Introduction

When implementing the FASB’s revenue standard (ASU 2014-09), some companies will need to make wholesale changes to their income statements as a result of the new recognition and measurement requirements. For other companies, the impact of those requirements will be less significant. However, all entities will need to carefully consider the standard’s new and modified quantitative and qualitative disclosure requirements.

This Heads Up discusses certain of the disclosure requirements that may be particularly challenging for entities to implement. For a comprehensive discussion of the new standard, including an analysis of other potential implementation issues, see Deloitte’s A Roadmap to Applying the New Revenue Recognition Standard.

The Importance of an Entity’s Disclosure Implementation Strategy

Some companies may not intend to consider the revenue standard’s new disclosure requirements until perhaps early 2018, after the new standard becomes effective (i.e., as part of the first-quarter reporting process for public business entities). However, such a strategy might be risky for a number of reasons.
**Significant Increase in Necessary Information**

The new standard will require entities to disclose much more information about revenue activities and related transactions than they do currently. Consequently, they will need time to implement and test appropriate processes, internal controls, and disclosure controls and procedures (including the identification of relevant personnel and information systems throughout the organization) for (1) data-gathering activities, (2) the identification of applicable disclosures on the basis of relevance and materiality, and (3) the preparation and review of disclosures, including the information that supports such disclosures.

**Annual Disclosures Needed in First Quarterly Filing**

Although the new revenue standard specifies that certain disclosures are not required in interim financial statements, SEC registrants, in accordance with SEC rules and staff interpretations, will be required to provide both annual and interim disclosures in the first interim period after the adoption of new accounting standards and in each subsequent quarter in the year of adoption. Specifically, Section 1500 of the SEC Financial Reporting Manual states:

> S-X Article 10 requires disclosures about material matters that were not disclosed in the most recent annual financial statements. Accordingly, when a registrant adopts a new accounting standard in an interim period, the registrant is expected to provide both the annual and the interim period financial statement disclosures prescribed by the new accounting standard, to the extent not duplicative. These disclosures should be included in each quarterly report in the year of adoption.

As a result, a calendar-year-end SEC registrant will need to comply with the new revenue standard's full suite of disclosure requirements in each quarter, beginning with its first quarter ended March 31, 2018, to the extent that the disclosures are material and do not duplicate information.

**Reporting Deadlines, Compliance, and Internal Controls**

The requirement to consider disclosures as part of preparing quarterly or year-end financial statements most likely will significantly affect an entity's ability to meet reporting deadlines that are already tight (particularly for SEC filings). In addition, an entity may be unable to obtain the information it needs to satisfy the disclosure requirements (e.g., because of problems related to the collection, preparation, or review of data needed for disclosures), which could result in late filings and the identification of deficiencies in internal controls (e.g., material weaknesses).

**Disclosures That May Be Challenging to Implement**

**Performance Obligations (Including Remaining Performance Obligations)**

In contrast to current guidance, the new revenue standard introduces a series of quantitative and qualitative disclosure requirements related to performance obligations that will be partially or entirely new for many entities. Under these requirements, entities must disclose:

- Qualitative information about the types of performance obligations, the nature of goods and services promised, and when the obligations are typically satisfied.
- Qualitative information about significant payment terms, warranties, and refund obligations.
- Quantitative and qualitative information about amounts allocated to remaining performance obligations, and when such remaining amounts will be recognized as revenue.
- Information about significant financing components and variable consideration.
- Performance obligations for which the entity acts as an agent.
It may be difficult for companies to determine the level at which to present information about their performance obligations and the nature of goods or services. Complying with the requirements related to remaining performance obligations (commonly referred to as “backlog disclosures”) may be particularly challenging because of difficulties associated with identifying the remaining performance obligations. Further, determining when remaining performance obligations are expected to be satisfied is a matter of judgment, and the information disclosed may therefore be subjective.

Other aspects of the disclosure requirements related to performance obligations that may pose difficulties in an entity’s implementation include:

- Identifying amounts and related drivers of variable consideration associated with performance obligations (including information regarding the estimation of variable consideration and any related constraints on the variable consideration and their potential effects on future cash flows).
- Assessing whether material rights exist, and the manner in which those rights would be disclosed within the context of other distinct performance obligations.

**Significant Judgments and Estimates**

An entity is required to make significant judgments and estimates as it applies the new revenue standard’s five-step model (e.g., the determination of variable consideration and whether to constrain variable consideration). Accordingly, the new standard requires disclosures about those judgments and estimates, including the following:

<table>
<thead>
<tr>
<th>Qualitative Information About Determining the Timing of:</th>
<th>Qualitative and Quantitative Information (Including Methods, Inputs, and Assumptions Used) About:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance obligations satisfied over time (e.g., methods of measuring progress, why methods are representative of transfer of goods or services, judgments used in the evaluation of when a customer obtains control of goods or services).</td>
<td>Determining the transaction price (e.g., estimating variable consideration, adjusting for the time value of money, noncash consideration).</td>
</tr>
<tr>
<td>Performance obligations satisfied at a point in time — specifically, the significant judgments used in the evaluation of when a customer obtains control.</td>
<td>Allocating the transaction price, including estimating stand-alone selling prices and allocating discounts and variable consideration.</td>
</tr>
<tr>
<td></td>
<td>Constraining estimates of variable consideration.</td>
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<tr>
<td></td>
<td>Measuring obligations for returns, refunds, and other similar obligations.</td>
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</table>

In a manner similar to the accounting related to significant estimates and the exercise of judgment under other areas of U.S. GAAP, an entity may need to revise its original revenue estimates. Therefore, it is crucial for the entity to maintain effective internal controls and documentation that support the assumptions and judgments that underpin its estimates. Disclosures about out-of-period revenues that result from changes in estimates of variable consideration (i.e., whether actual revenue earned is more or less than what was originally estimated) are likely to attract attention from stakeholders (e.g., investors and analysts) because, for analysts and investors that use 20/20 hindsight to gauge the reliability of a company’s revenue estimates, they highlight the company’s ability to make estimates and the effectiveness of its related controls.

**Contract Balances (Contract Assets and Liabilities)**

Along with guidance that requires entities to recognize contract assets and liabilities in certain circumstances, the new standard adds disclosure requirements related to such contract balances. The required information is tantamount to a rollforward of contract assets and
liabilities (i.e., the standard requires disclosure of the beginning and ending balances as well as significant movements in the balances). Disclosures of significant movements would include performance obligations that have been satisfied in the period and qualitative and quantitative information that results from out-of-period revenues (e.g., changes to estimates of variable consideration). However, the standard does not prescribe a specific format, and therefore presentation may be in the form of a true rollforward or in a narrative or other format.

To comply with the disclosure requirements related to contract balances — particularly those that apply to capturing out-of-period revenues — an entity may need to develop processes and controls for identifying and tracking the following information:

- The timing of satisfaction of performance obligations (see Performance Obligations (Including Remaining Performance Obligations) above).
- Payment terms that may give rise to contract balances.
- Transactions that may affect contract balances, such as business combinations or divestitures.
- Material changes in estimates (as discussed above in Significant Judgments and Estimates).
- Other information that an entity may not have previously tracked.

### Disaggregation of Revenue

Entities should consider the standard’s overall disaggregation principle in ASC 606-10-50-2. The guidance in ASC 606-10-50-2 prescribes neither methods of aggregation or disaggregation nor the form or format of disclosures, but it does indicate that aggregation or disaggregation of revenue information should occur so that “useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.” More specifically, the new standard contains guidance on the disaggregation of entities’ contracts with their customers that requires entities to (1) disaggregate revenue into categories that depict how revenue and cash flows are affected by economic factors and (2) provide sufficient information to understand the relationship between disaggregated revenue and each disclosed segment’s revenue information.

For example, companies need to disclose, at a minimum under the new standard, (1) revenues for products and services and (2) contracts for which revenue is recognized at a point in time and over time. Further, entities may consider the following factors in “reconciling” disaggregated revenue disclosures with segment disclosures:

- Broader categories of goods or services.
- Types of customers.
- Geographical regions and markets in which the entities’ goods and services are sold.
- Information reviewed by the chief operating decision makers.
- Disclosures in other of the entities’ external communications.

Because there is no prescribed format or method for applying the new standard’s disaggregation principles, disclosures will be entity-specific and, accordingly, a company will need to exercise significant judgment in determining the appropriate level of disaggregation. Consequently, it will be important for an entity to determine what information will be useful for key stakeholders such as investors, lenders, and regulatory bodies and which form of presentation (e.g., tabular or text) will be more effective in achieving the disclosure principles.

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1. FASB Accounting Standards Codification Topic 606, Revenue From Contracts With Customers.
Next Steps

For public business entities with a calendar-year-end, there is less than a year before the new revenue standard is effective. In addition, many companies still have much work to do to implement the standard’s recognition and measurement guidance and little time left to do it. Therefore, entities are encouraged not to wait but to assess the disclosure requirements simultaneously with their implementation of the standard’s recognition and measurement principles.

As a company analyzes each disclosure requirement, it should consider materiality, relevance, the information that will be needed, how to get that information, and the controls necessary for the preparation and review of the disclosures and the related underlying data. Because a company can use similar information (or information from similar sources) to comply with some of the disclosure requirements (e.g., information related to performance obligations and estimates of variable consideration), the company should develop a comprehensive strategy to collect the information and draft disclosures that effectively and efficiently describe its revenue “story.”
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