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Full Retrospective, Modified, or In-Between?

Learning to Implement

Revenue Recognition

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Inside this e-Book:

Deloitte Sees Shift to Full Retrospective Adoption

Deloitte questionnaire says many organizations will present three full years worth of financial data beginning with the adoption of the new revenue standard in 2018, reflecting that they'd used the standard for those three years

by Tammy Whitehouse

Choosing an option for implementing the revenue recognition standard—full retrospective, modified retrospective, or a mix of both—may have some companies stymied, but according to the latest data from Deloitte & Touche LLP, public companies are now starting to lean toward a full retrospective adoption.

In a recent questionnaire of more than 170 representatives of primarily technology, media, and telecommunications companies, 38 percent said they were leaning toward or firmly decided on adopting the new revenue standard following the full retrospective approach. That means companies would present three full years worth of financial data beginning with the adoption of the new standard in 2018 as if the company had been following the new standard for all three of those years.

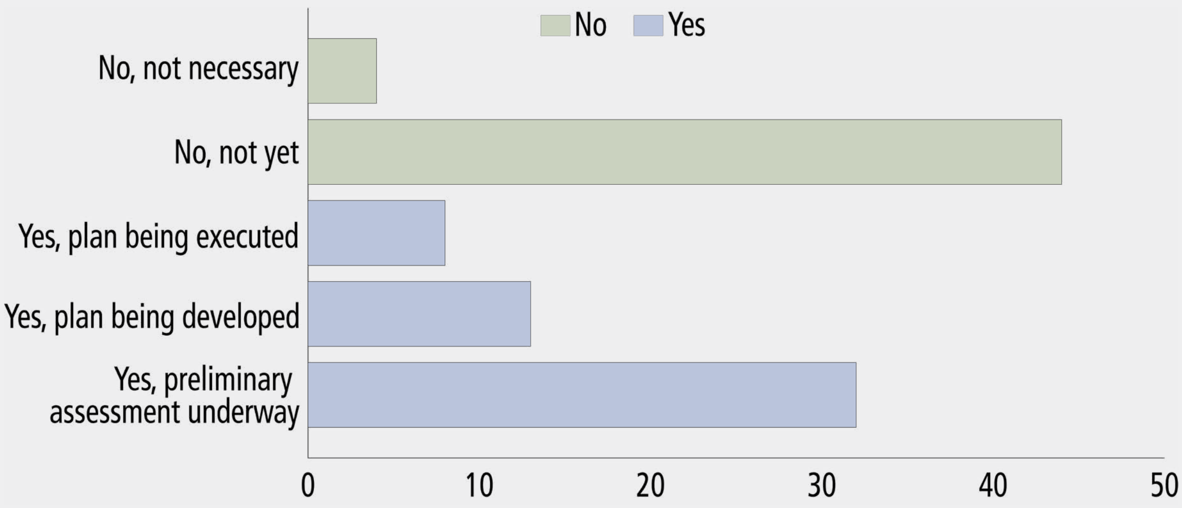
Knachel

By comparison, only 25 percent of respondents to the poll said that they were leaning toward or had firmly decided on adopting the revenue standard under the modified retrospective approach. Under that method, companies would present historical data using cumulative-effect adjustments with disclosures. More than one-third of those participating in the Deloitte survey, or 37 percent, said they were still undecided on which method they will follow to implement the new standard.

"There does appear to be a shift in the thinking by companies," says Eric Knachel, an audit partner at Deloitte & Touche LLP. "A year ago, many were thinking they would follow the modified retrospective approach. Now more are leaning toward the full retrospective

HOW MANY ARE PREPARED?

Deloitte polled 170 representatives of technology, media, and telecom firms on adoption of the new revenue standard. Below are their responses to the question, "Have You Started to Implement the New Standard?"



Source: Deloitte

approach. It is still early in the evaluation stage, but this is a significant shift." This is in comparison to an earlier survey undertaken by PwC that found that many companies were lagging in performing their assessments and planning implementation.

Why the Shift?

Companies are likely moving toward a full retrospective approach at least in part, says Knachel, to meet expectations of analysts, who are concerned about comparability. "Analyst expectations is a significant factor," he says.

In addition, many organizations may be finding that the added effort under the full retrospective approach may not be as great as they initially expected. In addition, these companies may be sensitive to what their industry peers are planning. "As peer companies in an industry are evaluating this and thinking about going with the full retrospective approach, others want to be comparable, so there's a little bit of a domino effect," Deloitte's Knachel says.

According to the Deloitte questionnaire, fewer than 10 percent of individuals said that their organizations have begun executing an implementation plan, while only slightly more than 10 percent said they were developing a plan.

> "There does appear to be a shift in the thinking by companies. It is still early in the evaluation stage, but this is a significant shift. A year ago, many were thinking they would follow the modified retrospective approach. Now more are leaning toward the full retrospective approach."
>
> Eric Knachel, Audit Partner, Deloitte & Touche LLP

More than 30 percent said they were still performing their preliminary assessments. Only 13 percent of individuals said their companies had established a budget for implementation, and more than half said they didn't know yet if the standard would have a material impact on their financial statements.

For more information on the Deloitte questionnaire, including results from a poll taken during a 2015 conference from the American Institute of Certified Public Accountants, go to http://www.iasplus.com/en-us/publications/us/heads-up/2016/issue-2?_ga=1.25620669.1078446716.1459260527#footnote4. And for help on implementing the new revenue standard, visit http://www2.deloitte.com/us/en/pages/risk/solutions/revenue-recognition.html. ■

KEY TAKEAWAYS

Below, Deloitte offers some key implementation considerations on the new revenue standard.

The standard replaces almost all current revenue guidance (including industry-specific guidance), greatly enhances the related disclosure requirements, and requires entities to use significant judgment (e.g., in determining variable consideration in a contract with a customer or whether collectability from a customer is probable).

Therefore, entities will need to establish appropriate processes, systems, and internal controls to account for contracts with their customers under the new standard. These activities are expected to require significant time and effort.

While the deferral gives entities more time to implement the new standard, for many entities — particularly public entities that will adopt the standard on a full retrospective basis — the first annual period to which they will need to apply the standard is fiscal years beginning on or after January 1, 2016. The following are some key takeaways related to implementing the new revenue standard:

- We understand that many companies have decided to implement (or continue to consider implementing) the new standard by using the full retrospective transition method.
- Many investment analysts have expressed their belief that the new standard should be adopted on a full retrospective basis, contributing to companies' thinking about whether to use that basis to adopt the new standard.
- Most companies are in the early phases of assessing the effects of the new standard on revenue contracts with their customers, and many companies have not begun a formal assessment process — in part because of recent clarifications to the new standard that have not been finalized.
- Regardless of whether additional clarifications are made to the new revenue standard, companies will most likely be expected to provide information to investors, analysts, regulators, and other stakeholders about expected impacts related to their implementation efforts. Therefore, entities will need to track such information.
- It will take time for companies to develop and test appropriate changes to their systems, processes, and internal controls related to accounting for contracts with customers and tracking information. Complexities due to an entity's size, the number of geographical regions in which it operates, and the nature of its revenue streams could add considerable time to these efforts.
- For public entities (or nonpublic entities that may elect early adoption) that elect to implement the new revenue standard on a full retrospective basis, the annual period beginning on January 1, 2016, is the first reporting period for which revenue will need to be reported under the new standard.
- We believe that implementation of the new revenue standard should be a priority for companies in 2016.

Source: Deloitte

FASB Wraps Up Rev-Rec Technical Decisions

FASB may add a practical expedient to the disclosure rules around certain variable consideration types and make improvements to the qualitative disclosure requirement

by Tammy Whitehouse

The Financial Accounting Standards Board has determined how it wants to address questions around certain aspects of the disclosure requirements for unmet performance obligations in the new revenue recognition standard.

At its most recent regular meeting, FASB decided to add a practical expedient to the disclosure requirements around certain types of variable consideration. The board also determined it wants to make some improvements to the qualitative disclosure requirement for remaining performance obligations that is explained currently in Accounting Standards Codification Topic 606-10-50-15.

FASB determined an entity applying the practical expedient would not need to include two types of variable consideration in the disclosure of performance obligations that are recognized but not yet met on the financial statement date. They include sales-based or usage-based royalties promised in exchange for a license of intellectual property and variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a distinct good or service that forms part of a single performance obligation and meets criteria elsewhere in the standard.

It represents the last technical correction FASB has on its agenda currently around the new revenue recognition standard, originally finalized in 2014 and taking effect in 2018. FASB previously instructed the staff to draft the proposed Accounting Standards Update containing a host of other corrections and amplifications, so this decision finalizes that proposed package to be issued for public comment soon.

FASB previously issued proposals to provide clarifications on identifying performance obligations, licensing, and recognizing revenue on a net versus gross basis. The board delayed the original effective date from 2017 to 2018 as many organizations said they needed more time to adopt the standard and continued to bring questions to the Transition Resource Group operated jointly by FASB and the International Accounting Standards Board.

FASB recently scheduled three new meetings for the TRG continuing into late 2016 so that the group can continue to field questions as they arise. It's not yet clear whether the Transition Resource Group might refer any such questions to FASB for future standard setting. In addition, the International Accounting Standards Board said in January that it planned to make no further changes to its standard under International Financial Reporting Standards, so it didn't plan to actively participate any further in the TRG discussions. ■

FASB MARCH 9 MEETING

Below are tentative FASB decisions from a March 9, 2016, meeting on revenue recognition.

Topic 606 pre-agenda research. The board discussed certain aspects of the disclosure requirements for remaining performance obligations. The board decided to add a practical expedient to the requirement to disclose remaining performance obligations for certain types of variable consideration. The board also decided to make improvements to the qualitative disclosure requirement for remaining performance obligations (in paragraph 606-10-50-15).

An entity applying the practical expedient would not need to include the following types of variable consideration in the disclosure of remaining performance obligations (paragraph 606-10-50-13):

» Sales-based or usage-based royalties promised in exchange for a license of intellectual property

» Variable consideration that is allocated entirely to a wholly unsatisfied performance obligation or to a distinct good or service that forms part of a single performance obligation and meets the criteria in paragraph 606-10-32-40.

Next Steps

The board had previously directed the staff to draft a proposed Accounting Standards Update for vote by written ballot on technical corrections and improvements related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). The board instructed the staff to include these proposed amendments in that proposed Update.

Source: FASB

SEC Advises Caution on Revenue Policies

While international regulators have finished with revenue recognition, the SEC continues to advise firms to scrutinize U.S. regulators' impending work on the standard

by Tammy Whitehouse

International regulators may be finished with their tinkering of the new revenue recognition standard but implementation discussions continue in the United States, and the Securities and Exchange Commission is advising organizations to watch them carefully.

The Financial Accounting Standards Board has scheduled three new meetings through November 2016 for the Transition Resource Group that is airing and answering implementation questions on the new revenue recognition standard. The group has taken in more than 80 separate questions that preparers have raised so far as they study the new standard and prepare to adopt it.

FASB and the International Accounting Standards Board have addressed a handful of the issues with updates to the standards to provide clarifications. FASB continues to consider how to address practical expedients to the disclosure requirements around unmet performance obligations.

The TRG's "submission tracker," which catalogs the 80-plus questions that have been raised, indicates FASB staff is studying questions around the interplay of the new revenue recognition rules with impairment guidance to determine if more standard setting might be warranted. A few more questions around contract modifications and the scope of the standard will be discussed at an upcoming TRG meeting, according to the tracker.


Bricker

The IASB said in January it is finished with its consideration of possible changes to the revenue recognition standard and does not plan to participate in further TRG meetings. "However, the TRG will not be disbanded and will be available for consultation by the board if needed," the IASB said in its announcement. "In addition, there is still scope for IFRS stakeholders to submit issues through the website."

Wesley Bricker, SEC deputy chief accountant at the SEC, said during a recent securities regulation conference that the SEC continues to monitor TRG activity and advises companies to do the same. SEC staff plan to use the TRG discussions as a baseline for assessing the appropriateness of the revenue recognition policies companies adopt as they implement the new standard, he said.

The SEC staff is advising companies to use extreme caution when they study a TRG determination, one that has been discussed in an open meeting and documented in minutes, yet decide on a different course for their own revenue recognition accounting policies. Bricker said companies would be well advised to discuss such a departure from the TRG view with staff at the Office of the Chief Accountant before relying on such a position. ■

> "SEC staff plan to use the TRG discussions as a baseline for assessing the appropriateness of the revenue recognition policies companies adopt as they implement the new standard."
>
> Wesley Bricker, Deputy Chief Accountant, SEC

FASB MEETING INFORMATION

Below are details on the upcoming FASB meetings.

The TRG meetings will be video-webcast live on the FASB's and the IASB's websites.

Meetings will be co-chaired by the Vice-Chairmen of FASB and the IASB and will take place at the FASB's office in Norwalk and the IASB's office in London.

Those interested in attending the meeting in person at either FASB's office or the IASB's office must reserve a seat in advance, as seating is limited.

Please refer to FASB's meeting webpage and the IASB's meeting webpage for further details on registration and webcast.

Please note: All meetings are tentative based on the number of substantive issues received by the FASB. Meetings will be confirmed or cancelled at least one month in advance of the scheduled meeting date.

[UPCOMING] MEETING DATES:

» November 7, 2016

» July 25, 2016

» April 18, 2016

Source: FASB

Deloitte.

January 14, 2016
Volume 23, Issue 2

Heads Up

In This Issue

The New Revenue Standard — Adoption and Transition Observations

by Joe DiLeo and Eric Knachel, Deloitte & Touche LLP

Introduction

Since the May 2014 release of the FASB's and IASB's new revenue standard (issued as ASU 2014-09[1] by the FASB and IFRS 15[2] by the IASB), the boards have been working to identify issues related to the standard's implementation. The boards' joint revenue transition resource group (TRG), which was formed to provide feedback on the standard's implementation, has held six meetings thus far. These meetings have resulted in a one-year deferral of the standard's effective date[3] and certain other proposed clarifications to the new guidance.

The standard replaces almost all current revenue guidance (including industry-specific guidance), greatly enhances the related disclosure requirements, and requires entities to use significant judgment (e.g., in determining variable consideration in a contract with a customer or whether collectibility from a customer is probable). Therefore, entities will need to establish appropriate processes, systems, and internal controls to account for contracts with their customers under the new standard. These activities are expected to require significant time and effort.

While the deferral gives entities more time to implement the new standard, for many entities — particularly public entities that will adopt the standard on a full retrospective basis — the first annual period to which they will need to apply the standard is fiscal years beginning on or after January 1, 2016.

The following are some key takeaways related to implementing the new revenue standard:

- We understand that many companies have decided to implement (or continue to consider implementing) the new standard by using the full retrospective transition method.
- Many investment analysts have expressed their belief that the new standard should be adopted on a full retrospective basis, contributing to companies' thinking about whether to use that basis to adopt the new standard.

[1] FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers* (codified in ASC 606).
[2] IFRS 15, *Revenue From Contracts With Customers*.
[3] Unless early adoption is elected, public and nonpublic entities reporting under U.S. GAAP are required to implement the provisions of the new revenue standard for annual reporting periods beginning after December 15, 2017, and December 15, 2018, respectively, and entities may use either a full retrospective or modified retrospective transition method. Along with the one-year deferral, entities reporting under U.S. GAAP are permitted to early adopt the new revenue standard; however, such early adoption is limited to the original effective date (i.e., generally annual periods beginning after December 15, 2016, and December 15, 2017, for public and nonpublic entities, respectively).

- Most companies are in the early phases of assessing the effects of the new standard on revenue contracts with their customers, and many companies have not begun a formal assessment process — in part because of recent clarifications to the new standard that have not been finalized.
- Regardless of whether additional clarifications are made to the new revenue standard, companies will most likely be expected to provide information to investors, analysts, regulators, and other stakeholders about expected impacts related to their implementation efforts. Therefore, entities will need to track such information.
- It will take time for companies to develop and test appropriate changes to their systems, processes, and internal controls related to accounting for contracts with customers and tracking information. Complexities due to an entity's size, the number of geographical regions in which it operates, and the nature of its revenue streams could add considerable time to these efforts.
- For public entities (or nonpublic entities that may elect early adoption) that elect to implement the new revenue standard on a full retrospective basis, the annual period beginning on January 1, 2016, is the first reporting period for which revenue will need to be reported under the new standard.
- We believe that implementation of the new revenue standard should be a priority for companies in 2016.

Editor's Note: At the 2015 AICPA Conference on Current SEC and PCAOB Developments, Wesley Bricker, deputy chief accountant in the SEC's Office of the Chief Accountant (OCA), highlighted the importance of the revenue metric to investors and suggested that a successful implementation of the new revenue standard is critical for the financial reporting system. He shared some recent survey results suggesting, however, that implementation efforts are lagging (i.e., a significant majority of responding companies had not completed their initial impact assessment and, of those, a third had not begun at all). In addition, informal polling results at the conference indicated that the majority of respondents were either still educating themselves about the standard or still performing their initial assessment, while a minority had completed their initial assessment or were making process and system changes necessary to implement the standard. For additional information about the 2015 AICPA Conference, see Deloitte's December 15, 2015, *Heads Up*.

This *Heads Up* discusses certain considerations related to implementing the new revenue standard and includes data from an informal Deloitte-sponsored survey.

Implementation Considerations and Challenges

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 and allows entities to apply certain optional practical expedients at their discretion. 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 revenue balances when the new revenue standard becomes effective.

Over the past few months, Deloitte has sponsored various seminars on the new revenue standard and obtained feedback from participants through questionnaires.[4] Figure 1 shows survey respondents' "thoughts" regarding the transition method they may adopt:

[4] Responses to questionnaires were received from over 170 individuals in various industries, with a majority of the responses from those in the technology, media, and telecommunication industries.

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

	Full Retrospective	Modified Retrospective	Undecided	Total
Affirmative	10%	4%	–	14%
Preliminary “leaning”	28%	21%	–	49%
Undecided	–	–	37%	37%
Total	38%	25%	37%	100%
Nonaffirmative				86%

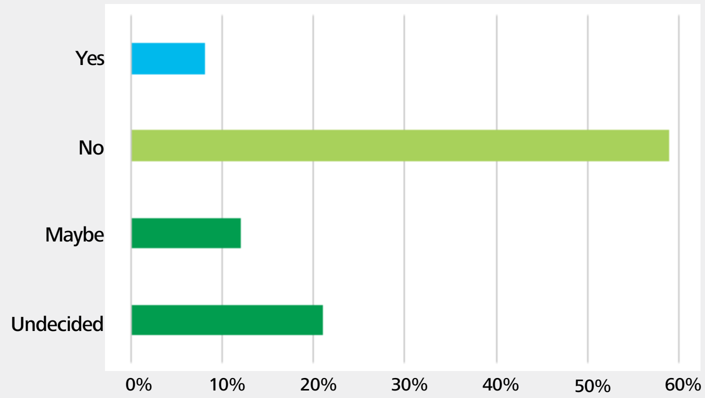
Only 14 percent of respondents indicated an affirmative decision on a method of adoption, with 10 percent noting they would adopt the new revenue standard on a full retrospective basis. Overwhelmingly, respondents had not reached a definitive conclusion regarding selection of a transition method. Of the 86 percent that had not affirmatively responded on which method they would use for adoption, 49 percent indicated a “preliminary leaning” to one of the new revenue standard’s transition methods.

Editor’s Note: Like Deloitte’s above survey results, informal polling during the 2015 AICPA Conference indicated that most preparers had still not decided which transition method to use and that the percentages of those with a preliminary leaning toward the full retrospective method and those with a preliminary leaning toward the modified retrospective method were now relatively even.

In deciding which transition method to use, companies should confer with key stakeholders and gain an understanding of the methods used by peer companies. The greater the differences expected between a company’s legacy revenue accounting and accounting for revenue under the new standard, the more the company may want to consider using the full retrospective transition method. Under this method, the company would reflect revenue consistently for all years presented in its financial statements rather than for only the latest year presented, as is permitted under the modified transition method.

In addition, entities are permitted to early adopt the new revenue standard. (However, under U.S. GAAP, early adoption is limited to the effective date before the standard’s deferral.) As shown in Figure 2, nearly 60 percent of respondents to Deloitte’s survey do not plan to early adopt the new standard.

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



Editor's Note: At the 2015 AICPA Conference, members of a revenue panel noted that early adoption may be difficult given the current status of implementation efforts, continued diversity in practice, and the ongoing issuance of clarifying guidance by the FASB and IASB.

Accounting Processes and Internal Controls

Management will need to exercise significant judgment in applying certain aspects of the new revenue standard's requirements, including those related to the identification of performance obligations and allocation of revenue to each performance obligation. Accordingly, to comply with the new revenue standard's new accounting and disclosure requirements, entities will have to (1) document new or different judgments and (2) gather and track information that they may not have previously monitored. The systems and processes associated with such information may need to be modified to support the capture of additional data elements that may not currently be supported by legacy systems. Further, to ensure the effectiveness of internal controls over financial reporting, management will want to assess whether it should revise existing or implement additional controls. In assessing the effect of applying the new revenue standard on systems, processes, and internal controls, entities may need to consider questions such as the following:

- What processes should entities implement to identify all goods and services in a contract with a customer?
- How will entities estimate the stand-alone selling price for contracts involving multiple goods or services?
- How will entities ensure consistency of judgments in identifying performance obligations, estimating stand-alone selling prices, and progress toward completion?
- What systems, processes, and controls are necessary to reliably estimate variable consideration and determine whether it is probable that a significant reversal of revenue will not occur?
- Will entities need new processes and controls to identify and capitalize contract costs that would be considered incremental?
- Will entities need to implement new processes and controls to periodically review contract costs and to test capitalized amounts for recoverability or impairment?
- When should new policies and procedures be designed and implemented?

Despite the potential for significant changes to systems, processes, and internal controls, many respondents to Deloitte's survey indicated the following about their current state of readiness to implement the new revenue standard:

Figure 3 — Have You Started to Implement the New Standard?

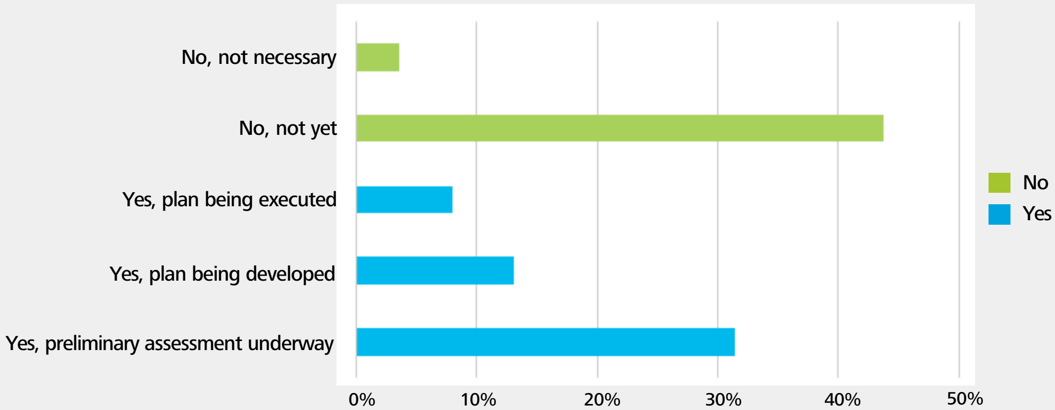


Figure 4 — Have You Established a Budget for Implementation?

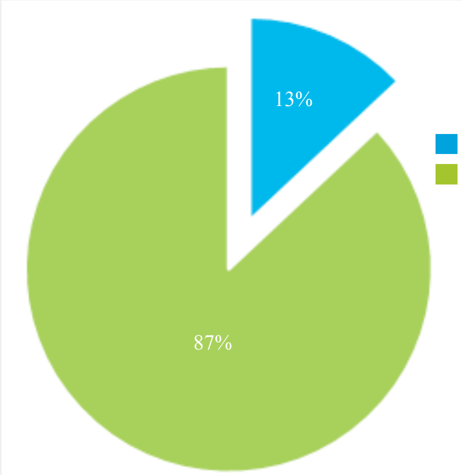
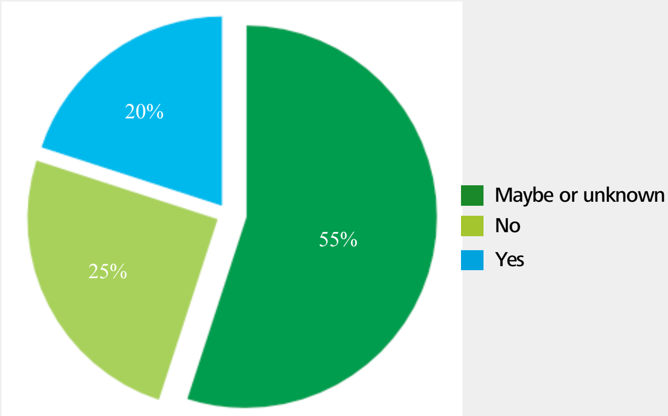


Figure 5 — Do You Expect the New Standard to Have a Material Impact?



Only 25 percent of respondents believed that the new revenue standard would not have a material impact on their financial statements. In comparison, 75 percent of respondents indicated the standard would or could have a material impact on their financial statements. However, 43 percent of respondents have not started to implement the new revenue standard and of the respondents that have started, most indicated that they are in the very early phases of their implementation process. In addition, only 13 percent of respondents indicated that they have formally established a budget for implementing the new revenue standard.

Editor's Note: At the 2015 AICPA Conference, Ashley Wright, a professional accounting fellow in the OCA, noted that all companies should expect some degree of change to their accounting, processes, controls, judgments, and disclosures as a result of implementing the new revenue standard. Ms. Wright thus suggested that companies take a fresh look at their accounting policies and practices and have candid discussions with their audit committees, executive management, and auditors about the status of implementation plans and impact assessments. A change-management project plan, including an assessment of resources needed to execute that plan, should be a priority of company management and audit committees.

Implementation Resources Available to Preparers

The TRG has provided a public forum related to the new revenue standard and has addressed more than 50 implementation questions since its inception. (For more information about the TRG, see Deloitte's *TRG Snapshot* newsletters.) In addition, the AICPA has 16 industry task forces that address

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FASB Hits Pause on Rev-Rec Disclosure Provision

FASB meets to consider guidance around collectibility, contracts, and more, pausing on whether to add a practical expedient to disclosure rules

by Tammy Whitehouse

The Financial Accounting Standards Board has wrapped up several key decisions around narrow improvements to the new revenue recognition requirements, but its work is not finished.

The board met recently to consider comments and affirm its proposed guidance around collectibility, presentation of sales taxes, non-cash consideration, contract modifications, and more. The board did not come to a final decision, however, on whether to add a practical expedient to certain disclosure requirements regarding remaining performance obligations, instead asking the staff to perform additional research on the possible effects of such new provisions.

The board is stuck on how to address concerns raised through implementation efforts that a disclosure requirement focused on remaining performance obligations might be difficult to prepare and to audit in certain cases. Stakeholders are worried they may have to develop numbers strictly to meet the disclosure requirement that would not be necessary for purposes of recognizing revenue in the financial statements. FASB's staff offered relief ideas, but FASB members had concerns about all of them leaving potentially important information unavailable to investors.

"I want to be really careful with what changes we make to this disclosure," said FASB member Marc Siegel. "This disclosure has always been controversial. We tried to give practical expedients, and we negotiated those with investors and preparers in the room together about how to trade off costs and benefits. I'm afraid about the slippery slope if we say we are now going to start picking away at those disclosures."


Siegel

The standard takes effect in 2018, after FASB approved a one-year delay, requiring entities to follow a new five-step process for determining when and in what amounts to recognize revenue. FASB is winding down a handful of standard-setting projects based on questions that emerged from FASB's Joint Transition Resource Group with the International Accounting Standards Board.

In addition to the narrow-scope improvements, FASB also is developing guidance on identifying performance obligations, licensing, and recognizing revenue on a gross versus net basis. According to the board's technical agenda, the board has not set a final target for completing the narrow-scope improvements and practical expedients, but expects to complete the others in the first quarter. ■

FASB FEB. 10 MEETING

Below is more information and tentative decisions from the Financial Accounting Standard Board's February 10, 2016, meeting on the revenue recognition standard.

Collectibility

The board affirmed its proposals to:

» Clarify the objective of the collectibility criterion in paragraph 606-10-25-1. The objective of this assessment is to determine whether the contract is valid and represents a genuine transaction on the basis of whether a customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer.

» Add a new criterion to paragraph 606-10-25-7 to clarify when revenue would be recognized for a contract that fails to meet the criteria in paragraph 606-10-25-1. That criterion will allow an entity to recognize revenue in the amount of consideration received when the entity has transferred control of the goods or services, the entity has stopped transferring additional goods or services and has no obligation to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

Presentation of Sales Taxes

The board affirmed its proposal to provide a policy election that permits an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.

Non-cash Consideration

The board affirmed its proposals to:

» Specify that the measurement date for non-cash consideration is contract inception.

» Clarify that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration.

Disclosure of Remaining Performance Obligations

The board did not reach a decision on whether to add a practical expedient to the disclosure requirement for remaining performance obligations in paragraphs 606-10-50-13 through 50-14. The board instructed the staff to perform additional research about the effect of introducing an additional disclosure practical expedient for variable consideration that is not included in the transaction price for measurement and recognition of revenue.

Source: FASB

Full Retrospective, Modified, or In-between?

Some firms favor the idea of presenting three complete years of historical data under the new revenue rules, but many companies are lagging in the assessments necessary to make a determination

by Tammy Whitehouse

Those at the forefront of implementing the new revenue recognition accounting standard are starting to favor the idea of presenting three complete years of historical data under the new rules, but many companies are still lagging in the assessments necessary to make any determination at all.

Experts who are in the battle grounds helping companies wade through the massive new requirements and determine how they will comply with them say those furthest along are seeing the benefits of a full retrospective adoption. That means presenting 2016 and 2017 financial statement data in 2018, the year of adoption, as if the standard had been in effect all along.

A recent poll by Deloitte, for example, found 38 percent of 170 people representing primarily technology, media, and telecommunications companies said they were leaning toward or firmly decided on following the full retrospective method of adoption. Only 25 percent said they were leaning toward or firmly decided on the modified retrospective method, where historical data is presented using cumulative-effect adjustments and lots of disclosure. About a third remained in middle ground—uncertain.

> "If you're a company that does a lot of longer-term contracts, you can quickly see where just the disclosure of how you recognize revenue before and after will be difficult. What is the impact of the transition adjustment? And how should investors think about that going forward?"
>
> Brian Christie, Managing Director, FTI Consulting

"There does appear to be a shift in the thinking by companies," Eric Knachel, an audit partner at Deloitte & Touche, said in an earlier CW interview (see pages 4-5 of this e-Book). "It is still early in the evaluation stage, but this is a significant shift. A year ago, many were thinking they would follow the modified retrospective approach. Now more are leaning toward the full retrospective approach."

Dusty Stallings, a partner with PwC, said she is seeing some "gravitation" toward the full retrospective method as well. "As companies go through the process of assessing the effect of the standard, some are finding yes, they are going to have a large effect, so they need to do the full retrospective method to get good comparable information," she says.

John McGaw, a partner at EY, isn't seeing the same shift in his interaction with companies. "It is not clear to me that a large number of companies have sufficient information to make an educated decision around this right now," he says.

The decision of whether to adopt under the full or modified retrospective approach hinges on the magnitude of change not only to financial statements, but also systems and processes required to gather and process the necessary information, says McGaw. "That really requires a robust diagnostic to be substantially complete to reach part of those conclusions," he says. "A lot of companies just aren't there right now."

Companies might also consider other factors in deciding which method to adopt, such as analyst expectations and industry peers' plans, says Knachel. Stallings says she hears the analyst community stating a preference, even an expectation, for the full retrospective approach.

Kazim Razvi, a director in accounting research and policy for Fitch Ratings, says needs may differ between equity analysts and credit risk analysts. Analysts are aware that the full retrospective method may be difficult for companies in certain sectors with long-term contracts. "The full retrospective method will provide better historical data, and improve comparability but is not essential for our analysis," he says.

While the full retrospective method sounds daunting enough, some companies are discovering the modified approach presents challenges of its own, says Brian Christie, managing director at FTI Consulting. Under the modified approach, companies can continue to reflect historic, settled contracts under existing rules. Any ongoing contracts that would overlap the historic and adoption date periods would be presented with an adjustment to transition them to the new standard.

"If you're a company that does a lot of longer-term contracts, you can quickly see where just the disclosure of how you recognize revenue before and after will be difficult," says Christie. "What is the impact of the transition adjustment? And how should investors think about that going forward? That could quickly become a very difficult message to explain."

Companies also are coming to grips with the line item adjustments that are necessary, says Stallings. "You've got to figure out not only how revenue would have been different, but also taxes, compensation," she says. "You have to go line by line through the income statement and say: Is there anything else in here that would have changed because revenue would have changed?"

Where companies are considering the full retrospective method, in some cases it stems from a concern about revenue that might get lost in transition if the standard is adopted using the modified approach, says Mark Winiarski, a shareholder with audit firm Mayer Hoffman McCann.

Winiarski

Software companies, for example, may have deferred revenue that they cannot yet recognize following existing rules. Under the new rules, they will not be bound to the same deferral requirements, but the catch-up adjustments upon transition will push that deferred revenue directly to retained earnings. "If you don't do the full retrospective approach, that deferred revenue goes to retained earnings, and it never goes to revenue," he says.

McGaw says he sees companies discussing not just want they want to do in terms of an adoption method, but also what they are able to do. Companies that elect the full retrospective method would ideally be collecting and processing revenue data with the opening of the 2016 year under the new standard.

"As you start to look at the full retrospective method, how much accounting change you have, what resources you have internally and externally, what's the timeline available to you, what are the competing priorities, the change management effect inside the company," he says. "It's fair to say companies that have done meaningful work have a greater appreciation for the challenge at hand."

Experts working with smaller companies say many are still just beginning to grasp the changes that are coming. "The consensus I'm getting is most people we're talking with aren't sure what they're going to do yet," says Winiarski.

Diana Gilbert, senior consultant at RoseRyan, says many of her clients are not hearing any clamor from analysts or investors to provide a full retrospective set of data. "They are just going to try to deal with the change in as simplistic a way as possible," she says.

Jordan Scheiderer, senior manager at consulting firm MorganFranklin, says she's troubled by the state of implementation. "As a consultant, it stresses me out that we haven't made more progress," she says. "We're just now starting to see a pick-up in companies asking questions. For the life of me, it is very perplexing. A lot of companies don't know where to start. That's one of the challenges we're seeing." ■

PICK A METHOD

During various seminars on the new revenue standard, Deloitte asked participants, "Which Method Will You Use to Adopt the New Revenue Standard?" A ranking of their choices is below.

	Full Retrospective	Modified Retrospective	Undecided	Total
Affirmative	10%	4%	--	14%
Prelimninary "leaning"	28%	21%	--	49%
Undecided	--	--	37%	37%
Total	38%	25%	37%	100%
Nonaffirmative				86%

Only 14 percent of respondents indicated an affirmative decision on a method of adoption, with 10 percent noting they would adopt the new revenue standard on a full retrospective basis. Overwhelmingly, respondents had not reached a definitive conclusion regarding selection of a transition method. Of the 86 percent that had not affirmatively responded on which method they would use for adoption, 49 percent indicated a "preliminary leaning" to one of the new revenue standard's transition methods.

Editor's Note: Like Deloitte's above survey results, informal polling during the 2015 AICPA Conference indicated that most preparers had still not decided which transition method to use and that the percentages of those with a preliminary leaning toward the full retrospective method and those with a preliminary leaning toward the modified retrospective method were now relatively even.

In deciding which transition method to use, companies should confer with key stakeholders and gain an understanding of the methods used by peer companies. The greater the differences expected between a company's legacy revenue accounting and accounting for revenue under the new standard, the more the company may want to consider using the full retrospective transition method. Under this method, the company would reflect revenue consistently for all years presented in its financial statements rather than for only the latest year presented, as is permitted under the modified transition method.

Source: Deloitte