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| **General Note**: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.  |
| **General Note for Fair Value Option**: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic [825-10](https://asc.fasb.org/link%26sourceid%3DSL2456842-123427%26objid%3D6087099). Those Subsections (see paragraph [825-10-05-5](https://asc.fasb.org/link%26sourceid%3DSL2456843-123427%26objid%3D6087099)) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section [825-10-15](https://asc.fasb.org/link%26sourceid%3DSL2456844-123427%26objid%3D6087099) for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.  |

 **Separately Priced Extended Warranty and Product Maintenance Contracts**

**25-1** Some products include warranty obligations that are incurred in connection with the sale of the product, that is, obligations that are not separately priced or sold but are included in the sale of the product. The accounting for these is described in Topic [450](https://asc.fasb.org/link%26sourceid%3DSL2282841-111629%26objid%3D22168072). [Separately priced contracts](https://asc.fasb.org/glossarysection%26trid%3D2197257%26id%3DSL2293813-111629) for [extended warranty](https://asc.fasb.org/glossarysection%26trid%3D2197257%26id%3DSL2293471-111629) and [product maintenance contracts](https://asc.fasb.org/glossarysection%26trid%3D2197257%26id%3DSL2293817-111629) provide warranty protection or product services and the contract price of these contracts is not included in the original price of the product covered by the contracts.

**25-2** Accounting for extended warranty and product maintenance contracts follows an approach similar to that described in the [Short-Duration Contracts Subsection](https://asc.fasb.org/link%26sourceid%3DSL2217561-111629%26objid%3D22168072) of Section 944-605-25 for short-duration insurance contracts. Like short-duration insurance contracts, extended warranty and product maintenance contracts provide coverage against the risk of certain specified claim costs for a specified period. Those claim costs may take the form of repair costs if the product requires repair or service costs if the customer requests that a covered service be performed on the product. Paragraph [944-605-25-1](https://asc.fasb.org/link%26sourceid%3DSL2217562-111629%26objid%3D22168072) indicates that premiums from short-duration insurance contracts should be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. That generally results in premiums being recognized as revenue evenly over the contract period.

**25-3** Sellers of extended warranty or product maintenance contracts have an obligation to the buyer to perform services throughout the period of the contract and, therefore, revenue shall be recognized in income over the period in which the seller is obligated to perform. That is, revenue from separately priced extended warranty and product maintenance contracts shall be deferred and recognized in income on a straight-line basis over the contract period except in those circumstances in which sufficient historical evidence indicates that the costs of performing services under the contract are incurred on other than a straight-line basis. In those circumstances, revenue shall be recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract.

**25-4** Costs that are directly related to the acquisition of a contract and that would have not been incurred but for the acquisition of that contract (incremental direct acquisition costs) shall be deferred and charged to expense in proportion to the revenue recognized. All other costs, such as costs of services performed under the contract, general and administrative expenses, advertising expenses, and costs associated with the negotiation of a contract that is not consummated, shall be charged to expense as incurred.

**25-5** The pattern of cost incurrence may vary depending on characteristics of the product or may be a function of the coverage provided under the contract. When the coverage under the contract varies, such as those situations in which the period of the extended warranty partially overlaps the period of the product's original warranty, or the extended warranty contains a graduating deductible, costs of providing services under the contract may vary proportionate to that coverage.

**25-6** A loss shall be recognized on extended warranty or product maintenance contracts if the sum of expected costs of providing services under the contracts and unamortized acquisition costs exceeds related unearned revenue. Extended warranty or product maintenance contracts shall be grouped in a consistent manner to determine if a loss exists. A loss shall be recognized first by charging any unamortized acquisition costs to expense. If the loss is greater than the unamortized acquisition costs, a liability shall be recognized for the excess.