
Revenue Recognition – ID Multiple Elements

Background

In order to meet their customers' needs, Brink's subsidiaries sometimes provide customers multiple products, services and/or rights to use assets. Delivery or performance of these services to the customer may occur at different times, and customer payments may be fixed, variable or a combination of both.

Some examples include:

1. A Brink's subsidiary provides multiple services to the same customer including transport between branches, treasury services and air transport. The amount charged to the customer is based on the number of times a service is provided.
2. A Brink's subsidiary rents security equipment, installs the equipment, and provides monitoring services to the same customer. There is no charge to the customer for the installation. The customer pays a monthly fee for all services.

Guidance

The first step in determining the correct accounting is to identify whether multiple elements exist. In order for a delivered item to be considered a separate unit of accounting (a separate element), both of the following criteria must be met:

- The delivered item (service performed by Brink's Subsidiary) has standalone value from the perspective of the customer. Items have standalone value if they are sold separately by any vendor (even if Brink's does not sell separately) or the customer could resell the delivered item.
- If the customer has a general right to return the delivered item, Brink's must have control over the performance of the remaining products or services to be delivered, and the performance of the remaining items must be probable.

When multiple elements are identified, the total consideration of the arrangement must be allocated among the elements, and this is not always done based on the contractual amounts. The total amount due from the customer must be allocated to each element based on the relative selling price of each element. BCO Accounting can assist with this process. If all items are delivered at the same time and meet the normal criteria for revenue recognition (evidence of



arrangement, delivery complete, fixed or determinable price and collectability assured), no allocation is necessary.

Lessons Learned

The guidance for multiple element arrangements can be judgmental and complex. Consultation with Corporate Accounting is highly encouraged before entering into new transactions with customers to ensure the accounting implications are clear.

Example 1

Brink's provides each of these services separately to smaller customers; therefore, each service is believed to have standalone value. Any services not yet delivered to the customer are in the control of Brink's and are deemed probable since the Subsidiary routinely delivers such services. Therefore, each service is considered a separate unit of accounting.

However, the total fees from the customer are not fixed or determinable because the number of times the services will be performed is unknown. Accordingly, allocation of total fees is not required, and revenue is recognized based on the contracted price when the activity occurs and delivery is complete.

Example 2

When a customer rents equipment, the installation of that equipment is an essential part of the rental services; therefore, these items are considered one deliverable to the customer. We next consider whether this deliverable has value to the customer aside from the monitoring services. In this situation, the Brink's Subsidiary did not sell equipment rental without the monitoring services and did not sell monitoring services separately to customers who may have rented from another vendor as no other vendors offered equipment rental services. Other vendors also did not offer monitoring services when equipment was rented from another vendor. Based on this information, the customer would not find standalone value in the equipment rental services. Therefore, there is only one unit of accounting which includes both the equipment rental services and the monitoring services.

Since there is only one unit of accounting, no allocation is required. Revenue is recognized on a monthly basis as the monitoring services are performed.