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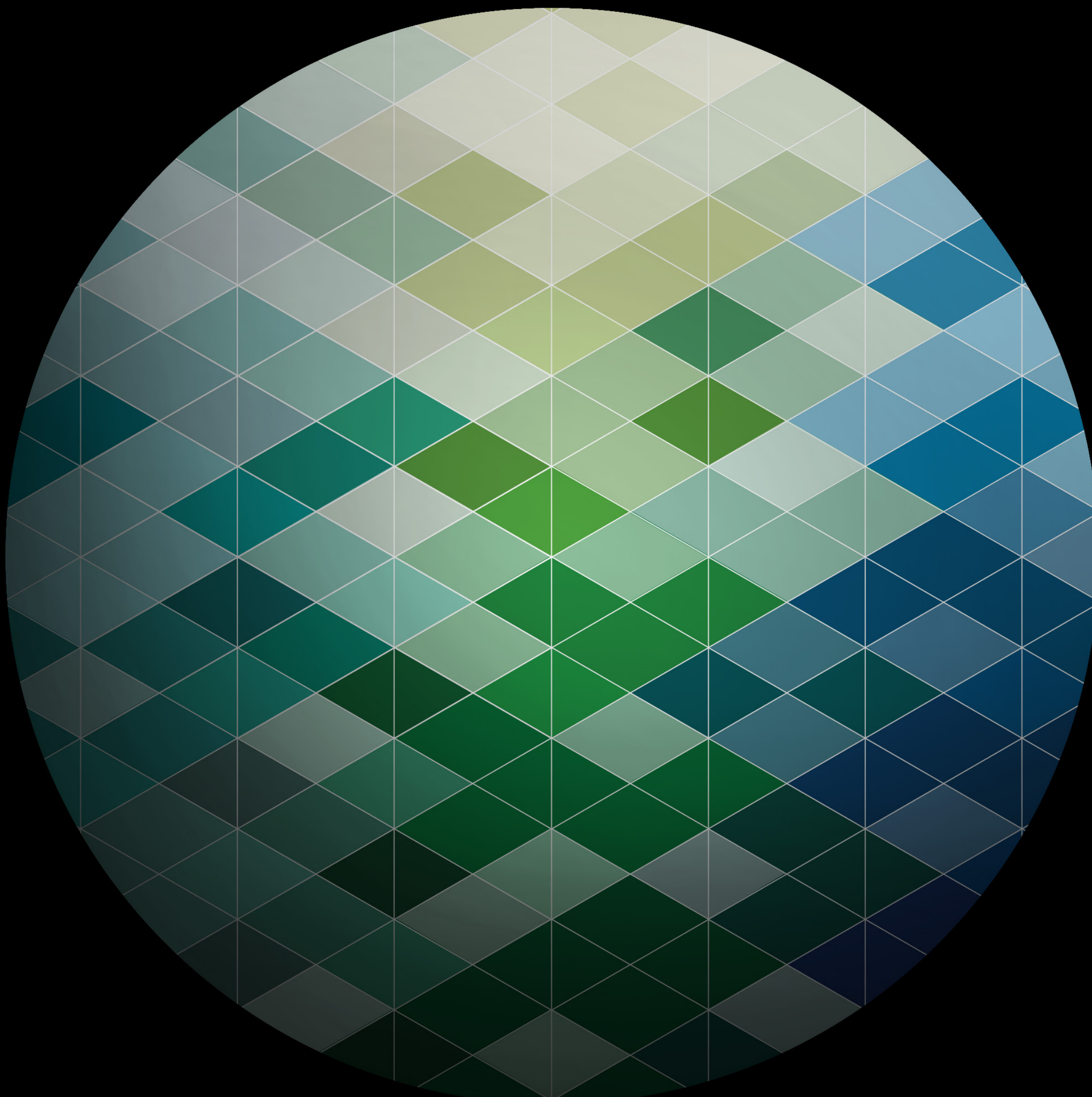


Revenue Recognition

The Way Forward

Executive Summary

May 8, 2017 | Washington, D.C.

With a panoramic view of the Washington D.C. skyline, Deloitte & Touche LLP and Bloomberg BNA convened for a conference on May 8, 2017, at the Newseum building. National leaders in the Life Sciences, Technology, Media and Telecom industries descended upon the nation's capital, joining top financial reporting regulators to discuss Revenue Recognition—a topic that has been the center point of the financial reporting world for the better part of a decade.

What We Learned

Many public companies are viewing January 1, 2018, the new revenue recognition effective date with as much anxiety as anticipation. As evidence, more than two-thirds of conference poll respondents were still assessing the standard's impact on their businesses, or worse, hadn't started the process altogether.

Accounting departments may serve as the front line, but the new standard's effects will be company-wide. Panelists agreed that it will be implemented through an interconnected web, encompassing all areas of the corporate hierarchy, including: information technology (IT), legal, human resources, among several other departments. A panel member on the implementation challenges discussion took it a step farther, stating, "With how long it generally takes to make IT adjustments, if you are just now starting to implement them, it's already too late."

Alfred Popken, National Managing Partner of Accounting Advisory at Deloitte & Touche LLP

The new standard will not affect every company's revenue, but it will affect every company. Whether through internal controls, added disclosures, IT, or contract adjustments, companies can expect a transition when the calendar year turns.

Ready, Set, Go.

George Farrah, Executive Editor at Bloomberg BNA, and one of Accounting Today's 2016 top 100 most influential people in accounting, opened the conference by stressing the importance of having quality and current interpretations of the new standard. He highlighted Bloomberg BNA's renown accounting "portfolios" as a key information resource in the space, vital for accurate assessment and implementation of the new standard.

Alfred Popken, National Managing Partner of Accounting Advisory at Deloitte & Touche LLP, concluded the opening remarks section of the conference with an anecdote, comparing his journey to the conference with the constant difficulties companies will face in recognizing revenue under the new standard. "If I get kicked off my flight and the airline reimburses me ten thousand dollars for my troubles, how should I recognize the revenue," Popken asked in jest, referring to the infamous United Airlines passenger debacle. His quest to reach the conference included an "overpriced cup of coffee" and an Uber ride, where he faced revenue recognition issues such as loyalty points and split revenue streams.

SEC Rep Advocates for a "Fresh Look"

In her keynote address, Sylvia Alicea, Professional Accounting Fellow at the SEC's Office of the Chief Accountant, petitioned all companies to take a "fresh look" at the standard's impact on corporate financial statements. She acknowledged that the majority of evaluations conducted on early adopters revealed the recognition of most revenue streams had not changed significantly when compared to similar data from current guidance.

Public companies' recent quarterly and annual reports have commonly concluded that the new revenue recognition standard will not materially affect corporate financial statements. When polled, 52% of audience members at the conference in Washington D.C. concurred with that assessment.

Sylvia Alicea, Professional Accounting Fellow, SEC's Office of the Chief Accountant

In perhaps a rejection of those conclusions, Alicea stated, "The changes in the new standard will impact almost all companies," including the recognition, measurement, presentation, and disclosure segments of revenue recognition.

For companies still in search of revenue recognition assistance, Alicea suggested that "management may find third party resources helpful in the transition," but cautioned against deferring to outside consultants, as the ultimate responsibility falls on the shoulders of management to accurately recognize their company's revenue.

What to Expect from the New Standard: The SEC and Deloitte Converge

Nearly six months from the initial revenue recognition effective date, preparers are looking to the SEC, and outside consultants such as Deloitte, for unanswered questions and guidance on implementation.

Sarah Esquivel, Associate Chief Accountant at the Office of the Chief Accountant with the SEC, outlined the role of different divisions within the SEC in the adoption of the new standard. She explained that the SEC's Office of the Chief Accountant (OCA) would play a more forceful role pre-effective date and that the Corporate Finance division would expand its efforts post-effective date. She stated, "The OCA will focus on evaluating corporate consultations and monitoring transition efforts," including Transition Resource Group (TRG) meetings and the support of training and educating companies on the coming standard.

The sheer volume of AICPA working groups and issues that lead to TRG discussion topics will promote "lots of interaction between preparers, regulators, and standard setters," said Eric Knachel, Senior Consultation Partner for Revenue Recognition at Deloitte & Touche LLP. While some data isn't yet quantifiable, companies should work on "building out qualitative disclosures" responded Esquivel. The focus of the evolved standard is to transition to a process of recognizing revenue that is "informative to investors." Companies "need to consider judgments and disclose how judgments are being made."

Adopting the Revenue Recognition Standard panel

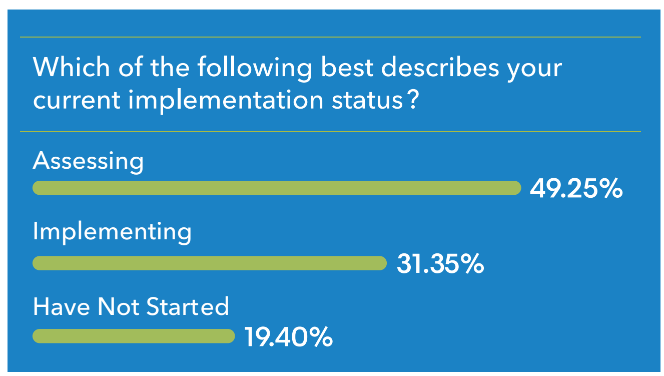
In a principles-based approach "the most important challenge will be how companies balance judgement versus consistency," emphasized Knachel.

The panel was moderated by N. Peter Rasmussen, Senior Legal Editor at Bloomberg BNA.

Hot Issues Emerge in Revenue Recognition

The conference also tackled "hot issues" associated with the standard. The session opened with two polling questions about the current state of revenue recognition implementation and projected budget planning for the transition.

The poll showed that 49% of the respondents were still assessing their current implementation of the new revenue recognition standard, 31% were implementing, 19% had not started, and 0% were completed. Furthermore, 56% had not established a budget for implementation, with 28% concluding it was in their current budgets, and 16% were unsure.



Both were startling revelations considering the current revenue recognition timeframe.

Consistency vs. Judgment

The panelists and speakers spoke to the divergence from a rules based standard towards a principles based one that will require more corporate subjectivity. They acknowledged that there may be objective ways we have recognized revenue in the past, which will now require elevated levels of judgment. The panel posed an example regarding two contracts, signed two hours apart, between parties with identical terms and conditions. Are those contracts capable of being grouped and accounted for as a single performance obligation? Likely. However, what if the time period was two days, two weeks, or two months? At what point can we no longer group the contracts is a judgment call.

Varying Methods of Adoption

The speakers discussed full retrospective versus modified retrospective applications and the importance of involving stakeholders. When posed the question, "What method of adoption is your company employing for the revenue recognition standard?" 37% of the respondents were unknown. 39% are adopting, or are leaning towards adopting the modified retrospective application, 24% are adopting, or are leaning towards adopting the full retrospective application.

Hot Issues in Revenue Recognition panel discussion

The panel was moderated by Steve Burkholder, a Bloomberg BNA Staff Correspondent and included panelists: Eric Knachel, the Senior Consultation Partner of Revenue Recognition at Deloitte & Touche LLP; Stephen Rivera, the Worldwide Senior Director of Financial Compliance and Procedures Group at Johnson & Johnson; and Paul Vigil, the Senior Director of Revenue Recognition at BMC Software.

Auditing Revenue--View from the PCAOB Deputy Chief Auditor

"Being objective, being questioning, and being skeptical are essential for getting the audit of the new revenue standards right," said Patrick McNamee, the PCAOB Deputy Chief Auditor. McNamee added that auditors will need to challenge the judgment made in applying the new standards. "Go off the trail and think alternatively" to be able to evaluate the appropriateness of the ASC 606 implementation. To conduct an effective audit on revenue, McNamee urged auditors to follow Staff Audit Alert 10, Maintaining and Applying Professional Skepticism in Audits, 11, Considerations for Audits of Internal Control over Financial Reporting, and 12, Matters Related to Auditing Revenue in an Audit of Financial Statements.

Coordinating With Your Auditors

Should you get your auditor involved in implementing the new revenue standards? The panelists unanimously agreed: "You don't want your auditors to make the decisions for you, but you do want to make sure that your auditors don't think something very differently than how you think, and if they do, you would want to know that as soon as possible," Randy Rasmussen, Medidata Solutions Vice President said at a roundtable, Coordinating With Your Auditors. "Bad news from your auditor is like fish, it does not get better with time" he said, referring to the importance of working through issues early. The new revenue standards require a lot of judgment and estimates, therefore, "getting your auditors involved early and keeping them engaged" are definitely necessary, added DrFirst, Inc., CFO David Samuels.

FASB Continues to Offer Guidance with the Implementation of the New Revenue Recognition Standard

In a luncheon keynote address, FASB member Marc Siegel, discussed the work of the FASB subsequent to the issuance of the new standard. He stated that the FASB's work is not complete with the issuance of a new standard, and it will continue to offer help and guidance with implementation of larger standards. In order to assist in this mission, the FASB formed the Transition Resource Group, which holds public meetings addressing the implementation issues brought to their attention by preparers. Minutes of these meetings are available on the FASB website. Over one hundred questions were received from preparers subsequent to the issuance of ASU 2014-09, resulting in the issuance of three additional Accounting Standard Updates: ASU 2016-20, Technical Corrections and Improvements to Topic 606; ASU 2016-10, Identifying Performance Obligations and Licensing; ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The FASB's website has industry specific webcasts to help address their implementations.

Begin Revenue Recognition Disclosures Early

A Disclosure Roundtable: The Challenges Ahead

With the possibility of extensive, time consuming system changes required to obtain the data necessary for a company to complete the disclosure requirements of the new revenue recognition standard, preparers were advised to begin work on disclosures early. Examples of new disclosures include the remaining uncompleted performance obligations as of the end of the reporting period. Specifically, the entity must disclose the amount of the transaction price allocated to unsatisfied performance obligations and when it expects to recognize this revenue. There will be new disclosures of variable considerations, e.g. incentives, price concessions, discounts, credits, rebates, sales and returns, will require further disclosure.

The revenue recognition disclosures are not a "one size fits all." Considerable judgement must be used by management. This will require the coordination of many different groups within the entity, and companies are expected to fully document the process used to reach these judgments.

The panel was led by moderator George Farrah with guest speakers Dennis Howell, Senior Consultation Partner with the National Office Accounting Services Group at Deloitte & Touche LLP; Mary Mazzella, Senior Project Manager at the FASB; and Stephen Rivera, Worldwide Senior Director of Financial Compliance and Procedures Group with Johnson & Johnson.

Keep Stakeholders Aware to Avoid Sticker Shock

Ryan Cahill, Senior Manager of Revenue Accounting, Blackboard Inc.

There was a firm sense of urgency to start early in the implementation process, to include many different groups within the entity, and to document the entire process. The panel advised preparers to include the audit committee and external auditors early in the implementation process and to keep the board members informed to avoid "sticker shock" over the cost of implementation. Furthermore, it was recommended not to overlook needed human resources involvement, as changes in revenue recognition will affect performance based awards such as bonuses and stock options.

The panel was led by moderator Bryan Anderson, a Partner in Accounting & Reporting Transformation with Deloitte & Touche LLP, and included guest speakers: Ryan Cahill, the Senior Manager of Revenue Accounting with Blackboard Inc.; Randy Rasmussen, the Vice President and Corporate Controller with Medidata Solutions; and Paul Vigil the Senior Director of Revenue Recognition at BMC Software.

Revenue recognition colleagues network at the rooftop reception

Bloomberg BNA is following the new revenue recognition project closely. Our correspondents cover FASB, SEC, IASB and the AICPA, and provide valuable insights on the boards' decisions on revenue recognition. We have also interviewed corporate industry representatives for their perspectives on implementing the new rule. For a free trial to the Financial Accounting Resource Center visit **www.bna.com/FARC**

Deloitte works closely with clients to help assess the impact of the new standard to the organization and support the business through the implementation phase, bringing the breadth and depth of experience required from functions such as accounting, data, process, technology, controls, tax, and financial reporting. We have the experience and capabilities to assist you on this journey.
Visit us on **www.deloitte.com/us/audit.**

The Deloitte difference

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