

What Are Performance Obligations and Contract Assets?

Worksheet

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer; a contract asset is the entity's right to consideration for work already performed that isn't yet unconditional (not just a passage-of-time receivable).

Questions

1. Which of these best defines a performance obligation?

- A) A promise to transfer a distinct good or service
- B) A cash payment schedule
- C) A company's total revenue for the year
- D) An audit requirement

2. A contract asset arises when...?

- A) Revenue recognized exceeds the amount billed to the customer
- B) The amount billed exceeds revenue recognized
- C) Cash is collected in full upfront
- D) No performance obligations exist

3. A bundle sells for \$90,000; equipment SSP is \$70,000 and installation SSP is \$30,000. Revenue allocated to equipment?

- A) \$63,000
- B) \$70,000
- C) \$45,000
- D) \$90,000

4. What is the correct order of the first two steps in the 5-step revenue model?

- A) Identify the contract, then identify performance obligations
- B) Allocate the price, then identify the contract
- C) Recognize revenue, then identify performance obligations
- D) Determine the price, then identify the contract

5. A software company sells a license bundled with 2 years of support for \$50,000 total. The license's standalone selling price (SSP) is \$32,000 and the support's SSP is \$24,000. How much revenue is allocated to the license?

6. A construction company recognizes \$500,000 of revenue to date on a long-term contract (satisfied over time) but has only billed the customer \$420,000 so far. Is there a contract asset, and how much?

7. A bundle of equipment, installation and 1-year training sells for \$200,000. Standalone selling prices are \$90,000, \$60,000 and \$50,000 (sum = \$200,000, no discount). Allocate the transaction price.

8. Define: What is a performance obligation?

9. Define: What is a contract asset?

10. Define: Contract asset vs. receivable - what's the difference?

Answer Key

1. A) A promise to transfer a distinct good or service - A performance obligation is specifically a promise to transfer a distinct good or service to the customer.
2. A) Revenue recognized exceeds the amount billed to the customer - When work performed (revenue recognized) is ahead of billing, the unbilled, conditional right is a contract asset.
3. A) $\$63,000 - 90,000 (70,000 / 100,000) = \$63,000$.
4. A) Identify the contract, then identify performance obligations - Step 1 is identifying the contract; step 2 is identifying the performance obligations within it.
5. Sum of SSPs = $32,000 + 24,000 = \$56,000$ License share = $32,000 / 56,000 = 57.14\%$ Allocated to license = $50,000 \times 0.5714 = \$28,571$
6. Contract asset = Revenue recognized Amount billed Contract asset = $500,000 - 420,000 = \$80,000$ (The right to the extra \$80,000 is conditional on further billing milestones, so it's a contract asset, not a receivable.)
7. Sum of SSPs = $90,000 + 60,000 + 50,000 = \$200,000$ (equals the bundle price, so no discount to allocate) Equipment = $200,000 (90,000/200,000) = \$90,000$ Installation = $200,000 (60,000/200,000) = \$60,000$ Training = $200,000 (50,000/200,000) = \$50,000$
8. A promise in a contract to transfer a distinct good or service to a customer.
9. The entity's right to consideration for transferred goods/services that is conditional on something other than time - e.g., future performance.
10. A receivable is unconditional (only time must pass); a contract asset's right to payment still depends on future performance or milestones.

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