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

Transparency penalty? Companies pondering revenue adoption, beware

by Tammy Whitehouse

Companies that are considering how they will adopt the new revenue recognition standard should take into account whether they might expect to access the capital markets in a stock offering anytime soon after putting the new accounting to work. It could affect just how much revenue they'll need to restate.

Eric Knachel, a senior consultation partner with Deloitte & Touche, said he sees this as a sleeper issue in the move to adopting the massive new revenue standard, as most companies are still working through their analysis of how the standard will affect them and deciding how they will adopt it. "This is something that is largely off the radar screen," he said at Compliance Week's recent annual conference.

The standard on revenue recognition, which takes effect in 2018, requires companies to follow a new, five-step process for determining when and in what amounts to recognize revenue in the course of business. Not unlike today's accounting for revenue, companies are finding the more complex their relationships with their customers, the more complex the accounting will become. The key difference is the new standard establishes a new method to follow, which means new data gathering needs, system requirements, and accounting processes, not to mention internal controls.

The new standard also gives companies two options for how to reflect the new approach to revenue recognition in their 2018 financial statements. They can elect the "full retrospective" approach, which means applying the accounting to all three years of financial data presented in financial statements as if the rules had been in play all along, or they can elect the "modified retrospective" approach, which allows them to reflect historical periods using higher-level, cumulative-effect adjustments.

Here's the sleeper, says Knachel. If companies elect the more complete full retrospective approach to give financial statement users the most comparable historical data, their gold star for such heroic efforts at transparency will be some additional accounting demands if they need to access the capital markets in 2018.

That's because the Form S-3 registration statement filed with the Securities and Exchange Commission in the typical stock offering requires an additional year of historical data if companies adopt under the full retrospective method. The requirement doesn't apply to modified retrospective methods. "This is one aspect of adoption that is not front and center," said Knachel.

As an example, a calendar year-end company adopting the standard fully retrospectively on Jan. 1, 2018, will provide financial statement data for 2018, 2017, and 2016 under the new rules. If that same company files a registration statement in 2018 after filing the first 10-Q of 2018, that registration statement will require restatement of 2015 revenue under the new standard as well.

Wesley BrickerBrickerWesley Bricker, a deputy chief accountant at the SEC, recently acknowledged companies have "expressed concern" around this particular requirement. "While this issue is not specific to the new revenue standard, the pervasive impact of the new revenue standard amplifies the issue," he said.

No one at the SEC has said whether they might provide some blanket relief to this requirement, but Bricker said GAAP contains an "impracticability exception" for retrospective application of new accounting, and staff at the SEC's Office of the Chief Accountant, will take calls on the matter. "OCA is available for consultation if a registrant believes that, based on its facts and circumstances, a retrospective application of the new revenue recognition standard to all periods required to be presented in a Form S-3 is impracticable," he said. ■