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. FASB and the IASB have basically achieved convergence with these standards, with some minor differences related to the collectibility threshold, interim disclosure requirements, early application and effective date, impairment loss reversal, and nonpublic entity requirements.

This document will focus on the guidance contained in FASB ASU 2014-09 (revenue recognition standard); however, the soon-to-be released AICPA Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard will highlight the differences between the two standards.

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 Accounting Standards Codification (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.

Public entities¹ are required to adopt the revenue recognition standard for reporting periods beginning after December 15, 2016, and interim and annual reporting periods thereafter (which equates to January 1, 2017, for public entities with a December 31 year-end). Early adoption is not permitted for public entities.

¹ A public entity is an entity that is any one of the following:
   1. A public business entity
   2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
   3. An employee benefit plan that files or furnishes financial statements to the SEC
Nonpublic entities are required to apply the revenue recognition standard for annual reporting periods beginning on or after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. Nonpublic entities may elect to apply the requirements of the revenue standard earlier as of the following dates:

a. An annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period (public entity effective date)
b. An annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning after December 15, 2017
c. An annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period

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.

Although the effective date is still a few years out, 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 2015 and 2016 to show comparative financial statements with a cumulative adjustment as of January 1, 2015.

Use this roadmap to ensure that your company as well as its management team and staff do the following:²

1. Understand the changes to current GAAP based on FASB ASU 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

² This document could also be helpful for audit firms assisting their clients in gaining an understanding of FASB ASU 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):

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| 1    | 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. | 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. Per FASB ASC 606-10-05-3: 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. As discussed in FASB ASC 606-10-05-4: An entity recognizes revenue in accordance with the core principle by applying the following steps: 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. | 2014–2015 | AICPA’s Financial Reporting Center  
- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
- Introduction to the New Revenue Recognition Standard video clip  
- Financial Reporting Brief: Tax Effects of ASU 2014-09  
Web Event  
- Understanding the New Revenue Recognition Standard—Free archived webcast |
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| 2    | 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. 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. | 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. 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. | 2014–2016 | AICPA’s Financial Reporting Center  
- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
- Financial Reporting Brief: Tax Effects of ASU 2014-09  
- Listing of implementation issues identified by the AICPA Revenue Recognition industry task forces  
Web Event  
- Understanding the New Revenue Recognition Standard—Free archived webcast  
- Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know - webcast  
CPE  
- Revenue Recognition: Getting the New and Old Standard Right  
- Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know  
- Revenue Recognition: Mastering the New FASB Requirements – available May 2015  
Guides and Alerts  
- AICPA Alert Understanding Revenue Recognition: Changes to US GAAP  
- Revenue Recognition Audit and Accounting Guide, which includes general information to be considered when implementing the new revenue recognition standard as well as in the following industries (available 2016):  
  - Aerospace and Defense  
  - Airlines  
  - Broker Dealers  
  - Construction Contractors  
  - Depository Institutions  
  - Energy and Utilities  
  - Gaming  
  - Healthcare  
  - Hospitality  
  - Insurance  
  - Investment Companies  
  - Not-for-Profit  
  - Oil and Gas  
  - Software  
  - Telecommunications  
  - Timeshares  
- Industry-specific AICPA Audit and Accounting Guides will reference substantive changes in the 2016 editions and be fully conformed in the 2017 editions. |
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| 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) | As discussed in FASB ASC 606-10-65-1: The new revenue recognition standard should be applied using one of the following two methods: 1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients: a. For completed contracts, an entity need not restate contracts that begin and end 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. 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 provide the additional disclosures in reporting periods that include the date of initial application of the following items: 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. b. An explanation of the reasons for significant change. FASB ASC 250-10-45-8 notes the following: Retrospective application shall 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 shall not be included in the retrospective application. If indirect effects are actually incurred and recognized, they shall be reported in the period in which the accounting change is made. | 2014 | AICPA’s Financial Reporting Center  
- Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
Web Event  
- Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know - webcast  
CPE  
- Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know  
- Revenue Recognition: Mastering the New FASB Requirements – available May 2015  
Guides and Alerts  
- AICPA Alert Understanding Revenue Recognition: Changes to US GAAP  
- Revenue Recognition Audit and Accounting Guide, which includes general information to be considered when implementing the new revenue recognition standard as well as in certain industries—available 2016 |
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| 4    | 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:  
   - Retrospective adoption  
   - The additional qualitative and quantitative disclosures required | 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. | 2014 | AICPA’s Financial Reporting Center  
   - Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
Web Event  
   - Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know - webcast  
CPE  
   - Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know  
Revenue Recognition: Mastering the New FASB Requirements – available May 2015  
Guides and Alerts  
   - Revenue Recognition Audit and Accounting Guide, which includes general information to be considered when implementing the new revenue recognition standard as well as in certain industries—available 2016  
Other  
   - SEC SAB 74 (Topic 11:M), Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period |
| 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), Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period, to determine the appropriate interim disclosures to be made prior to the adoption of the revenue recognition standard. | 2014–2016 | AICPA’s Financial Reporting Center  
   - Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard  
Web Event  
   - Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know - webcast  
CPE  
   - Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know  
   - Revenue Recognition: Mastering the New FASB Requirements – available May 2015  
Guides and Alerts  
   - AICPA Alert Understanding Revenue Recognition: Changes to U.S. GAAP  
   - Revenue Recognition Audit and Accounting Guide, which includes general information to be considered when implementing the new revenue recognition standard as well as in certain industries—available 2016  
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| 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. | 2014–2016 | **Web Event**  
- *Understanding the New Revenue Recognition Standard*—Free archived webcast  
- *Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know* - webcast | **CPE**  
- *Revenue Recognition: Getting the New and Old Standard Right*  
- *Interpreting the New Revenue Recognition Standard: What All CPAs Need to Know*  
|       |        |                                |                   | **Conferences**  
- *AICPA Not-for-Profit Industry Conference*: June 15 - 17, 2015 | |
| 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. | 2015–2016 | **AICPA’s Financial Reporting Center**  
- *Revenue Recognition Primer for Audit Committees*  
- *Financial Reporting Brief: Roadmap to Understanding the New Revenue Recognition Standard* | |