

New Revenue Recognition Accounting Standard—Learning and Implementation Plan



In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, and the International Accounting Standards Board (IASB) issued International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*. This document will focus on the guidance in ASU No. 2014-09; the AICPA Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard highlights the differences between the standards issued by FASB and the IASB.

Subsequent to the issuance of ASU No. 2014-09, FASB issued the following amendments to provide additional clarification:

- ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date*
- ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)*
- ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing*
- ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients*

FASB ASU No. 2014-09 will amend FASB Accounting Standards Codification® (ASC) by creating Topic 606, *Revenue from Contracts with Customers*, and Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*.

The revenue recognition standard affects all entities—public, private, and not-for-profit—that have contracts with customers, except for certain items, which include leases accounted for under FASB ASC 840, *Leases*; insurance contracts accounted for under FASB ASC 944, *Financial Services—Insurance*; most financial instruments, and guarantees (other than product or service warranties).

The new revenue recognition standard eliminates the transaction- and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition.

The guidance was originally effective for annual reporting periods of public entities beginning on or after December 15, 2016, including interim periods within that reporting period. For all other entities, the amendments in the new guidance were originally effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018.

To allow entities additional time to implement systems, gather data and resolve implementation questions, the FASB issued ASU No. 2015-14, *Revenue From Contracts with Customers – Deferral of the Effective Date*, in August 2015, to defer the effective date of ASU No. 2014-09 for one year.

Public business entities, certain not-for-profit entities, and certain employee benefit plans will apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application will be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

All other entities will apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Application will be permitted earlier only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period, or an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which an entity first applies the guidance in ASU No. 2014-09.

The IASB issued an amendment to IFRS 15, *Revenue from Contracts with Customers*, deferring the effective date by one year to 2018. The publication of the amendment, *Effective Date of IFRS 15*, follows from the IASB's decision in July 2015 to defer the effective date from January 1, 2017 to January 1, 2018, having considered the feedback to its consultation. Companies applying IFRS continue to have the option to apply the standard early.

The prospect of preparing for a historic, game-changing revenue recognition standard can be a bit daunting and companies should take advantage of the delayed effective date and prepare for the transition to the new standard. They should also evaluate the potential impacts on financial statements, information systems, processes and controls.

How an entity chooses to adopt the revenue recognition standard dictates the years that revenue and the direct effects of change in accounting principle associated with contracts will need to be restated. If a public entity chooses full retrospective adoption, revenue and the direct effects of change in accounting principle to all contracts must be restated for 2016 and 2017 to show comparative financial statements with a cumulative adjustment as of January 1, 2016.

Use this roadmap to ensure that your company as well as its management team and staff do the following:¹

1. Understand the changes to current GAAP based on FASB ASU No. 2014-09, *Revenue from Contracts with Customers*
2. Understand transition and retrospective adoption of the revenue recognition standard, and determine how your company will adopt the new guidance
3. Find resources to help train your professional staff to ensure effective and efficient implementation of the revenue recognition standard
4. Educate users about the changes they can expect in your company's financial statements

You will note several tools and resources to support your company as well as its management team and staff in their journey, specifically the AICPA member benefit resources in the Financial Reporting Center at www.aicpa.org/revenuerecognition.

¹ This document could also be helpful for audit firms assisting their clients in gaining an understanding of FASB ASU No. 2014-09.

The following table provides a suggested timeline for public entities to implement the new revenue recognition standard (nonpublic entities have an additional year to adopt the new guidance):

Step	Action	Description and Considerations	Recommended Timing	Tools and Resources
1	<p>Assign individual company staff or form a task force to become experts and take the lead on understanding and implementing the new revenue recognition standard. Also be mindful of accounting, financial reporting, tax, internal audit, sales operations, IT, legal, and human resources implications.</p>	<p>The new revenue recognition standard will eliminate the transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition.</p> <p>Per FASB ASC 606-10-05-3:</p> <p>The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p> <p>As discussed in FASB ASC 606-10-05-4:</p> <p>An entity recognizes revenue in accordance with the core principle by applying the following steps:</p> <ol style="list-style-type: none"> 1. Identify the contract(s) with a customer. 2. Identify the performance obligations in the contract. 3. Determine the transaction price. 4. Allocate the transaction price to the performance obligations in the contract. 5. Recognize revenue when (or as) the entity satisfies a performance obligation. 	Now–2017	<p>AICPA's Financial Reporting Center</p> <ul style="list-style-type: none"> • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard • Introduction to the New Revenue Recognition Standard video clip <p>Web Event</p> <ul style="list-style-type: none"> • Understanding the New Revenue Recognition Standard(Archived Webcast)

Step	Action	Description and Considerations	Recommended Timing	Tools and Resources
2	<p>Evaluate the changes from current GAAP to the new revenue recognition standard and evaluate the impact on how your company accounts for existing revenue streams and the results to the company's financial statements. In addition, evaluate how the standard will affect operational and performance metrics, company contracts, compensation plans, accounting policies, internal controls, and tax matters.</p> <p>This would also include working with your auditor to ensure that your approach to implementing the new revenue recognition standard and any changes in accounting for revenue recognition are documented completely and accurately.</p>	<p>In order to complete this step, it will be necessary to obtain a full understanding of the new revenue recognition standard as prescribed in step 1, including any amendments to ASU No. 2014-09.</p> <p>All companies will need to evaluate how the new revenue recognition standard will impact their financial statements beyond just the impact to the statement of operations, as there are new estimates and disclosures related to revenue recognition.</p>	Now–2017	<p>AICPA's Financial Reporting Center</p> <ul style="list-style-type: none"> • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard • Listing of implementation issues identified by the AICPA Revenue Recognition industry task forces (to be updated as issues are identified, submitted to the AICPA Revenue Recognition Working Group, and exposed for informal comment) • ASU No. 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date. • FASB ASU No. 2016-08 – Revenue From Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) • FASB ASU No. 2016-10 – Revenue From Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing • FASB ASU No. 2016-11 – Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting • FASB ASU No. 2016-12 – Revenue From Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients <p>Web Event</p> <ul style="list-style-type: none"> • Understanding the New Revenue Recognition Standard (Archived Webcast) <p>CPE</p> <ul style="list-style-type: none"> • Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know • Revenue Recognition: Mastering the New FASB Requirements <p>Guides and Alerts</p> <ul style="list-style-type: none"> • AICPA Alert Revenue Recognition: Accounting and Auditing Considerations (June 2016) • <i>Revenue Recognition Audit and Accounting Guide (December 2016)</i>, which will be updated with findings for the following revenue recognition industry task forces as they become available: <ul style="list-style-type: none"> ○ Aerospace and Defense ○ Airlines ○ Asset Management ○ Broker-Dealers ○ Construction Contractors ○ Depository Institutions ○ Gaming ○ HealthCare ○ Hospitality ○ Insurance ○ Not-for-Profit ○ Oil and Gas ○ Power and Utility ○ Software

- Telecommunications
- Timeshares

- Industry-specific AICPA Audit and Accounting Guides will reference substantive changes in the 2017 edition and be fully conformed in the 2018 editions.

Step	Action	Description and Considerations	Recommended Timing	Tools and Resources
3	Determine how you will retrospectively adopt the new revenue recognition standard, and how to track the accounting differences for periods that require restatement (in conjunction with step 4)	<p>As discussed in FASB ASC 606-10-65-1:</p> <p>The new revenue recognition standard should be applied using one of the following two methods:</p> <ol style="list-style-type: none"> 1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients: <ol style="list-style-type: none"> a. For completed contracts, an entity need not restate contracts that begin and are completed within the same annual reporting period. b. For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods. c. For reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue. d. For contracts that were modified before the beginning of the earliest reporting period presented, an entity need not retrospectively restate the contract for those contract modifications in accordance with FASB ASC 606-10-25-12 through 25-13. Instead an entity should reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when: <ol style="list-style-type: none"> i. identifying the satisfied and unsatisfied performance obligations ii. Determining the transaction price iii. Allocating the transaction price to the satisfied and unsatisfied performance obligations. 2. Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. If an entity elects this transition method, it also should disclose the nature of and reason for the change in accounting principle and provide the additional disclosures in reporting periods that include the date of initial application of the following items: 	Now	<p>AICPA's Financial Reporting Center</p> <ul style="list-style-type: none"> • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard <p>CPE</p> <ul style="list-style-type: none"> • Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know • Revenue Recognition: Mastering the New FASB Requirements <p>Guides and Alerts</p> <ul style="list-style-type: none"> • AICPA Alert Revenue Recognition: Accounting and Auditing Considerations (June 2016) • Revenue Recognition Audit and Accounting Guide, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available January 2017

		<p>a. The amount by which each financial statement line item is affected in the current reporting period by the application of the standard as compared to the guidance that was in effect before the change.</p> <p>b. An explanation of the reasons for significant change.</p> <p>FASB ASC 250-10-45-8 notes the following:</p> <p>Retrospective application should include only the direct effects of a change in accounting principle, including any related income tax effects. Indirect effects that would have been recognized if the newly adopted accounting principle had been followed in prior periods should not be included in the retrospective application. If indirect effects are actually incurred and recognized, they should be reported in the period in which the accounting change is made.</p>		
Step	Action	Description and Considerations	Recommended Timing	Tools and Resources (Links to be included when available)
4	<p>Determine whether any changes will need to be made to IT systems or software applications to capture information needed for the new revenue recognition standard, including the following:</p> <ul style="list-style-type: none"> Retrospective adoption The additional qualitative and quantitative disclosures required 	<p>Based on the determinations made in step 2 and step 3, the new revenue recognition standard may require modifications to IT systems to capture the appropriate level of information related to data used to make estimates on revenue recognition and new disclosures.</p>	Now	<p>AICPA's Financial Reporting Center</p> <ul style="list-style-type: none"> Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard <p>CPE</p> <ul style="list-style-type: none"> Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know Revenue Recognition: Mastering the New FASB Requirements <p>Guides and Alerts</p> <ul style="list-style-type: none"> AICPA Alert Revenue Recognition: Accounting and Auditing Considerations (June 2016) <i>Revenue Recognition Audit and Accounting Guide</i>, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available December 2016

5	Determine what interim disclosures will need to be made before the revenue recognition standard is effective.	Issuers should consider the guidance in SEC Staff Accounting Bulletin (SAB) No. 74 (Topic 11:M), <i>Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period</i> , to determine the appropriate interim disclosures to be made prior to the adoption of the revenue recognition standard.	Now–2017	<p>AICPA's Financial Reporting Center</p> <ul style="list-style-type: none"> • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard <p>CPE</p> <ul style="list-style-type: none"> • Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know • Revenue Recognition: Mastering the New FASB Requirements <p>Guides and Alerts</p> <ul style="list-style-type: none"> • AICPA Alert Revenue Recognition: Accounting and Auditing Considerations (June 2016) • <i>Revenue Recognition Audit and Accounting Guide</i>, which includes information to be considered when implementing the new revenue recognition standard in certain industries—available December 2016 <p>Other</p> <ul style="list-style-type: none"> • SEC SAB 74 (Topic 11:M), <i>Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period</i>
Step	Action	Description and Considerations	Recommended Timing	Tools and Resources (Links to be included when available)
6	Develop an evolving project plan for implementation of the revenue recognition standard considering all of the steps above and facilitate training for your staff.		Now–2017	<p>Web Event</p> <ul style="list-style-type: none"> • Understanding the New Revenue Recognition Standard webcast— June 16, 2014 <p>CPE</p> <ul style="list-style-type: none"> • Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know • Revenue Recognition: Mastering the New FASB Requirements <p>Conferences</p> <ul style="list-style-type: none"> • Global Manufacturing Conference: September 12-14, 2016 • National Conference on Banks & Savings Institutions: September 21-23, 2016 • National Governmental and Not-for-Profit Training Program: October 17-19, 2016 • Auto Dealership Conference: October 6-7, 2016 • Credit Unions: October 24-26 2016 • National Tax Conference: November 14-15, 2016 • Oil & Gas Conference: November 14-15, 2016 • Current SEC and PCAOB Developments: December 5-7, 2016 • Construction and Real Estate Conference: December 8-9, 2016 • Healthcare Industry Conference: November 16-18, 2016 • Controllers Conference: November 10-11, 2016 • CFO Conference: May 4-5, 2017 • National Advanced Accounting and Auditing Technical Symposium (NAAATS): June 12-14, 2017 • Practitioners Symposium and Tech+ Conference: June 12–15, 2017

				<ul style="list-style-type: none"> • Not-for-Profit Industry Conference: June 21-23, 2017
7	Educate key stakeholders (audit committee, board of directors, and investors), on the new revenue recognition standard and what changes to expect in your company's financial statements.	Based on the determinations made in step 2 and step 3, the new revenue recognition standard may result in changes in timing of revenue recognized as well as new qualitative and quantitative disclosures that will need to be explained to key stakeholders.	Now–2017	AICPA's Financial Reporting Center <ul style="list-style-type: none"> • Revenue Recognition Primer for Audit Committees • Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard

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