# Deloitte.



## In This Issue

- Introduction
- Overall Observations
- Method of Transition
- Qualitative Considerations
- Comment Letters

# The New Revenue Standard — Are You Still Assessing the Impact?

by Eric Knachel and Courtney Sachtleben, Deloitte & Touche LLP

#### Introduction

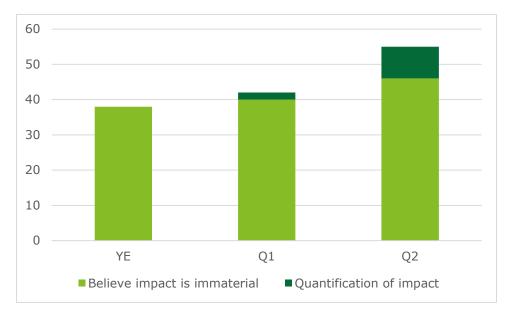
As we move closer to the effective date of the FASB's new revenue standard,¹ we continue to monitor the implementation status of public companies. Our June 5, 2017, *Heads Up* discusses our observations from a review of SAB Topic 11.M² ("SAB 74") disclosures included in periodic filings with the SEC by a sample of Fortune 1000 public companies.³ This *Heads Up* provides updated observations from the second-quarter filings of our sample population and additional perspectives for companies to consider in the final months leading up to adoption.

### **Overall Observations**

We note that companies are making progress on their implementation efforts, with approximately 10 percent of our sample disclosing that they are "substantially complete" with their evaluations. Further, more than half of our sample registrants provided expanded or updated disclosures as compared with their first-quarter filings. Despite this progress, the disclosures also indicate that substantial work remains, with 90 percent of our sample

- <sup>1</sup> FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*, as amended. For calendar-year-end public business entities and other entities that elect early adoption, the standard's effective date is less than six months away. See Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard* for a comprehensive discussion of the new standard.
- <sup>2</sup> SEC Staff Accounting Bulletin 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."
- <sup>3</sup> To further understand how companies are considering the SAB 74 requirements, we reviewed the disclosures in periodic filings associated with the calendar year-end and the first and second calendar quarters of a random sample of 100 companies from the Fortune 1000 group that did not early adopt the new revenue standard.

companies disclosing that their implementation efforts are ongoing. In addition, as indicated in Figure 1, only slightly better than half of our sample companies have provided any quantification of the standard's impact (i.e., stated that the effect will be immaterial or quantified some or all of the impact upon adoption).



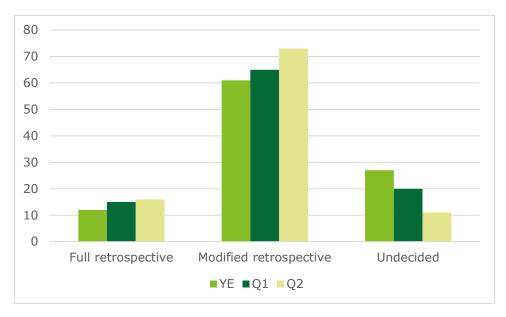
**Figure 1: Quantification of Impact** 

Companies should be mindful of the important information to be conveyed to financial statement users through quantification of the impact that adoption will have on a registrant's financial statements. Although such disclosures should be subject to a company's internal control over financial reporting and disclosure controls and procedures, SEC registrants should not be discouraged from providing their best estimate of the impact upon adoption. At the 2016 AlCPA Conference on Current SEC and PCAOB Developments, the SEC staff observed that if a registrant discloses a quantitative impact on the basis of its best estimate but the ultimate amounts recognized differ, the difference does not necessarily indicate a control weakness if the cause of the change was information that was not available when the registrant's best estimate was developed. In the months leading up to adoption, such disclosures will provide important information to users of the financial statements.

# **Method of Transition**

One notable area of progress since the first-quarter periodic filings is in the method of transition, with a number of companies electing a transition method during the most recent quarter. Under the standard, entities can use either the full retrospective method or the modified retrospective method. Figure 2 shows the selected transition methods indicated by our sample companies. The majority of companies have elected the modified retrospective method as of the second quarter, with only 11 percent still undecided.

**Figure 2: Method of Transition** 



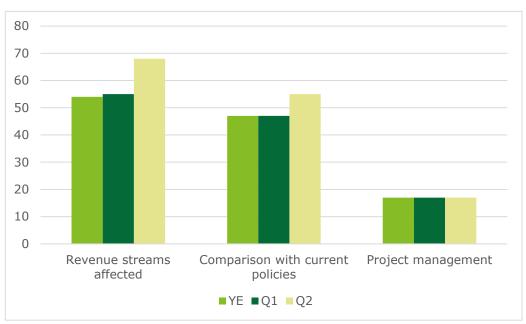
# **Qualitative Considerations**

In a manner consistent with our prior reviews, we also considered certain qualitative disclosures, including those related to:

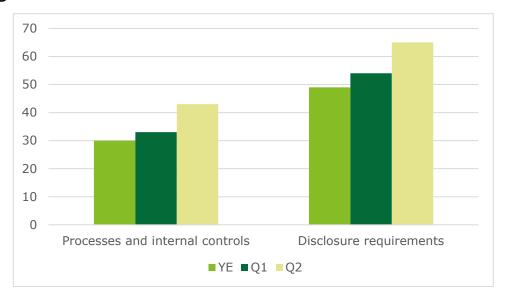
- The identification of affected revenue streams.
- A comparison of current and new revenue policies.
- Details of the implementation process and the status of implementation project plans ("project management").

Generally, these disclosures were similar to those in previous periods, although, as noted in Figure 3, we continue to see enhanced disclosure about which revenue streams will be affected and a comparison with current policies.

**Figure 3: Qualitative Considerations** 



In addition, as noted in Figure 4, we observed an increase in the number of companies describing what their ongoing disclosure requirements will be under the new revenue standard as well as the standard's effect on their accounting processes and internal controls.



**Figure 4: Other Considerations** 

#### **Comment Letters**

Finally, we have also observed that the SEC staff has been commenting on registrants' SAB 74 disclosures with respect to the new revenue standard. The following is an example comment received from the SEC staff:

You state . . . that you continue to make progress in evaluating the impact that the amended revenue recognition guidance will have on your future consolidated financial statements. We further note your disclosures in the Form 10-Q appear to describe the approach you are undertaking in your analysis of the standard, without providing an understanding of any known potential impact or the current status of your evaluation. Please revise to provide qualitative financial statement disclosures of the potential impact that this standard will have on your financial statements when adopted. In this regard, include a description of the effects of the accounting policies that you expect to apply, if determined, and a comparison to your current revenue recognition policies. Describe the status of your process to implement the new standard and the significant implementation matters yet to be addressed. In addition, to the extent that you determine the quantitative impact that adoption of Topic 606 is expected to have on your financial statements, please also disclose such amounts. Please refer to ASC 250-10-S99-6 and SAB Topic 11.M.

These comments are consistent with the SEC's September 2016 staff announcement outlining best practices for registrants to follow in the periods leading up to the standard's adoption.<sup>4</sup> Because of the importance of revenue to users of the financial statements, we expect the SEC staff to continue to monitor registrants' implementation efforts, including their SAB 74 disclosures.

<sup>&</sup>lt;sup>4</sup> See Deloitte's September 22, 2016, *Financial Reporting Alert* for additional information.

# **Subscriptions**

If you wish to receive *Heads Up* and other accounting publications issued by Deloitte's Accounting Services Department, please register at www.deloitte.com/us/accounting/subscriptions.

# **Dbriefs for Financial Executives**

We invite you to participate in *Dbriefs*, Deloitte's webcast series that delivers practical strategies you need to stay on top of important issues. Gain access to valuable ideas and critical information from webcasts in the "Financial Executives" series on the following topics:

- Business strategy and tax.
- Controllership perspectives.
- Driving enterprise value.
- Financial reporting.
- Financial reporting for taxes.
- Governance, risk, and compliance.
- Tax accounting and provisions.
- Transactions and business events.

*Dbriefs* also provides a convenient and flexible way to earn CPE credit — right at your desk. **Subscribe** to *Dbriefs* to receive notifications about future webcasts at **www.deloitte.com/us/dbriefs**.

## **DART and US GAAP Plus**

Put a wealth of information at your fingertips. The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosure literature. It contains material from the FASB, EITF, AICPA, PCAOB, IASB, and SEC, in addition to Deloitte's own accounting manuals and other interpretive guidance and publications.

Updated every business day, DART has an intuitive design and navigation system that, together with its powerful search and personalization features, enable users to quickly locate information anytime, from any device and any browser. While much of the content on DART is available at no cost, subscribers have access to premium content, such as Deloitte's FASB Accounting Standards Codification Manual, and can also elect to receive Technically Speaking, a weekly publication that highlights recent additions to DART. For more information, or to sign up for a free 30-day trial of premium DART content, visit dart.deloitte.com.

In addition, be sure to visit **US GAAP Plus**, our free Web site that features accounting news, information, and publications with a U.S. GAAP focus. It contains articles on FASB activities and those of other U.S. and international standard setters and regulators, such as the PCAOB, AICPA, SEC, IASB, and IFRS Interpretations Committee. Check it out today!

Heads Up is prepared by the National Office Accounting Services Department of Deloitte as developments warrant. This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see <a href="www.deloitte.com/us/about">www.deloitte.com/us/about</a> for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.