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Adopting the New Revenue Standard — Where Do Companies Stand?

by Joe DiLeo and Eric Knachel, Deloitte & Touche LLP

Introduction

For public business entities with a calendar year-end (and other entities that elect early adoption), less than a year remains before the FASB's new revenue standard[1] becomes effective. Accordingly, there continues to be an emphasis on understanding where companies stand in their implementation process. For public companies, such emphasis has come from investors and regulators. For example, the SEC staff has emphasized that registrants need to be ready not only to adopt the new standard but also to communicate its potential effects to stakeholders before the effective date.[2] The timeliness and quality of such communications will depend on a registrant's state of readiness.

In our January 14, 2016, *Heads Up*, we discussed the results of an informal survey on the standard's adoption and transition (the "2015 survey") and noted some key observations:

- The majority of respondents did not plan to early adopt the new standard.

[1] FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*, as amended. For a comprehensive discussion of the new standard, see Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard*.

[2] The communications discussed by the SEC staff have related mainly to disclosures required in accordance with SEC Staff Accounting Bulletin (SAB) 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" (SAB 74).

- While nearly 40 percent of respondents had not decided which transition method to use to adopt the new standard, those that had chosen (or indicated a "preliminary leaning") preferred the full retrospective approach to the modified retrospective approach.
- Nearly three quarters of respondents indicated that the new standard could or would have a material impact on their financial statements.
- Slightly more than half of respondents had started to implement the new standard, but most were in the very early phases of adoption.
- Just over 10 percent of respondents had established a formal budget to implement the new revenue standard.

In December 2016, Deloitte conducted a second informal survey[3] on implementing the new revenue standard. This *Heads Up* discusses certain results of the 2016 survey and compares them to those noted in last year's *Heads Up*.

Observations From the 2016 Survey

Transition Methods and Timing of Adoption

The new revenue standard gives entities the option of using either a full retrospective transition method or a modified retrospective transition method. As a result, entities will need to review contracts that commenced several years before the new standard's effective date. In addition, entities will most likely be required to perform dual tracking of revenue balances during the retrospective period given the potential difficulty of retroactively recalculating them when the new revenue standard becomes effective.

Figures 1 and 2 show the transition methods that respondents to the 2016 survey intend to use and whether they plan to early adopt the new standard.

Figure 1 — Which Method Will You Use to Adopt the New Revenue Standard?

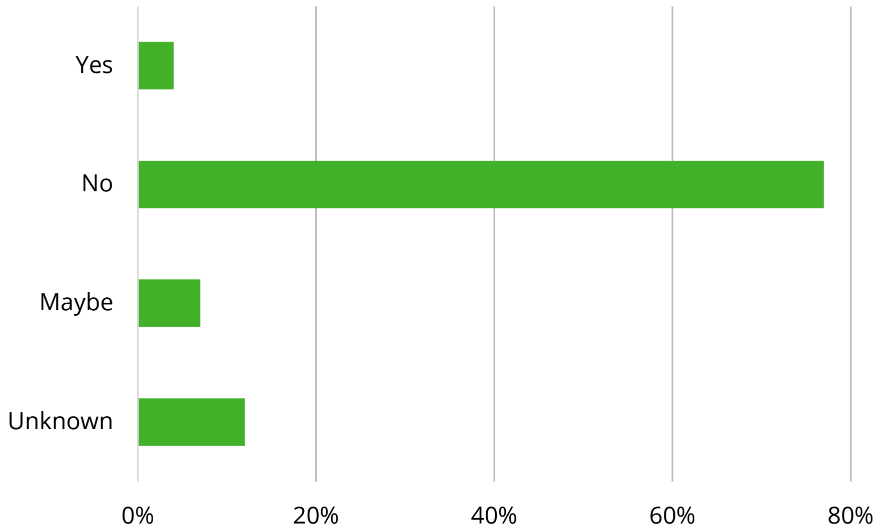
	Full Retrospective	Modified Retrospective	Undecided	Total
Affirmative	6%	15%	—	21%
"Preliminary leaning"	15%	31%	—	46%
Undecided	—	—	33%	33%
Total	21%	46%	33%	100%
Nonaffirmative				79%

In comparing the results of the 2016 survey to the 2015 responses, we note that the percentage of respondents that have not yet decided on a transition method remains relatively stable. However, the 2016 affirmative and "preliminary leaning" responses reveal a significant shift from the full retrospective method (21 percent) to the modified retrospective method (46 percent). In the 2015 survey, those amounts were 38 percent and 25 percent, respectively. In addition, respondents whose planned method of adoption is the full retrospective method cite "comparability to satisfy users' needs" as the top reason for their selection.

[3] In November and December 2016, participants at certain Deloitte-sponsored seminars on the new revenue standard were asked to complete questionnaires. Responses were received from over 200 individuals in various industries, with a majority of the responses from those in the technology, life sciences, media, and telecommunications industries.

While entities may early adopt the new revenue standard, such adoption is limited to the effective date before the standard's deferral. As shown in Figure 2, nearly 80 percent of respondents to the 2016 survey do not plan to early adopt the new standard. (This amount was approximately 60 percent in 2015.)

Figure 2 — Will You Early Adopt the New Revenue Standard?

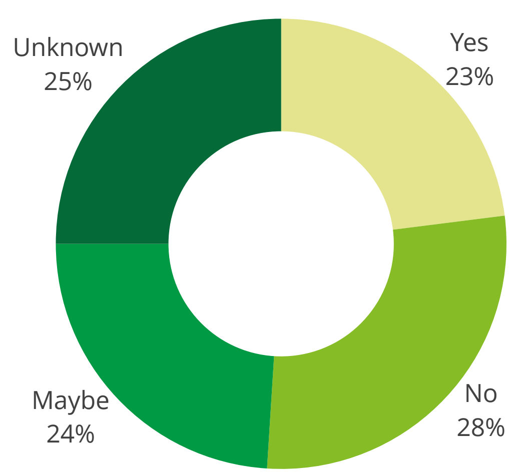


Accounting Processes and Internal Controls

Management will need to exercise significant judgment in applying certain aspects of the new revenue standard's requirements. To comply with its accounting and disclosure guidance, entities will have to (1) document new or different judgments and (2) gather and track information that they may not have previously monitored. Therefore, entities may need to create, modify, and test internal controls, processes, and information systems associated with gathering and assessing the reliability of necessary information. Indeed, Deloitte's 2016 survey results indicate that respondents believe that data gathering (including related processes and information systems) and internal controls are the two areas that will be affected the most as a result of implementing the new standard.

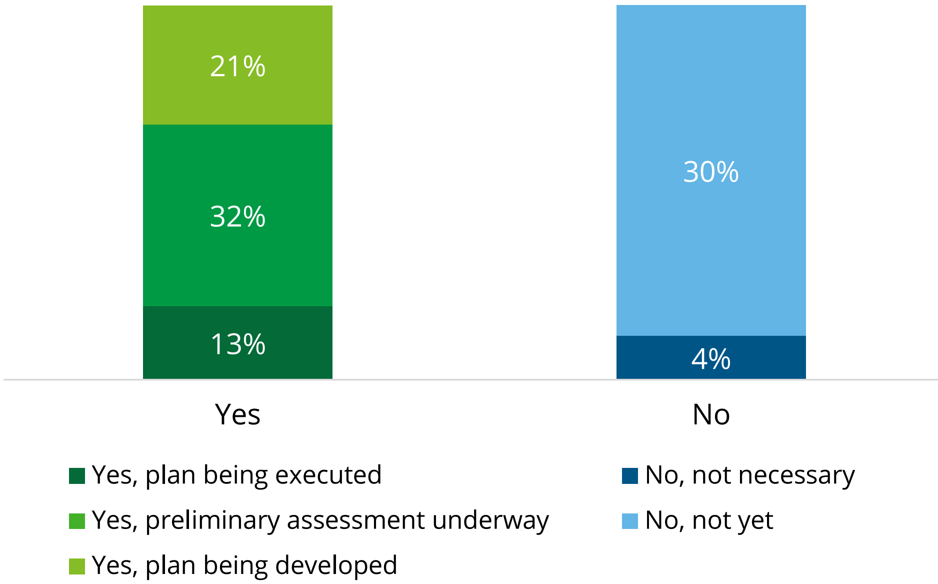
Figures 3 through 6 show information about entities' (1) expectations of whether the new standard will materially affect their financial statements and (2) state of readiness to implement it.

Figure 3 — Do You Expect the New Standard to Have a Material Impact?



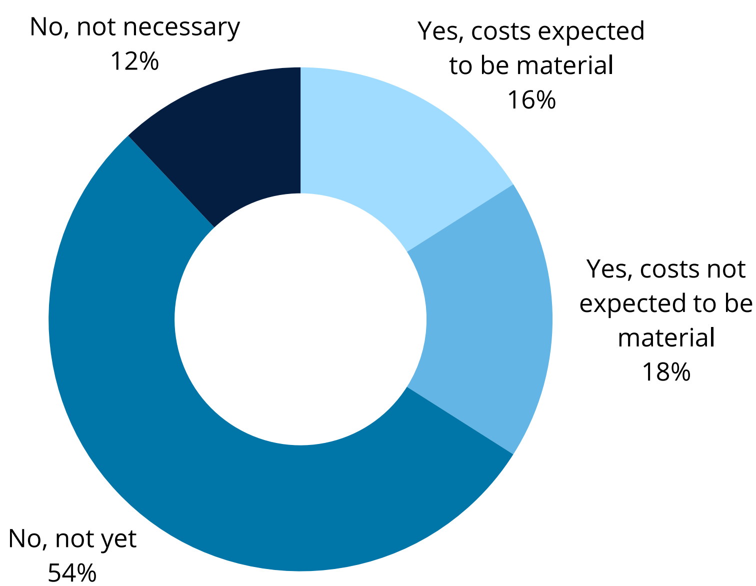
Given that only 28 percent of respondents have indicated to date that the new revenue standard will not materially affect their financial statements, it seems likely that when implemented, the standard *will* materially affect the majority of companies. As indicated in Figures 4 through 6, however, such a view does not appear to be aligned with many respondents' readiness to implement the standard.

Figure 4 — Have You Started to Implement the New Standard?



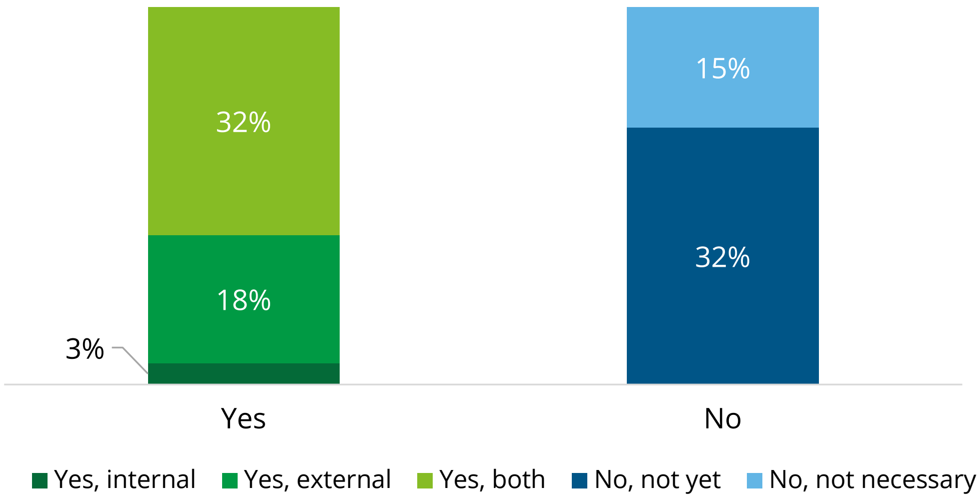
Nearly one-third of respondents (slightly below the percentage of respondents from the prior year) have not yet started to implement the new standard, and most respondents that *have* started implementation are in the early phases.

Figure 5 — Has Your Company Established a Budget for Implementation?



As illustrated above, most respondents have not yet established a budget for implementing the new standard.

Figure 6 — Does Your Company Expect to Hire Additional Resources to Assist With Implementation?



More than half of the respondents expect to hire additional resources to help them implement the new revenue standard. However, as noted in Figure 4, 83 percent have either not yet started their implementation process or are in the plan-development or preliminary-assessment phases of it. As companies complete (and other companies begin) their preliminary assessments, it will be interesting to see whether the need for additional resources will increase and, if so, whether such resources will be available.

Next Steps

As the effective date of the new revenue standard approaches, companies that have not yet started implementing the standard's guidance or are in the early phases of doing so will need to perform a critical assessment of how they will complete a timely adoption. Such an assessment should take into account the potential for large-scale changes to the companies' processes, information systems, and internal controls. It should also include consideration of competition for resources to help effect those changes.

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