

## CONSTRAINING ESTIMATES OF VARIABLE CONSIDERATION

Factors to consider in assessing the likelihood and magnitude of the revenue reversal (commonly referred to as an entity's confidence level in assessing the revenue reversal in the analysis that follows) include, but are not limited to, any of the following, as indicated in FASB ASC 606-10-32-12

Factors in FASB ASC 606-10-32-12	Considerations
<b>The amount of consideration is highly susceptible to factors outside the entity's influence. Those factors include the volatility in the market, the judgement or actions of third parties, weather conditions, and a high risk of obsolescence of the promised good or service.</b>	<ul style="list-style-type: none"> <li>• Reliance on suppliers or subcontractors with a history of missing deadlines</li> <li>• History of union strikes that impact the timing of satisfaction of performance obligations</li> <li>• Requiring substantive third-party (for instance customer or regulator) approval to meet certain milestones under the contract when the entity does not have predictive experience with that party or type of milestone.</li> </ul>
<b>The uncertainty about the amount of consideration is not expected to be resolved for a long period of time.</b>	<ul style="list-style-type: none"> <li>• Contracts with disputes, claims, or unapproved change orders that are expected to take a long period time to resolve</li> <li>• Variable fees that are expected to be earned for long periods of time</li> </ul>
<b>The entity's experience (or other evidence with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value.</b>	<ul style="list-style-type: none"> <li>• History of similar projects that have been unsuccessful</li> <li>• Lack of experience with similar types of contracts and variable consideration amounts</li> <li>• Competing in a new market capability or technology</li> </ul>
<b>The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.</b>	<ul style="list-style-type: none"> <li>• Pattern of contract renegotiation with resulting pricing reductions subsequent to the commencement period</li> <li>• Note: Change orders (modifications of scope or price of contract) are common in the engineering and construction industry. Fin REC believes that change orders should generally be evaluated as a contract modification and are not necessarily a "price concession" contemplated by this factor in the standard</li> </ul>
<b>The contract has a large number and broad range of possible consideration amounts.</b>	<ul style="list-style-type: none"> <li>• Significant volatility in the amount of possible consideration amounts (for instance, an award fee based on key performance indicator (KPI) scores between zero to 100, where the entity has no experience of obtaining average KPI scores within a narrow range)</li> </ul>