COMPLIANCE WEEK
THE LEADING INFORMATION SERVICE ON CORPORATE GOVERNANCE, RISK, AND COMPLIANCE

Companies make early progress in adopting revenue recognition

As summer slips away, it appears many companies used the time wisely to make some progress in adopting the new revenue recognition accounting standard. **Tammy Whitehouse** has more.

The slow but steady march to new accounting rules around revenue recognition seems to be under way, according to accounting experts who say they are starting to see more companies getting to work to adopt the new requirements.

"I have seen an uptick in activity over the summer," says Lynne Triplett, a partner at Grant Thornton, who notices companies have gotten more engaged over the past few months, although their specific level of progress varies a great deal. "Many entities are at or just out of the starting gate, but a few are moving at a pretty good pace."

All companies are required to follow a new accounting standard written by the Financial Accounting Standards Board for when and in what amounts they will recognize revenue in financial statements. FASB adopted the broad new standard to do away with hundreds of historical accounting pronouncements that produced different accounting outcomes for different types of entities. Issued in 2014 and delayed by a year to allow companies more time to prepare, the new rules take effect in 2018 for public companies.

"Many companies have made substantive progress over the summer," says Eric Knachel, senior consultation partner at Deloitte. The nature and level of progress varies by size and type of company, he says, with larger companies expecting the most significant changes leading the way.

That might include, for example, big companies in sectors such as technology, aerospace and defense, or media and entertainment. "The majority of those types of companies have either completed or are in the process of completing their assessments," Knachel says. "They are moving toward the implementation phase and planning significant implementation activities over the next months, depending on complexity."

Big companies in sectors that are not as heavily affected by the new standard are a little further behind, says Knachel. That might include companies in sectors like consumer products or financial services where the new rules on revenue recognition are not as different from the way revenue is recognized under existing rules. "Then you get into smaller companies that are much more diverse in terms of their progress and readiness," he says. "Some have made progress, and others are still lagging behind."

FASB's issuance of another major new standard on how to reflect lease activity in financial statements may have spurred companies into action on revenue recognition, says John McGaw, an accounting advisory partner at EY. The leasing standard also will lead to significant accounting change for many entities, and it takes effect a year after revenue recognition. "The combination of these two standards helped elevate the importance of getting started," he says.

Still, many companies have not started preparing for the new standard or are still in the earliest stages, says Alex Wodka, partner in charge of audit delivery at Crowe Horwath. "Some companies are still having bandwidth issues and are frankly trying to understand how the new standard is going to apply to them," he says.

For companies that are well into assessments, some are finding the diagnostics take longer than they expected, says McGaw. "Converting theoretical accounting to actionable business requirements is challenging," he says. "Raising issues and resolving questions is challenging. Most companies would say it is taking far longer than they anticipated."

Plenty of activity is still under way at the highest ranks in the accounting profession to help work through those accounting questions, with FASB's Transition Resource Group still accepting questions and the American Institute of Certified Public Accountants still operating its 16 industry task forces and developing transition guidance. "We have definitely noticed an increased level of activity as it relates to the identification of industry-specific issues," says Knachel.

Given the manner in which the standard is written—mapping out principles that companies should follow rather than specifying prescriptive requirements—it's not surprising companies are still wrestling with how to apply the new standard, says Triplett. "We have discussions regularly with companies around some of the different aspects of the standard, what they mean, what they mean for their transactions," says Triplett. "I'd expect that to continue. It requires significant judgment to apply."

McGaw says companies struggling with technical questions, especially industry-specific issues, should engage with the TRG and the AICPA industry task forces. They should even consult with peer companies informally, he advises. "It's helpful to bounce your ideas off organizations that are facing similar questions," he says.

Organizations also are facing some expected challenges in moving forward with implementation, most notably they are having difficulty dedicating the resources to the adoption effort. "Companies are saying this isn't in their budget for the year," says Triplett. "September is a good time of year when companies are in the budget process to think about needs for 2017—for people and for IT. This needs to move up the ladder at this point."

Companies that are furthest along are encountering obstacles as they try to plan for IT or systems changes, says Knachel. "They're finding that the systems they need to put in place are often more complex than they anticipated," he says. They're also discovering some of the systems or soft-

REV-REC GUIDANCE

Below are some guidelines from Deloitte for implementing the revenue recognition requirements.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance.

Timing

The effective date for public registrants has been deferred to 2018 for calendar year-end (annual reporting periods beginning after December 15, 2017). Early adoption as of the original effective date (2017 for calendar year-end) is permitted. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The delayed effective date and transition options are intended to allow companies a reasonable timeframe to comply. However, addressing some areas of the FASB Accounting Standards Codification may require longer lead-time, particularly related to revenue or billing systems where separation and/or allocation changes may be required, so companies should perform a preliminary analysis of the new requirements on a timely basis.

Considerations and challenges

The changes may present complexity for companies in various industries. Examples of some of the challenges are:

» Bundled goods and services
» Transaction price calculations
» Contract considerations (i.e., contract combinations and modifications)
» Capitalization of costs to acquire customer contracts
» Disclosures
» Tax

Organizations may need to consider other project needs, including:

» Implementation of updated or new systems, processes and controls, where required
» Effective training and communication of new requirements
» Effective program and resource management related to this effort

Source: Deloitte

"Some companies are still having bandwidth issues and are frankly trying to understand how the new standard is going to apply to them."

Alex Wodka, Partner in Charge of Audit Delivery, Crowe Horwath

ware that they need are still in the process of being developed. That is producing a serious time crunch on companies that want to have systems in place four to six months ahead of the go-live date to enable trial runs, he says.

Auditors also are starting to get engaged on the new standard and are advising companies to be prepared not only to adopt significant accounting change, but also to document or defend where they determine the accounting won't need to change under the new rules. "How do they obtain sufficient evidence to support an evaluation that certain revenue streams do not have a change?" asks McGaw.

Given the state of adoption readiness across public companies, it's not yet clear whether public companies by year-end 2016 will have much more to say about whether they will adopt the standard under either the full retrospective method or the modified retrospective method permitted under the new rules. "We're not seeing a lot of companies publicly stating which transition method they're going to apply," says McGaw. "Even if a company hasn't yet made determinations, it would be helpful if they provided some more color as to the timing of when they expect that to occur."

Michael Burke, partner at regional accounting firm UHY, says he sees companies still in the early stages, but he's urging them to have a plan in place by about the fourth quarter so they will be able to line up the necessary resources, whether internally or externally. ■