Entity B to Entity C.

1.4 Applying ASC 610-20 to a contract transferring multiple assets

A contract that includes the transfer of multiple assets, including nonfinancial and in substance nonfinancial assets, may be fully or partially within the scope of ASC 610-20.

1.4.1 Contracts fully within scope of ASC 610-20

If a contract transfers only nonfinancial and in substance nonfinancial assets and no other guidance applies, then the contract is accounted for fully within ASC 610-20.

Transfer of financial and nonfinancial assets: Contract fully within scope of ASC 610-20

Entity A enters into a contract to sell a shipping vessel (a nonfinancial asset) and receivables from customers who had previously chartered the vessel to a counterparty who is not a customer of Entity A.

Entity A determines that substantially all of the fair value of the assets transferred is concentrated in the shipping vessel. As a result, the receivables are in substance nonfinancial assets, and the contract is fully within the scope of ASC 610-20.

If a contract includes the transfer of ownership interests in consolidated subsidiaries that do not qualify as businesses as well as other nonfinancial assets, an entity should first look at the subsidiaries' underlying assets to determine whether substantially all of the fair value of those assets, combined with the separate other nonfinancial assets transferred in the contract, result in substantially all of the fair value of the transferred assets being concentrated in nonfinancial assets. If that is the case, then the contract will be fully within the scope of ASC 610-20.



Transfer of multiple subsidiaries: Contract fully within scope of ASC 610-20

Entity A enters into a contract to transfer a building and controlling ownership interests in consolidated Subsidiaries B and C to a counterparty that is not a customer of Entity A. The assets of Subsidiary B are all nonfinancial assets, while the assets of Subsidiary C are all financial assets. Neither subsidiaries B nor C comprise a business. The fair value of the assets of the building being transferred, combined with the fair value of Subsidiary B's assets being transferred, represent substantially all of the fair value of the total assets being transferred in the contract. As a result, the assets of Subsidiary C are in substance nonfinancial assets, and the contract is fully within scope of ASC 610-20.

1.4.2 Contracts partially within scope of ASC 610-20

A contract that includes the transfer of nonfinancial or in substance nonfinancial assets that are within the scope of ASC 610-20 may also include promises to transfer either nonfinancial assets that are not within the scope of ASC 610-20 or financial assets that are not in substance nonfinancial assets. These contracts are only partially within the scope of ASC 610-20. When a contract is not fully within the scope of ASC 610-20, the entity should assess the various promises within the contract to determine which guidance to apply to each promise within the contract. The entity should then separate and measure the parts of the contract that are accounted for under other guidance, which might result in applying different guidance to different promises within the contract.



ASC 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.

When a contract includes promises that are outside the scope of ASC 610-20, entities should apply the guidance in ASC 606-10-15-4 to determine how to separate and measure the parts of the contract that are accounted for under other guidance.

ASC 606-10-15-4

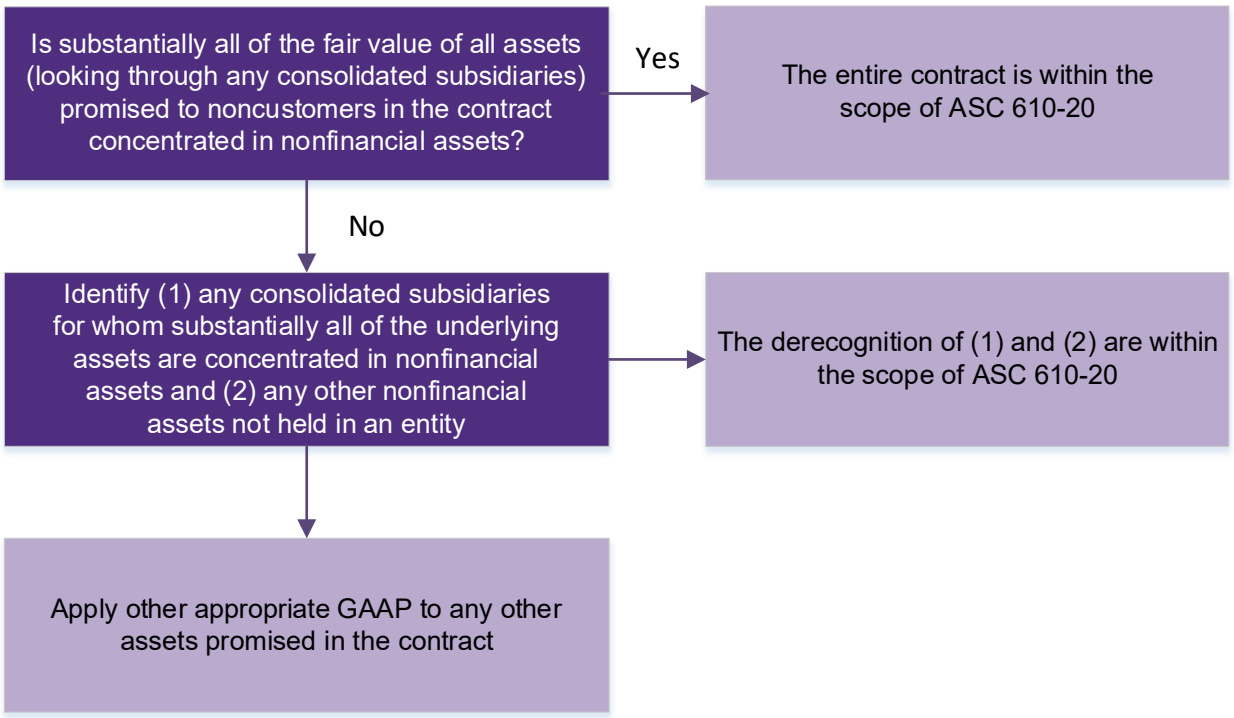
A contract with a customer may be partially within the scope of this Topic and partially within the scope of other Topics listed in paragraph 606-10-15-2:

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).

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 the evaluation of a contract that includes nonfinancial assets, in substance nonfinancial assets, and a promise that is outside the scope of ASC 610-20.

Figure 3: Evaluating 'substantially all' in transfers of multiple assets



Example 1—Scope

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

ASC 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.

ASC 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.

ASC 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.

If a contract includes financial assets that are not in substance nonfinancial assets as well as nonfinancial assets, the nonfinancial assets promised to noncustomers are accounted for under ASC 610-20, while the guidance in ASC 606 should be used to separate and measure the financial assets, as illustrated in the following example. An entity would then apply ASC 860 regarding the derecognition of the financial assets.



Example 1—Scope

Case B—Nonfinancial Assets and Financial Assets

ASC 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.

ASC 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.

If a contract transfers controlling ownership interests in multiple subsidiaries that are not considered to be businesses, an entity should first consider whether substantially all of the fair value of the assets transferred in the contract is concentrated in nonfinancial assets in determining which accounting guidance applies. An entity should look through its consolidated subsidiaries included in the contract and evaluate the subsidiaries' assets to determine whether the fair value of the assets transferred is concentrated in nonfinancial assets. If not, the entity should separately evaluate each subsidiary to determine if the assets in those subsidiaries are nonfinancial assets and in substance nonfinancial assets.

The following example illustrates the application of this guidance to the sale of two subsidiaries.



Example 1—Scope

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

ASC 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.

ASC 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.

1.5 Share-based noncash consideration received in exchange for nonfinancial assets

In 2025, the FASB issued ASU 2025-07, which includes amendments that address the accounting for share-based noncash consideration (for example, shares, options, or warrants) that is received from a counterparty for the transfer of nonfinancial assets within the scope of ASC 610-20. Specifically, the amendments clarify that the guidance in other Codification Topics (including ASC 815 and ASC 321) does not apply to share-based noncash consideration received from a counterparty for the transfer of nonfinancial assets or to in-substance nonfinancial assets, unless and until the entity's right to receive or retain the share-based noncash consideration is unconditional under ASC 610-20. Under these amendments, entities should evaluate only the contract terms that relate to the entity's transfer of nonfinancial assets (or to a specific outcome of the entity's transfer) within the scope of ASC 610-20 in determining whether the right to the share-based noncash consideration is unconditional.



ASC 610-20-15-3A [pending under ASU 2025-07]

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.

Effective date and transition – ASU 2025-07

The amendments are effective for all entities for annual reporting periods, including interim reporting periods within annual reporting periods, beginning after December 15, 2026. Entities may early adopt the amendments in an interim or annual reporting period if the financial statements have not yet been issued or been made available for issuance as of the beginning of the annual reporting period of adoption.

2. Derecognizing the asset

The guidance in ASC 610-20 on derecognizing nonfinancial and in substance nonfinancial assets relies on the derecognition concepts in ASC 606. The FASB chose to align the accounting in ASC 610-20 with the guidance in ASC 606 so that the sale of assets that are not part of an entity's ordinary activities would not be accounted for differently from the sale of assets that are an output of the entity's ordinary activities.

The guidance in ASC 610-20 for recognizing a gain or loss on the transfer of assets requires an entity that transfers assets within the scope of ASC 610-20 (the transferor) to determine whether it should derecognize the transferred assets via a two-step analysis. First, a transferor should apply the guidance in ASC 810 to determine if it has a controlling financial interest in the separate legal entity that holds the transferred assets following the transaction. Second, if a transferor does not have a controlling financial interest in the separate legal entity that holds the transferred assets following the transaction, the transferor should derecognize each distinct asset when it transfers control of the asset in accordance with the guidance in ASC 606.

ASC 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.

2.1 Accounting when an entity retains control of assets in a separate legal entity

As a first step in applying the guidance in ASC 610-20, a transferor must evaluate whether it has a controlling financial interest in the separate legal entity that holds the transferred assets following the transaction, in accordance with ASC 810. If the transferor has a controlling financial interest in the legal entity that holds the assets that are being transferred, a sale has not occurred.

ASC 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).

ASC 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.

If an entity that transfers assets has a controlling financial interest in the separate legal entity that holds the transferred assets following the transaction, the transferring entity should not derecognize the transferred assets. Instead, the entity should consolidate the separate legal entity following the transaction and would generally account for the transaction as an issuance of a noncontrolling interest in the consolidated separate legal entity in accordance with the guidance in ASC 810-10-45-21A through 45-24.

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

The following example illustrates a transaction when the transferor obtains a controlling financial interest in the legal entity that holds the transferred nonfinancial assets and, therefore, applies the guidance in ASC 810.



Entity retains a controlling financial interest in assets transferred

Entity A transfers a building and land to a variable-interest entity (VIE) established by Entity B. The VIE will use and operate the building, but Entity A will be the primary beneficiary of the VIE. Because Entity A continues to have a controlling financial interest in the transferred assets, a sale has not occurred under ASC 610-20. Instead, Entity A accounts for the transaction as an equity transaction, namely, the issuance of a noncontrolling interest in the VIE (a consolidated subsidiary of Entity A) to Entity B, in accordance with the guidance in ASC 810-10-45-21A through 45-24.

2.2 Accounting when an entity does not retain control of assets in a separate legal entity

If a transferor does not have control over the separate legal entity that holds the assets following the transaction, it should then proceed to the next step within ASC 610-20 to determine whether a contract exists and control has transferred by applying the guidance in paragraphs 610-20-25-2 through 25-7.



ASC 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.

2.2.1 Determining whether a contract exists

If an entity determines that a transaction falls within the scope of ASC 610-20 and that the transferor does not have control over the legal entity that holds the assets, the next step is to consider whether the contract meets the definition of an "accounting contract" in ASC 606.



ASC 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.

The guidance in ASC 610-20 relies on several concepts in ASC 606, including the assessment of whether an accounting contract exists. ASC 606 defines a "contract" as an agreement between two or more parties that creates enforceable rights and obligations. Enforceability is an issue grounded in law, so that an entity needs to consider the relevant local legal environment to determine whether rights and obligations are enforceable.

To assist entities in determining whether a contract exists, the guidance in ASC 606 specifies five criteria that the arrangement must meet. If the arrangement does not meet all five criteria, an accounting contract does not exist, even though a legal contract may exist:

- The parties have approved the contract and are committed to perform their contractual obligations.
- The entity can identify each party's rights.
- The entity can identify the payment terms.
- The contract has commercial substance.
- It is probable that the entity will collect substantially all of the consideration to which it expects to be entitled.



ASC 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.

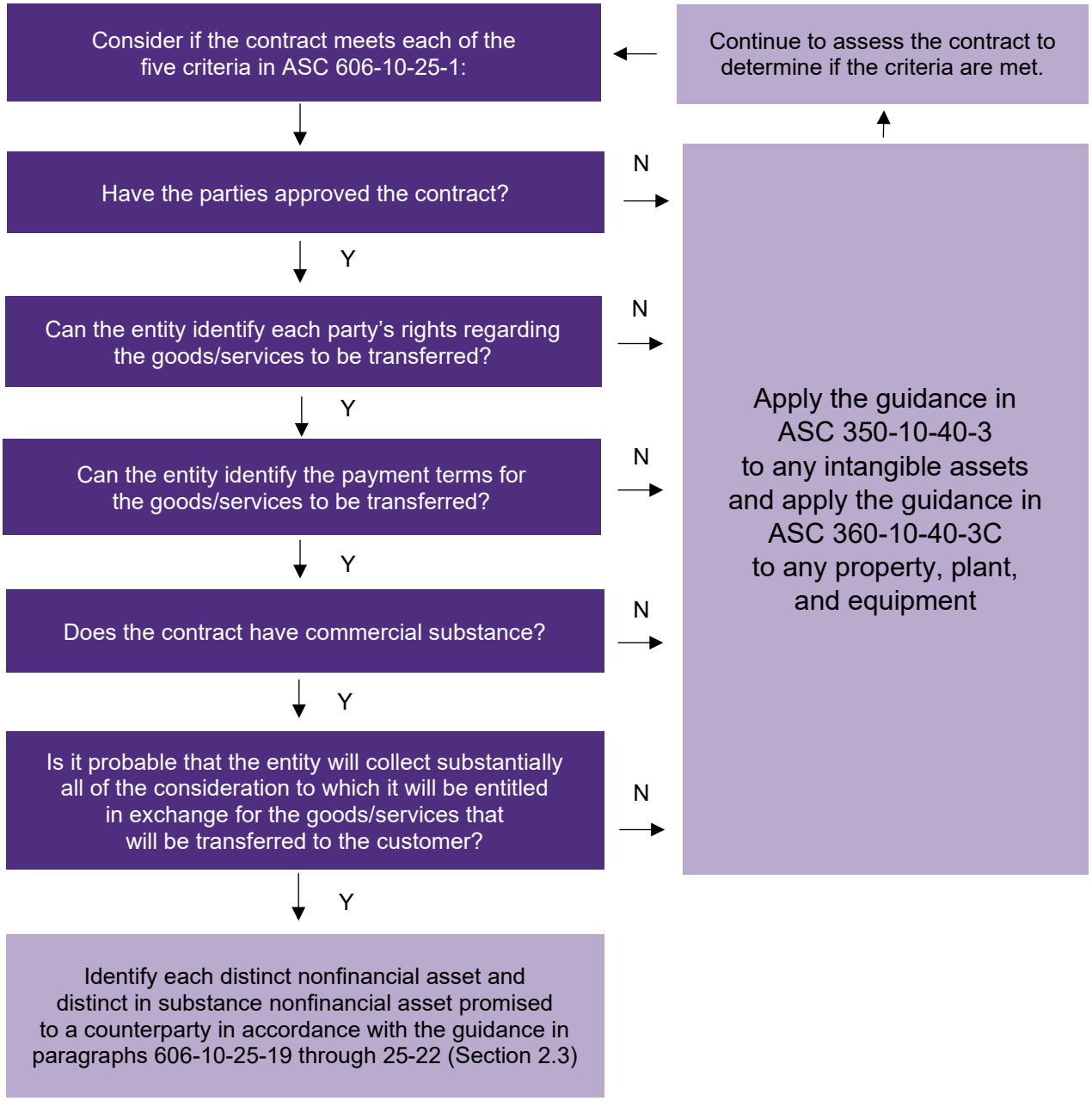
b. The entity can identify each party's rights regarding the goods or services to be transferred.

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).

Figure 4: Criteria for recognizing a contract



If the contract meets the criteria in ASC 606-10-25-1, then each asset should be derecognized when control of the asset is transferred to the counterparty in accordance with ASC 606 (see Section 2.4).

The impact of collectibility on the contract assessment

In determining whether a contract exists under ASC 606, an entity must assess whether it is probable that it will collect substantially all of the consideration to which it is entitled (the collectibility assessment). As part of the collectibility assessment, an entity must evaluate at contract inception whether it expects to provide a price concession that will cause it to receive less than the full contract price from the

counterparty. Given that sales of nonfinancial and in substance nonfinancial assets within the scope of ASC 610-20 are not associated with the output of the normal operations of an entity, many of the typical incentives an entity may have for offering price concessions (for example, encouraging future sales to the customer) are not present. Accordingly, while an entity must evaluate all relevant facts and circumstances, price concessions are not expected to be common in transactions within the scope of ASC 610-20.



Grant Thornton insight: Price concession versus collectibility issue

It can sometimes be difficult to distinguish between a price concession and a collectibility issue. The ramifications could impact the accounting because one path (a collectibility concern) might lead an entity to conclude that a contract does not exist and a sale has not occurred, while another path (a price concession) might result in variable consideration, which would allow the entity to derecognize the asset with a lower transaction price. Judgment will be required to determine which path is appropriate.

When it comes to assessing whether an entity has offered, or expects to offer, a price concession in the sale of a nonfinancial asset (for example, real estate), an entity must consider its ability and intent to repossess the asset should the counterparty fail to pay the full contractual price. Generally, an entity that has sold real estate will not accept less than the contractual amount for the assets transferred to the counterparty. Instead, the transferor (or the entity providing financing for the transaction) will repossess the asset and pursue the transferee (or the borrower) for any further deficiency rather than accept a lower price, which indicates that the transferor has accepted the transferee's credit risk and is not providing a price concession.

However, while an entity's ability and intent to repossess a transferred nonfinancial asset may support an assertion that an entity has not provided an implicit price concession, an entity may not consider assets received through repossession when assessing collectibility—that is, whether it expects to collect substantially all of the consideration to which it is entitled under the terms of the contract.

Arrangements that are not an accounting contract

If the arrangement does not meet the criteria regarding the existence of a contract with a customer in ASC 606-10-25-1, an accounting contract does not exist, even though a legal contract may exist. If an accounting contract does not exist, the entity should apply the guidance in ASC 350-10-40-3 to account for any intangible assets and apply the guidance in ASC 360-10-40-3C to account for property, plant, and equipment. Under both sets of guidance, the entity should not derecognize the asset and should account for any consideration received as a deposit liability.



ASC 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 all of the following:

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.

ASC 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.

2.2.2 Identifying distinct nonfinancial assets and in substance nonfinancial assets

Once an entity determines that a contract exists, the next step is to identify the distinct assets promised to the counterparty, in accordance with the guidance on identifying performance obligations in ASC 606.



ASC 610-20-25-6 (excerpt)

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.

ASC 606 includes two criteria that must be met in order for an asset promised to a counterparty to be considered “distinct”: (1) the asset must be capable of being distinct, and (2) the asset must be distinct within the context of the contract. An entity must identify each distinct asset in the contract because the assessment of when control has transferred is performed at the level of each distinct asset in the contract.

ASC 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 good or service is distinct within the context of the contract).

However, if control of all of the assets transfers at the same time, the entity may not need to assess whether the assets are distinct since the recognition would be the same.

ASC 610-20-25-6 (excerpt)

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).

The following example showcases a contract that transfers multiple assets concurrently so that the entity does not need to evaluate whether the assets are distinct.

Entity sells a building concurrently with related leases and lease receivables

Entity C transfers to Entity D its ownership interest in a subsidiary comprising a building, the related operating leases, and lease receivables. The subsidiary does not meet the definition of a business in ASC 805. Entity C does not sell real estate as part of its ordinary course of business, meaning that the arrangement is not a contract with a customer accounted for under ASC 606. Substantially all of the fair value of the assets is concentrated in the building and related operating leases; therefore, the lease receivables (which are financial assets) are considered in substance nonfinancial assets. As a result, the sale of all of the assets promised in the contract is accounted for under ASC 610-20.

While the building, operating leases, and the lease receivables may all (1) be capable of being distinct and (2) be distinct within the context of the contract, according to the criteria in ASC 606, control of all three assets transfers to Entity D on the closing date. As a result, Entity C does not need to allocate the transaction price among the distinct nonfinancial and in substance nonfinancial assets.

There may be situations when an entity combines a distinct good or service with nondistinct goods or services to arrive at a bundle of distinct goods or services. If a promised asset is not deemed to be distinct, the guidance in ASC 606 requires an entity to combine that asset with other promised assets until it identifies a bundle that is distinct. As noted in ASC 606-10-25-22, sometimes that may result in an entity combining all of the assets in a contract.



ASC 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.

Capable of being distinct

The first criterion for being "distinct" in ASC 606 is that the counterparty can benefit from the asset either on its own or together with other resources that are readily available (that is, the asset is capable of being distinct). A counterparty can benefit from an asset on its own if the asset can be used, consumed, sold for an amount greater than scrap value, or otherwise held in a way that generates economic benefits.

Sometimes, a counterparty can benefit from an asset only with other readily available resources. A "readily available resource" is a good or service that is sold separately (by the entity or by another entity) or one that the counterparty has already obtained from the entity or from other events or transactions.

The assessment of whether the counterparty can benefit from an asset on its own should be based on the characteristics of the asset itself, excluding contractual limitations that might preclude the counterparty from obtaining readily available resources from a source other than the entity.

Distinct within the context of the contract

In some situations, separately accounting for each asset that is capable of being distinct would not faithfully represent the entity's performance in the contract. As a result, the FASB developed a second criterion that must be met for an entity to conclude that an asset is distinct, which is that the entity's promise to transfer the asset to the counterparty must be separately identifiable from other promises in the contract—that is, the promise to transfer the asset must be distinct within the context of the contract.

In assessing whether an entity's promise to transfer an asset to the counterparty is distinct within the context of the contract, the objective is to determine whether the nature of the contractual promise is to transfer each of the assets individually or to transfer a combined item in which the promised assets are inputs. Significant judgment may be required to determine whether promised assets are distinct within the context of the contract.

The guidance in ASC 606 provides factors that indicate a promise to transfer assets is not separately identifiable from other assets in the contract.

ASC 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.

The following example illustrates the identification of multiple "distinct" assets in a single transaction.

Entity sells multiple assets in a single transaction

Entity E enters into an agreement to sell two pieces of machinery to Entity F. The machines are not an output of Entity E's ordinary activities, and, as a result, Entity E concludes that the transaction is outside the scope of ASC 606 and within the scope of ASC 610-20. Entity E considers the guidance in ASC 606-10-25-1 and concludes that a contract exists with Entity F with regard to the sale of the two machines.

Control of the first machine will be transferred on 12/15/20X8 and control of the second machine will be transferred six months later on 6/15/20X9.

In evaluating whether the two pieces of machinery are distinct, Entity E concludes that the counterparty could benefit from each asset on its own or with other readily available resources the assets, so the assets are capable of being distinct. Entity E further concludes that the assets are distinct within the context of the contract because (1) Entity E does not provide a significant integration service with respect to the assets, and (2) the assets do not modify or customize one another and are not highly interdependent or highly interrelated. Therefore, Entity E concludes that the assets are distinct and allocates the transaction price between the two pieces of machinery based on their stand-alone selling prices. Entity E recognizes a gain or loss on the sale of each machine when control of the machinery transfers.

2.2.3 Assessing when control transfers

Once an entity identifies the distinct assets in a contract, it should apply the guidance in ASC 606 to determine when control transfers for each distinct asset.



ASC 610-20-25-6 (excerpt)

An entity shall derecognize each distinct asset when it transfers control of the asset in accordance with paragraph 606-10-25-30.

In performing this evaluation, the entity should consider relevant factors that indicate control has transferred to the counterparty, including, but not limited to, the following factors enumerated in ASC 606-10-25-30:

- The entity has a present right to receive payment for the asset.
- The counterparty has legal title to the asset.
- The counterparty has physical possession of the asset.
- The counterparty has assumed the significant risks and rewards of owning the asset.
- The counterparty has accepted the asset.

An entity will generally only have a present right to receive payment from the counterparty once the counterparty has obtained control over the asset.

Possession of legal title of an asset generally indicates which party controls the asset. However, an entity that retains legal title only to protect itself against the counterparty's failure to pay would not prevent the customer from obtaining control of the asset.

Similarly, the counterparty's physical possession of an asset may indicate that the counterparty controls the asset because it can direct the use of the asset, obtain substantially all of the remaining benefits of the asset, and/or restrict other entities' access to the benefits of the asset; however, the entity must consider if anything overrides this presumption. For example, a counterparty's physical possession of an asset does not automatically mean that it has control of the asset if substantive repurchase terms suggest that control remains with the entity.

When a counterparty assumes the significant risks and rewards of owning the asset, this may indicate that the counterparty controls the asset and has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

Given the nature of nonfinancial and in substance nonfinancial assets, ASC 610-20 presumes that the transfer of control will occur at a point in time, rather than over time.

ASC 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 discussed above is individually determinative; rather, an entity should consider all of the indicators collectively to make a determination as to when control passes to the counterparty.

The following table provides additional guidance for each control indicator outlined in ASC 606 that may suggest either the entity or the counterparty has control of the asset.

Indicator that the entity maintains control of the asset	Control indicator	Indicator that the counterparty controls the asset
When the entity does not yet have the right to demand payment from the counterparty, this may indicate that the entity has not yet transferred control of the asset.	Present right to payment	When the counterparty is obligated to pay for the asset, this may indicate that the counterparty has control.
When the entity maintains legal title to the asset and the retention is not solely as protection against the counterparty's failure to pay, this may indicate that the entity still maintains control.	Legal title	When the counterparty obtains legal title to the asset or the entity maintains legal title only for protection against the counterparty's failure to pay, this may indicate that the counterparty has obtained control.
When the entity maintains physical possession of the asset, this may indicate that the entity still controls the asset.	Physical possession	When the counterparty has physical possession of the asset, this may indicate that the counterparty controls the asset; however, in arrangements such as repurchase agreements, physical possession may not coincide with control of an asset.
If the entity can still direct the use of the asset and obtain substantially all of the benefits from the asset, this may indicate that the entity still controls the asset.	Significant risks and rewards of ownership	If the counterparty can direct the asset to another location or to another party, if the counterparty is exposed to changes in market value, or if the counterparty is responsible for damages to the asset, this may indicate that the counterparty has control of the asset.
When the entity has not yet satisfied substantive acceptance provisions, this may indicate that the entity still controls the asset.	Counterparty acceptance	When the counterparty has formally indicated that its acceptance criteria have been met, this may indicate that control has transferred to the counterparty.



At the crossroads: Continuing involvement versus control assessment

Legacy GAAP included specific guidance in ASC 360-20 on how to account for a sale of real estate when the seller does not transfer all of the risks and rewards of ownership but continues to be involved with the property. That guidance often required the seller to reduce the profit recognized at the time of the sale until sufficient risks and rewards of ownership were transferred to the buyer.

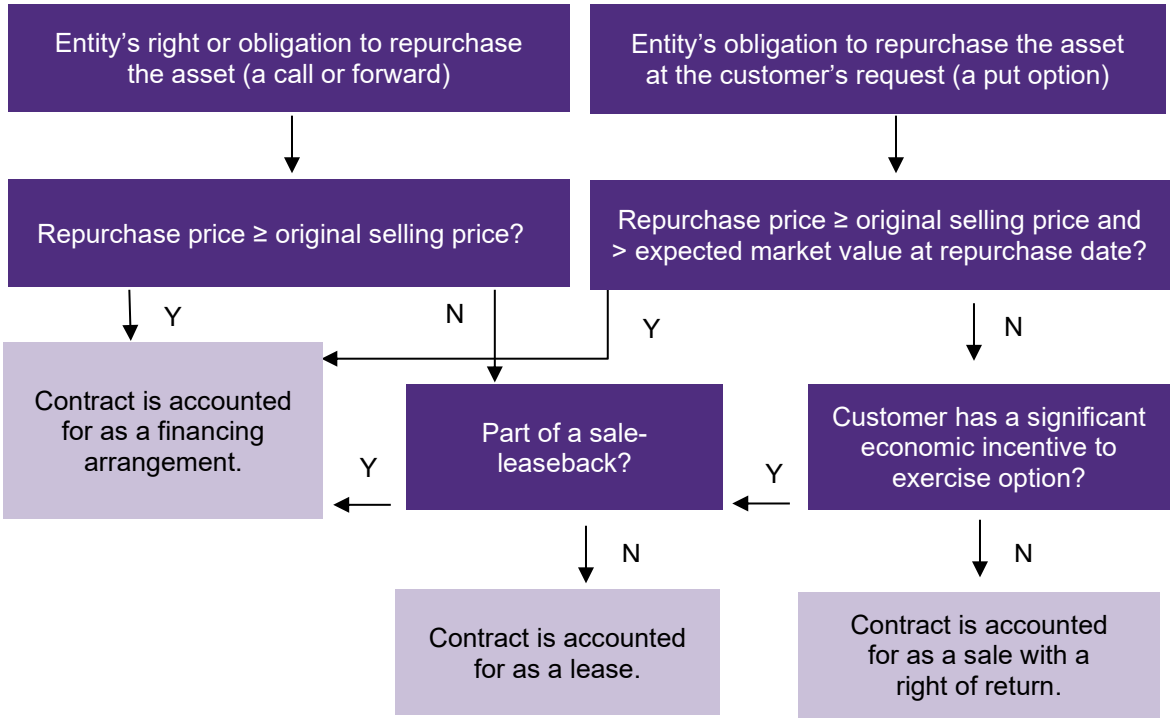
In contrast, under ASC 610-20, one of the indicators for determining whether control has transferred (and therefore whether a gain or loss can be recognized) is that the risks and rewards of ownership have transferred to the counterparty. If a seller has not transferred those risks and rewards, it must carefully consider all other facts and circumstances to determine if and when control has transferred and a gain or loss can be recognized. Unlike legacy GAAP, ASC 610-20 contains no model for partial recognition of profit in such a situation, unless the transaction price is variable and subject to the constraint guidance discussed in ASC 606. Under ASC 610-20, either control has transferred and a gain or loss can be recognized, or control has not transferred and no gain or loss can be recognized.

2.2.4 Repurchase agreements

Sometimes an entity that enters into a contract to sell an asset also promises (or has the option) to repurchase the same asset, an asset that is substantially the same, or another asset that is a component of the original asset. Under ASC 610-20, an entity should apply the guidance in ASC 606 to evaluate the form of the promise to repurchase the asset (for example, a forward, call option, or put option) in determining the appropriate accounting.

Figure 5 illustrates the accounting for various types of repurchase rights and obligations

Figure 5: Accounting for repurchase rights and obligations



Forwards or calls

If a contract includes a forward (an entity's obligation to repurchase an asset) or a call option (an entity's right to repurchase an asset), an entity should account for the contract in one of two ways under ASC 606:

- As a lease if it can or must repurchase the asset for an amount that is less than the original selling price and the contract is not part of a sale-leaseback transaction
- As a financing arrangement if it can or must repurchase the asset for an amount that is equal to or more than the original selling price

While the counterparty may have physical possession of the asset, it does not control the asset because its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset is limited due to the transferor's repurchase obligation or right.

ASC 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 840 (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-leaseback transaction. If the contract is part of a sale-leaseback transaction, the entity should account for the contract as a financing arrangement and not as a sale-leaseback in accordance with Subtopic 840-40 (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.

ASC 606-10-55-69

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

When an entity accounts for a forward or call repurchase agreement as a financing arrangement, it continues to recognize the asset, as well as a financial liability, for any consideration received from the counterparty. The entity recognizes the difference between the amount of consideration received from the counterparty and the amount to be paid to the counterparty as interest. If the option lapses unexercised, the entity derecognizes the liability and recognizes a sale of the asset resulting in a gain or loss.



ASC 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).

ASC 606-10-55-71

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

The following example illustrates how an entity applies the guidance in ASC 606 when it has a right to repurchase an asset (a call option).



Entity has a right to repurchase asset

Entity G owns 100 percent of Entity H, a consolidated subsidiary that holds title to land with a carrying amount of $10 million. The land is not an output of Entity G's ordinary activities within the scope of ASC 606, and Entity H does not meet the definition of a business.

Entity G enters into a contract to transfer 70 percent of Entity H to Entity J for $15 million. Because the land is a nonfinancial asset, Entity G concludes that it should evaluate whether to derecognize the land in accordance with ASC 610-20.

Entity G has the right, but not the obligation, to repurchase the 70 percent ownership interest in Entity H that it transferred to Entity J (that is, Entity G has a call option). The call option gives Entity G the right to repurchase the 70 percent ownership interest after two years for $18 million.

Entity G concludes that it no longer has a controlling financial interest in Entity H under ASC 810. However, when evaluating whether control of the land has been transferred under ASC 606, Entity G concludes that Entity J does not obtain control of the asset because Entity J is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset due to the repurchase option. Additionally, 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. Therefore, Entity G does not derecognize the land and records a financial liability of $15 million. Additionally, Entity G does not recognize a separate investment for its retained 30 percent ownership interest until it derecognizes the land.

Put options

The existence of a put option (an obligation to repurchase the asset at the customer's request) in a contract to sell a nonfinancial asset requires careful analysis to determine how the put right impacts the accounting by the transferor.



ASC 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.

ASC 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.

ASC 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.

ASC 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.

ASC 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.

ASC 606-10-55-77

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

ASC 606-10-55-78

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

If a counterparty is granted the right to require an entity to repurchase the asset (a put option) at a price that is less than the original selling price, the entity should assess whether the counterparty has a significant economic incentive to exercise its right. This assessment takes into consideration various factors, including the relationship between the repurchase price and the expected market value of the asset at the date of repurchase. If the repurchase price is expected to significantly exceed market value, then a significant economic incentive exists. The agreement is then accounted for as a lease (because the counterparty is effectively paying the entity for the right to use the asset for a period of time), unless the contract is a part of a sale-leaseback arrangement, in which case, the agreement is accounted for as a financing arrangement. If the counterparty does not have a significant economic incentive to exercise the put option, the entity accounts for the agreement as a sale with a right of return.

Under ASC 606, a contract is considered a financing arrangement if both (1) the contract grants the counterparty a put option, and (2) the repurchase price of the asset is equal to or greater than the original selling price and exceeds the asset's expected market value. In these circumstances, the entity should continue to recognize the asset and a liability initially measured at the asset's original selling price.

If either a call or put option expires unexercised, the entity should derecognize any liability recorded and recognize the sale of the asset and the resulting gain or loss.



At the crossroads: Repurchase options no longer result in profit-sharing arrangements

Under legacy GAAP in ASC 360-20, the sale of real estate in which the seller has the option or obligation to repurchase the property could be accounted for as a financing, leasing, or profit-sharing arrangement. However, the guidance in ASC 606 eliminates the profit-sharing guidance in ASC 360-20, meaning that transactions previously accounted for as profit-sharing arrangements must now be reevaluated under the guidance in ASC 606 to determine if they should be accounted for as a financing or leasing arrangement or a sale with a right of return.

Grant Thornton insight: Contingent repurchase agreements

The guidance in ASC 606 does not address how an entity should analyze its right or obligation to repurchase an asset that can only be exercised if a contingent event occurs. For example, if a contract includes a non-contingent call option, the guidance in ASC 606 precludes sale accounting, but does not address whether a contingent call option would also preclude an entity from recognizing a sale.

We believe that an arrangement with a contingent call option where the contingency is based on factors controlled by the entity should be accounted for as a lease or a financing arrangement in accordance with the guidance in ASC 606-10-55-68. Alternatively, a contingent repurchase option where the contingency is based on factors controlled by the counterparty should be accounted for as a put option in accordance with the guidance in ASC 606-10-55-72 through 55-77.

In assessing arrangements with contingent repurchase options where neither the entity nor the counterparty controls the factors that impact the contingency, an entity should consider such factors as the nature of the contingency and the likelihood of occurrence to determine whether the existence of the repurchase option limits the counterparty's ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset, thereby precluding the counterparty from obtaining control of the asset.

2.3 Partial sales

A transaction is considered a partial sale if an entity transfers a controlling financial interest, but retains a noncontrolling interest, in a subsidiary that has only nonfinancial assets and in substance nonfinancial assets. According to the guidance in ASC 610-20-32-4, if a parent transfers control of a distinct nonfinancial asset or an in substance nonfinancial asset by transferring ownership interests in a consolidated subsidiary but retains a noncontrolling interest in its former subsidiary, the noncontrolling interest retained by the entity is accounted for as noncash consideration.

Applying the noncash consideration guidance in ASC 606-10-32-21 through 32-24 to a partial sale requires entities to use the fair value of the noncontrolling interest received in calculating the gain or loss to be recognized on the transaction, as demonstrated in the following example.

Entity retains a noncontrolling interest financial interest in assets transferred

Entity K transfers to Entity M 60 percent of an equity interest in its previously wholly owned Subsidiary L. Subsidiary L contains only a building and the land on which the building sits, both of which are nonfinancial assets that are not an output of Entity K's ordinary operations. Additionally, Subsidiary L does not constitute a business as defined in ASC 805, and therefore the transaction falls within the scope of ASC 610-20.

Entity M obtains control of 60 percent of the voting stock in Subsidiary L, but Entity K retains a 40 percent voting interest.

Entity K determines that as of the closing date, it ceases to have a controlling financial interest in Subsidiary L under the guidance in ASC 810 and that control over the nonfinancial assets has transferred to Entity M under the guidance in ASC 610-20.

In exchange for the 60 percent interest in Subsidiary L, Entity K receives $20 million in cash. The carrying value of the land and building is $25 million and the fair value of the 40 percent voting interest that is retained is $15 million. The gain on the sale is calculated as follows:

Cash received	$ 20
Fair value of 40% interest retained	15
Carrying amount of Subsidiary L's assets	(25)
Gain	$ 10



At the crossroads: Partial sales no longer result in partial gains

Entities that engage in partial sales, which is especially common in the real estate industry, may see a significant change in their accounting under ASC 610-20. Under the legacy guidance in ASC 360-20, entities generally recognized a partial gain or loss on a partial sale of real estate because the noncontrolling interest was not remeasured at fair value, but continued to be recognized at its historical carrying amount (or "carryover basis"). ASC 610-20 aligns the guidance for partial sales of nonfinancial assets with the general guidance regarding sales of nonfinancial assets by requiring entities to recognize the full gain or loss on all partial sales by eliminating the use of the carryover basis for any retained interest in the legal entity.

3. Calculating the gain or loss

Once an entity identifies a nonfinancial and in substance nonfinancial asset to be derecognized and assesses when control transfers, it should calculate the gain or loss on the transaction as the difference between the amount of consideration to which it is entitled and the carrying amount of the asset. The amount of consideration includes the transaction price calculated in accordance with ASC 606 and the carrying amount of any liabilities assumed or relieved by the counterparty.



ASC 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.

3.1 Transaction price

In order to calculate the gain or loss on the sale of an asset, an entity must calculate the transaction price following the guidance in ASC 606-20-32-3.



ASC 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.

An entity estimates the transaction price at contract inception and updates the estimate each reporting period to reflect changes in facts and circumstances.

ASC 606-10-32-2

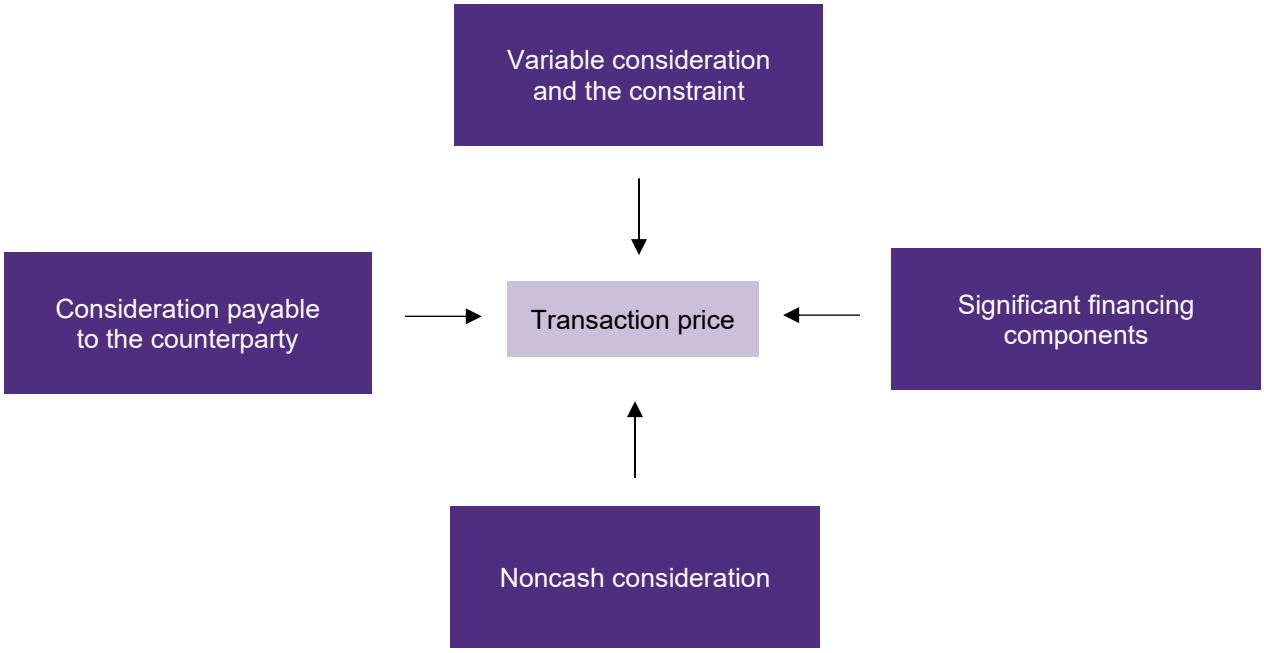
An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts 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.

When determining the transaction price, an entity first identifies the fixed consideration, which includes any nonrefundable upfront payment amounts. In addition to fixed consideration, an entity considers the following components in determining the transaction price:

- Variable consideration and the constraint
- Significant financing components
- Noncash consideration
- Consideration payable to the counterparty

Each component is discussed in more detail in this section.

Figure 6: Components for determining the transaction price



At the crossroads: Change in timing and amount of gain recognition for real estate sales

The timing and amount of gain recognition under ASC 610-20 for a real estate transaction differs from the legacy guidance on accounting for sales of real estate in ASC 360-20. For starters, the bright line minimum initial investment thresholds in ASC 360-20 no longer apply. Further, the guidance requiring the use of the deposit method, the reduced profit method, or the installment method to determine the amount and timing of gain recognition has been superseded. All transactions that qualify as a sale will now qualify for full gain recognition, subject to the constraint for any variable consideration. Receivables that arise from sales of real estate, however, still need to be assessed for collectibility under ASC 326 (or under ASC 310 prior to adopting the new credit losses guidance in ASC 326).

The following example illustrates the application of the guidance in ASC 610-20 to a sale of real estate that would previously not have qualified for full gain recognition under the accrual method based on the initial investment requirements in ASC 360-20.

Sale of real estate with less than 10 percent initial investment

Entity N is a bank that has obtained a high-rise office building through foreclosure (Building P). Entity N and Entity O execute a sales agreement in which Entity N sells Building P to Entity O for $100 million, with Entity N providing financing to Entity O. The parties enter into a $95 million, 15-year, 7 percent interest term loan, which is secured by the property and is nonrecourse debt. The remaining $5 million is paid in cash by Entity O at the transaction's closing.

Entity O is a relatively small real estate holding entity with a portfolio of four additional office buildings, each of which is pledged as collateral under separate term loans. Building P is fully leased with long-term leases to various companies. Entity O's ability to repay the loan is dependent on the operating cash flows from Building P. Before entering into the sale, Entity N considers the creditworthiness of Entity O as well as its historical collection experiences in similar deals with similar buyers. Entity N concludes that Entity O's credit risk (after considering the in-place leases on Building P) is acceptable and determines that it is probable it will collect substantially all of the consideration to which it is entitled. Entity N therefore determines that a contract exists under ASC 606-10-25-1.

Because there is only one promised asset (the building), Entity N does not need to evaluate the criteria regarding distinct performance obligations in ASC 606. Entity N is financing the transaction, but the financing is not a promise and therefore is not a performance obligation, but is instead considered part of the transaction price.

Entity N determines the transaction price equals the $100 million purchase price for the building noted in the sales agreement. Entity N considers the impact of financing on the arrangement, which, in this case, contains an explicit financing component. Entity N determines that the 7 percent interest rate explicit in the arrangement (1) is consistent with the discount rate that would be reflected in a separate financing transaction between Entity N and its banking customers at contract inception, and (2) reflects the credit characteristics of Entity O. Entity N also considers the impact of the collateral provided by the building being transferred from Entity N to Entity O. As a result, there is no further impact to the transaction price for the explicit financing in the arrangement.

Entity N determines that control of the building transfers at the transaction's closing date and therefore uses the $100 million sales price (the transaction price) to calculate the gain on that date.

3.1.1 Variable consideration

When a contract price includes a variable amount, the entity must estimate the amount of variable consideration which it expects to be entitled to.



ASC 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.

Variable consideration includes any consideration that is not fixed. In other words, the amount of consideration may fluctuate as a result of the outcome of uncertain events. The variability may be explicitly stated in the contract or may be implicit. Variable consideration may be fixed in amount, but the entity's right to receive that consideration is contingent on a future outcome. An example of variable consideration in a sale of nonfinancial or in substance nonfinancial assets is contingent consideration payable by the counterparty, such as an "earn-out" provision where the counterparty agrees to pay the selling entity additional amounts as certain events occur or conditions are met.



ASC 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.

If a contract includes variable consideration, an entity must determine whether to "constrain" the amount of estimated variable consideration. The objective of the constraint is for an entity to recognize the consideration promised in the contract in income only to the extent that it is probable a significant reversal in the cumulative consideration will not occur when the contingency affecting the total consideration is resolved. In other words, an entity includes some or all of its estimate of variable consideration in the transaction price only to the extent that it is probable a significant reversal of the cumulative consideration will not occur when the uncertainty leading to the variability is resolved.

The following example shows how variable consideration is considered within the context of the sale of a nonfinancial asset.



Sale of nonfinancial asset with variable consideration

Entity Q sells land with a carrying value of $8 million to Entity R, a property developer. Because the property is a nonfinancial asset that is not an output of Entity Q's ordinary activities and it is not a business, Entity Q concludes that it should derecognize the land in accordance with the guidance in ASC 610-20.

Entity R agrees to buy the land for a $10 million upfront payment plus 2 percent of Entity R's final selling price after it develops and sells the property.

Entity Q estimates that the property will sell for $50 million and that it will be entitled to an additional $1 million. Entity Q considers whether it is probable that a significant reversal in the cumulative consideration recognized for the contract would occur if it includes the $1 million in the transaction price, but determines that the transaction price does not need to be constrained. Entity Q calculates a total transaction price of $11 million and recognizes a gain of $3 million.



Grant Thornton insight: Variable consideration could result in losses upon derecognition

If a transaction involves a significant amount of variable consideration that is excluded from the transaction price upon derecognition due to the application of the constraint guidance, it is possible that a loss would be recognized upon derecognition. In other words, the amount of consideration subject to the constraint may be so large that the transaction price upon derecognition may be less than the carrying amount of the nonfinancial asset.

3.1.2 Significant financing components

In determining the transaction price of a sale of a nonfinancial asset consistent with the guidance in ASC 606, an entity must reflect the time value of money if the agreed-upon timing of payments in the contract includes a significant financing component, whether explicit or implicit. The objective in adjusting the transaction price for the time value of money is to reflect the transaction price as though the counterparty had paid cash for the asset(s) when the entity transferred the asset(s). Either party may benefit from financing—that is, the counterparty may pay before the entity transfers the asset (a counterparty loan to the entity) or the counterparty may pay after the entity performs its obligation (a loan by the entity to the counterparty).

To determine whether a contract contains a significant financing component, an entity considers all relevant facts and circumstances, including, but not limited to, the following:

- The difference, if any, between the promised consideration and the cash price that would be paid if the counterparty had remitted payments as the assets were delivered
- The combined effect of the time between the transfer of the asset and the receipt of payment, as well as the prevailing market interest rates

ASC 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.

ASC 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.

The following example illustrates a common transaction with a significant financing component.

Sale of real estate with significant financing

Entity S is a bank that has obtained a single-family home through foreclosure on a loan. The home has a carrying value of $300,000. Entity S enters into an agreement to sell the home to an individual buyer for $500,000 and agrees to provide financing in the form of a 30-year mortgage at a 5 percent interest rate. Over the course of the 30-year loan, Entity S will collect a total of $966,279.

Entity S considers the impact of financing on the arrangement. In this case, the arrangement contains an explicit financing component. The individual buyer is an unrelated party and the transaction was negotiated at arm’s length at a rate consistent with the rate offered to individuals who are not purchasing their home directly from the bank. Therefore, Entity S determines the full financing portion of the transaction should be accounted for under ASC 310, and no adjustment should be made to the transaction price for the sale of the home. As a result, Entity S determines the transaction price to be the $500,000 purchase price noted in the sales agreement and recognizes a $200,000 gain upon transferring control of the home to the buyer.

Grant Thornton insight: Financing on transactions with related parties

The sale of an asset with an explicit financing agreement to an unrelated third party is likely to be negotiated at arm's length, with the terms of the financing consistent with market rates. However, there may be cases when a counterparty is provided with financing at rates below market. This situation arises most often when an asset is being sold to a related party. Entities should exercise caution when evaluating the existence of a significant financing component in these situations as they may need to calculate interest in accordance with ASC 835.

Despite the guidance in ASC 606-10-32-15 and 32-16, a contract does not contain a significant financing component if any one of the following three conditions exists:

- Advance payments have been made, but the counterparty will decide on the timing of the transfer of the asset.
- The consideration is mostly variable and is based on factors outside the entity's or counterparty's control.
- The difference between the promised consideration and the cash price relates to something other than financing, and the difference is proportional to the reason for the difference, such as protecting one of the parties from the other party's nonperformance.

ASC 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.

Furthermore, 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 the promised good or service to a customer and when that customer pays for that

good or service will be one year or less. If an entity utilizes this practical expedient, it should be applied consistently across the entity's portfolio of similar contracts.

3.1.3 Noncash consideration

Sometimes a counterparty promises to pay for an asset in a form other than cash, such as shares of common stock or other equity instruments. Payment can also take the form of a noncontrolling interest in the counterparty, which is particularly common for transactions involving the sale of real estate, and may result in a partial sale, as discussed in Section 2.5.



ASC 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.

An entity should measure the estimated fair value of the noncash consideration at contract inception when determining the transaction price.



ASC 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).

The starting point for estimating fair value is the noncash consideration itself; however, if the entity cannot reasonably estimate the fair value of the noncash consideration, it should use the stand-alone selling price of the assets that it is providing to the counterparty in exchange for consideration under the contract.



ASC 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.

Because noncash consideration is measured at contract inception, any subsequent changes in fair value due to the form of the consideration (for example, a change in the price of a share that the entity is entitled to receive from the counterparty) do not affect the transaction price. An entity should apply other

relevant GAAP to determine whether and how to recognize changes in fair value that occur subsequent to contract inception. Conversely, a change in noncash consideration due to something other than the form of consideration (for instance, a change in the number of shares expected to be received as consideration) would affect the transaction price, although the fair value of noncash consideration would still be measured at contract inception (for example, the per-share fair value of shares potentially receivable as consideration).

Share-based noncash consideration received in exchange for nonfinancial assets

In 2025, the FASB issued ASU 2025-07, which includes amendments that address the accounting for share-based noncash consideration received from a customer in exchange for the transfer of goods or services under ASC 606. The amendments in ASU 2025-07 also make a consequential revision to the guidance in ASC 610-20, since ASC 610-20 refers to the revenue recognition principles in ASC 606. As a result, a similar set of amendments were made to both ASC 606 and ASC 610-20 to address share-based noncash consideration received as consideration for transactions in their respective scope. The only amended guidance within ASC 610-20 is to add Paragraph 610-20-15-3A, presented below.



ASC 610-20-15-3A [pending under ASU 2025-07]

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.

This amendment to ASC 610-20 clarifies that the guidance in other Topics (including Topic 815 and Topic 321) 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 Subtopic 610-20. Similar to the existing noncash consideration guidance under ASC 610-20, this Subtopic continues to refer to ASC 606-10-32 for the applicable measurement guidance as outlined above.

For more information on the impact of ASU 2025-07, please refer to Section 5.3.2 in Grant Thornton's publication *Revenue from Contracts with Customers: Navigating the guidance in ASC 606 & 310-40*.

Effective date and transition – ASU 2025-07

The amendments in ASU 2025-07 are effective for all entities for annual reporting periods, including interim reporting periods within annual reporting periods, beginning after December 15, 2026. Entities may early adopt the amendments in an interim or annual reporting period if the financial statements have

not yet been issued or been made available for issuance as of the beginning of the annual reporting period of adoption.

3.1.4 Consideration payable to a counterparty

Consideration payable to a counterparty includes amounts that an entity pays or expects to pay, such as a rebate, and occurs in many forms, including cash, credits, or other items that the counterparty can apply against amounts owed to the entity. Consideration payable to a counterparty is a reduction in the transaction price under ASC 606. The logic behind this guidance is that an entity should not inflate the transaction price by amounts given to counterparties that it will receive back through the purchase of its assets.

The key to appropriately accounting for consideration payable to a counterparty is determining whether the payment is made in exchange for a distinct nonfinancial or in substance nonfinancial asset and, if so, whether the amount paid is consistent with the market pricing for that distinct asset.

When an entity concludes that the consideration paid to a counterparty is in exchange for a distinct nonfinancial or in substance nonfinancial asset, it accounts for the distinct asset as it would any other purchase of a nonfinancial or in substance nonfinancial asset as long as the consideration paid does not exceed the fair value of the asset received. When the consideration exceeds the fair value of the distinct asset received, any excess is accounted for as a reduction in the transaction price.

If, on the other hand, the entity concludes that the consideration paid to the counterparty is not in exchange for a distinct good or service, the entity would reduce the transaction price by the amount it pays or owes the counterparty.



ASC 606-10-32-25

Consideration payable to a customer includes 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). Consideration payable to a customer also includes 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). 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.

ASC 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.

3.1.5 Changes in transaction price after contract inception

ASC 610-20-32-3b refers entities to the guidance in ASC 606 to account for changes in transaction price after contract inception. While the transaction price is generally determined at contract inception, in certain circumstances (for example, for a contract with variable consideration), an entity will need to reassess its initial estimate as facts and circumstances change. The transaction price for a contract may also change as a result of a contract modification. Modifications of contracts with customers should be accounted for in accordance with the guidance in ASC 606-10-25-10 through 25-13. See Chapter 10 of *Revenue from Contracts with Customers: Navigating the guidance in ASC 606 and ASC 340-40*.

For contracts with multiple performance obligations, the allocation basis of the total transaction price among the various performance obligations is fixed at contract inception, even though the contract's total transaction price may subsequently change. Any changes in the contract's price should be allocated among the various performance obligations on the same basis determined at contract inception, even if the stand-alone selling price for the various performance obligations in the contract have subsequently changed. For more on allocating the transaction price, see Section 4 on allocating the gain or loss.



ASC 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.

ASC 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.

ASC 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 allocation variable consideration are met.

ASC 606-10-32-45

An entity shall account for a change in the transaction price that arises as a result of 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).

3.2 Counterparty assumes or relieves a liability

In addition to the transaction price calculated under the guidance in ASC 606, any liabilities assumed or relieved also impact the calculation of the gain or loss recognized on the transfer of a nonfinancial or in substance nonfinancial asset.



ASC 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.

The following example illustrates the treatment of a liability relieved in a transaction with a counterparty and its impact on the calculation of the related gain or loss.



Liability relieved upon transfer of an asset

Entity T enters into a contract to sell a building to Entity U for $1 million, which is also its fair value. The building's carrying value is $600,000, and Entity T has $300,000 outstanding on its mortgage on the building. Entity U agrees to purchase the building for $700,000 in cash and will assume responsibility for the $300,000 remaining on the mortgage. Because Entity T is relieved of its mortgage liability as part of the transaction, Entity T includes the relief of the liability in calculating the transaction price and records a $400,000 gain on the sale of the building ($1 million consideration received, less $600,000 book value).

While a liability assumed or relieved by the counterparty is included in the calculation of the gain or loss upon transfer of a nonfinancial or in substance nonfinancial asset, an entity can only derecognize the liability when it has been extinguished in accordance with the guidance in ASC 405-20-40-1. Extinguishing the liability may occur after control over the nonfinancial or in substance nonfinancial asset

is transferred in some cases. An entity should recognize the gain or loss on the asset concurrently (and in the same financial statement line item) as the gain or loss when the liability is assumed by the counterparty.



ASC 405-20-40-1

Unless addressed by other guidance (for example, paragraphs 405-20-40-3 through 40-4 or paragraphs 606-10-55-46 through 55-49), a debtor shall derecognize a liability if and only if it has been extinguished. A liability has been extinguished if either of the following conditions is met:

a. The debtor pays the creditor and is relieved of its obligation for the liability. Paying the creditor includes the following:

    1. Delivery of cash

    2. Delivery of other financial assets

    3. Delivery of goods or services

    4. Reacquisition by the debtor of its outstanding debt securities whether the securities are cancelled or held as so-called treasury bonds.

b. The debtor is legally released from being the primary obligor under the liability, either judicially or by the creditor. For purposes of applying this Subtopic, a sale and related assumption effectively accomplish a legal release if nonrecourse debt (such as certain mortgage loans) is assumed by a third party in conjunction with the sale of an asset that serves as sole collateral for that debt.

3.3 Sales of nonfinancial assets between an investor and equity method investee

Under the guidance in ASC 323, the determination of whether intra-entity profits and losses are eliminated on sales of nonfinancial and in substance nonfinancial assets between an investor and equity method investee that are at arm's length depends on whether such sales are "upstream" or "downstream."

Intra-entity profits or losses on transfers of nonfinancial and in substance nonfinancial assets from an investor to an equity method investee (that is, a "downstream" transfer) that are conducted at arm's length are not eliminated. Rather, downstream transfers of nonfinancial and in substance nonfinancial assets within the scope of ASC 610-20 between investors and equity method investees are accounted for as though they are between unrelated parties, provided that these transactions are conducted at arm's length (although the fact that the transaction is with a related party may need to be disclosed).

However, investors should eliminate intra-entity profits or losses recognized by an equity method investee from transfers of nonfinancial and in substance nonfinancial assets made by the equity method investee to the investor (that is, an "upstream" transfer) that is within the scope of ASC 610-20, to the extent that

the asset remains on the books of the equity method investor at the end of the reporting period. For productive assets, such as buildings, equipment, furniture, and fixtures, or for intangible assets that are not sold to third parties, the investor should amortize any deferred profit over the life of the productive assets.



ASC 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 paragraph 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.

4. Allocating the gain or loss

An entity that transfers multiple nonfinancial and in substance nonfinancial assets under the same contract may need to allocate the consideration between the distinct nonfinancial assets or distinct in substance nonfinancial assets. However, if control of all of the assets transfers at the same time, the entity may not need to allocate the consideration.



ASC 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.

The goal when allocating the transaction price is to allocate an amount that best represents consideration that the entity expects to receive for transferring each asset to the counterparty. Generally, the best way to accomplish this goal is to allocate the contract's transaction price to each of the distinct assets on a relative stand-alone selling price basis.

There are two exceptions to the general allocation guidance in ASC 606: allocating discounts and allocating variable consideration. Under these exceptions, an entity should allocate a disproportionate amount of the transaction price to specific assets based on evidence that suggests the discount or variable consideration relates to those specific assets.



ASC 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.

ASC 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).

4.1 Determining stand-alone selling price

An entity should determine the stand-alone selling price of each asset at contract inception. ASC 606 defines “stand-alone selling price” as the price at which an entity would sell an asset separately to a counterparty.

In determining the stand-alone selling price, an entity is required to maximize the use of observable inputs. In other words, the best evidence of the stand-alone selling price, if available, is the observable price of a nonfinancial asset or an in substance nonfinancial asset sold in a stand-alone transaction to similar counterparties in similar circumstances.



ASC 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.

ASC 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.

If the stand-alone selling price is not observable, an entity should estimate the stand-alone selling price using all information that is reasonably available to the entity, maximizing the use of observable inputs.



ASC 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.

In BC268 of ASU 2014-09, which codifies the guidance in ASC 606 and ASC 610-20, the FASB decided not to preclude or prescribe any particular method for estimating stand-alone selling price, as long as the method results in an estimate that provides a faithful representation of the price at which the entity would

separately sell the asset. While ASC 606 does not prescribe an estimation method, it does indicate that the following methods are acceptable for estimating the stand-alone selling price when the selling price is not directly observable:

- Adjusted market assessment approach
- Expected cost-plus-a-margin approach
- Residual approach



ASC 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).



Grant Thornton insight: Estimating stand-alone selling price

Assets sold in transactions accounted for under ASC 610-20 may be less likely to have observable stand-alone prices than assets sold in transactions accounted for under ASC 606. The transactions under ASC 610-20 tend to be either unique assets, such as real estate, or other tangible assets not sold in the ordinary course of business. It is therefore less likely that an entity in this situation can readily identify an observable stand-alone selling price.

We expect that the most common method used for estimating stand-alone prices will be an adjusted market assessment. However, entities may lack sufficient data or expertise to reliably estimate the fair market value of each asset sold in a bundled transaction. As a result, for transactions involving multiple financial and in substance nonfinancial assets that are transferred at different points in time, we believe

that entities should consider hiring a valuation specialist or an appraiser to estimate the stand-alone selling price for the purposes of performing an allocation.

5. Presentation and disclosure

The guidance in ASC 610-20 does not introduce any new presentation requirements, but it clarifies how the presentation requirements in other Codification Topics apply to transactions within the scope of ASC 610-20.



ASC 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).

ASC 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.

ASC 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

The following guidance clarifies that any gains or losses recognized that are not a discontinued operation should be included in income from continuing operations.



ASC 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.



Grant Thornton insight: Income statement presentation of sales within the scope of ASC 606 versus ASC 610-20

Although the measurement and recognition of gains and losses within the scope of ASC 610-20 are nearly identical to those transactions accounted for under ASC 606, the presentation on the income statement differs under the two Topics. Consideration received from the sale of assets to a customer under ASC 606 is presented as revenue on a gross basis, with the cost of sales presented separately. On the other hand, consideration received from sales within the scope of ASC 610-20 is netted against the carrying value of the asset transferred to the counterparty and is presented as a gain or loss in income from operations if the entity includes such a subtotal in the financial statements.

At the end of each reporting period, an entity should present a contract liability, a contract asset, or a receivable in the balance sheet, depending upon the relationship between the entity's performance and the counterparty's payment at that date, to reflect its rights and obligations under a contract with the counterparty.

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.

The guidance in ASC 606 uses the terms "contract asset" and "contract liability," but an entity can use alternative descriptions, provided that it gives sufficient information to enable financial statement users to distinguish between contract assets and receivables. An entity should present as a receivable any unconditional rights to consideration.



ASC 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.

ASC 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.

The guidance ASC 610-20 also does not introduce any new disclosure requirements. Rather, the guidance in ASC 610-20 refers entities to the disclosure requirements in ASC 360.



ASC 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).

ASC 360-10-50-3

Long-Lived Assets Classified as Held for Sale or Disposed Of

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.

ASC 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.

Appendix: FASB guidance abbreviations

Abbreviation	FASB guidance title
ASC 310	*Receivables*
ASC 323	*Investments – Equity Method and Joint Ventures*
ASC 326	*Measurement of Credit Losses on Financial Instruments*
ASC 350	*Intangibles – Goodwill and Other*
ASC 360	*Property, Plant, and Equipment*
ASC 360-20	*Property, Plant, and Equipment: Real Estate Sales*
ASC 606	*Revenue from Contracts with Customers*
ASC 610-20	*Gains and Losses from the Derecognition of Nonfinancial Assets*
ASC 810	*Consolidation*
ASC 835	*Imputation of Interest*
ASC 845	*Nonmonetary Transactions*
ASC 860	*Transfers and Servicing*
ASU 2014-09	*Revenue from Contracts with Customers*
ASU 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 2020-05	*Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*
ASU 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*

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