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**Applying the new revenue  
recognition standard**

On May 28, 2014, the FASB and IASB issued their final standard on recognizing revenue from customer contracts. The standard, issued as ASU 2014-09 by the FASB and as IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. This supersedes most legacy revenue recognition guidance, including industry-specific guidance.

The goals of the effort were to clarify and converge the revenue recognition principles under US GAAP and IFRS, to develop guidance that would streamline and enhance revenue recognition requirements, and to provide “a more robust framework for addressing revenue issues.” The FASB and IASB believe the new standard will improve the consistency of requirements, comparability of revenue recognition practices, and usefulness of disclosures.

# Key provisions of the new standard

The new model's core principle for revenue recognition is to provide a comprehensive framework to account for revenue from contracts with customers.

This principle was established by both the FASB and IASB and is the underpinning of the entire revenue framework. In particular, it identifies and answers two fundamental questions related to revenue.

## Fundamental questions related to revenue

### When may an entity recognize revenue?

The entity may recognize revenue when it satisfies its obligations under a contract by transferring goods or services to its customer. (That is, when the entity performs, it should recognize revenue.)

### How much revenue may an entity recognize?

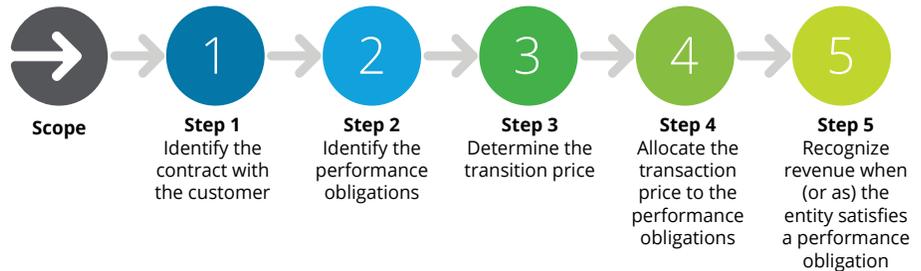
The entity may recognize the amount to which it expects to be entitled under the contract. (Estimates may be required because this is an "expected" amount.) The FASB and IASB intentionally chose the wording "be entitled"—rather than "receive" or "collect"—in order to distinguish collectibility risk from other uncertainties that may occur under the contract.

# Five-step model

In order to achieve the core principle and determine when to recognize revenue and how much revenue to recognize, the FASB and IASB established a five-step framework (following a scope decision). The five steps provide entities with a model (figure 1) to identify the contract to be evaluated under the new revenue standard, evaluate the performance obligations (or units of account to which the recognition principles apply), and estimate the amount of consideration to be recognized as revenue for each performance obligation.

The new revenue standard affects other accounting topics as well, including, but not limited to, contract modifications, licensing, contract costs, and presentation. The new revenue standard also creates additional quantitative and qualitative disclosure requirements.

**Figure 1. A five-step model for recognizing revenue**



# Post-issuance activities

Stakeholders need to understand existing and evolving interpretations of the new revenue standard. Many of these interpretations will be more applicable to some companies than to others.

After issuing the new revenue standard on May 28, 2014, the FASB and IASB—along with stakeholders from all industries—have focused on implementation efforts related to the adoption of ASU 2014-09 and IFRS 15 (along with related ASUs and IFRSs). In addition, the Transition Resource Group (TRG) has held eight meetings (including two FASB-only TRG meetings), at which a total of 52 staff papers were discussed. The feedback the FASB received through these meetings led to additional ASUs that amend various aspects of ASC 606. In January 2020, the FASB issued its staff's Revenue Recognition Implementation Q&As (the "Implementation Q&As"). Compiled from TRG Agenda Papers and other previously issued materials, the FASB staff's Implementation Q&As are presented in a user-friendly format.

The past few years have also seen significant activity by the 16 AICPA revenue recognition industry task forces. The task forces have been updating the AICPA's industry guides to address more than 130 accounting matters related to revenue recognition, presentation, and disclosure.

The SEC has been active as well. In addition to monitoring implementation efforts and discussing its expectations for transparent disclosures, the SEC updated its revenue guidance with the issuance of SAB 116, which effectively supersedes SAB Topic 13.

# Effective date and transition requirements

Public entities reporting under US GAAP were required to apply the new revenue standard for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual periods. Nonpublic entities reporting under US GAAP were required to apply the new revenue standard for annual reporting periods beginning after December 15, 2018; however, nonpublic entities are not required to apply the new revenue standard to interim reporting periods within the initial annual reporting period. In June 2020, the FASB issued ASU 2020-05 to further delay the effective date of the new revenue standard for certain nonpublic entities.

Entities have the option of using either a “full retrospective” or “modified retrospective” method to adopt the guidance in the new revenue standard.

## Full retrospective application

This method takes into account the requirements in ASC 250 (with certain practical expedients).

## Modified retrospective application

Under this method, an entity recognizes “the cumulative effect of initially applying [ASU 2014–09] as an adjustment to the opening balance of retained earnings... of the annual reporting period that includes the date of initial application.” Revenue in periods presented in the financial statements before that date is reported using guidance in effect before the change. When using this method, an entity applies the guidance in the ASU (as amended by ASU 2016–12) to either of the following:

- Incomplete contracts (i.e., contracts for which all—or substantially all—revenue has not been recognized in accordance

with legacy revenue guidance as of the date of initial application)

- All contracts, as of the date of initial application (and any new contracts created after that date)

Before selecting a method for adopting the new revenue standard, entities should carefully evaluate the advantages and disadvantages of each method.

## What private companies should know about the revenue recognition standard

The experiences of public companies may prove helpful to private companies as they implement the revenue standard’s requirements, particularly its recognition and measurement principles. Read Deloitte’s Heads Up, “[What private companies should know about the new revenue recognition standard,](#)” to find out more.

# Did you know?

The move from legacy US GAAP's risk- and reward-based revenue recognition model to the new revenue standard's control-based model is a fundamental change in how entities are required to think about revenue recognition. The new revenue standard eliminates many of the revenue recognition rules prescribed under legacy US GAAP and replaces them with a principles-based framework outlined in the five-step model. In some cases, applying the five-step model and recognizing revenue under the new standard will be straightforward. In other cases, however, applying the new guidance will require significant judgment, increasing the complexity of compliance.

**The 2020 edition of Deloitte's [A roadmap to applying the new revenue recognition standard](#) (the "Revenue Roadmap") provides numerous examples and interpretations that highlight some of the more challenging aspects of the new revenue standard and how it might require a different way of thinking about revenue recognition. For example:**

## **Did you know...**

...if an entity does not meet the collectibility threshold, it should not default to a cash basis of accounting? In fact, in some situations, an entity will be precluded from recognizing any revenue even if it receives cash from its customer.

*(Section 4.3.5 of the Revenue Roadmap)*

# Did you know?

## **Did you know...**

...an entity may still be able to apply the residual approach to determine the standalone selling price used to allocate the transaction price; however, the application of the approach (and outcome) could be different from the residual method used today?

*(Section 7.3.3.2 of the Revenue Roadmap)*

## **Did you know...**

...the sale of a good might be recognized over time, while the sale of a service might be recognized at a point in time?

*(Section 8.3.1 of the Revenue Roadmap)*

## **Did you know...**

...although a change in the contractual consideration may consist of only a change in the transaction price, it may be viewed from an accounting standpoint as a contract modification, for which the accounting could be significantly different?

*(Section 9.1.2 of the Revenue Roadmap)*

## **Did you know...**

...the principal-versus-agent indicators in the new revenue standard are similar to those under legacy US GAAP, but the analysis for determining whether an entity is a principal or an agent is different? Entities may come to different presentation conclusions as a result of the new standard.

*(Section 10.1.2 of the Revenue Roadmap)*

## **Did you know...**

...revenue from a license to intellectual property may be recognized over time, at a point in time, or on the basis of the subsequent sales or usage of the intellectual property?

*(Section 12.4 of the Revenue Roadmap)*

## **Did you know...**

...lessors may need to take unique considerations into account when determining the impact of adopting the new revenue standard?

*(Section 16.2.5 of the Revenue Roadmap)*

# Did you know?

## **Did you know...**

...sales of nonfinancial assets and in-substance nonfinancial assets are subject to the same recognition and measurement principles as sales to customers?

*(Section 18.4 of the Revenue Roadmap)*

## **Did you know...**

...even if the new revenue standard does not significantly affect the timing of revenue recognition or the amount of revenue that is recognized, the impact of the standard's disclosure requirements will be significant and could require an entity to accumulate new or different information?

*(Chapter 15 of the Revenue Roadmap)*



# Contacts

For additional information regarding the above and other interpretative guidance related to the new revenue standard, refer to the Revenue Roadmap. If you have questions about the information in this publication or the Revenue Roadmap, contact any of the following Deloitte professionals:



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