New Revenue Recognition Standard: Build Your Implementation Plan Now

By Kim Kushmerick

The Financial Accounting Standards Board's new revenue recognition standard presents the most significant accounting change many veteran CPAs have seen. The standard touches every entity (public and private, including not-for-profit entities) that reports under U.S. GAAP and will require CPAs to reexamine the underlying economics of large numbers of established business practices. The new standard applies to most transactions and contracts with customers except for leases, insurance contracts, most financial instruments and guarantees (other than product or service warranties).

At first glance, the implementation period for Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers,* might seem adequate if not generous. Public companies, for whom early adoption is not permitted, are required to adopt the standard in 2017 (for reporting periods beginning after December 15, 2016). Private companies get an additional year—starting with 2018 for their annual reports—and two more years, beginning in 2019—to start applying the standard to interim reports. Private companies may choose to adopt the standard on the public company schedule.

After further study, however, many organizations may find the implementation period to be extremely aggressive and the task daunting. There are many components to be analyzed and many questions to be answered:

- How will the standard affect operational and performance metrics?
- What IT changes will be needed?
- How will you retrospectively adopt the standard?

If a public company chooses full retrospective adoption, revenue and the direct effects of change in accounting principle to all contracts must be restated for 2015 and 2016 to show comparative financial statements with a cumulative adjustment as of January 1, 2015.

You are encouraged to advise clients and employers to begin developing an implementation plan as soon as possible.

The AICPA has organized a major effort including industry work groups, training, and organizational tools to assist CPAs with this monumental implementation.

You can use the following key tasks based on the AICPA's New Revenue Recognition Accounting Standard—Learning and Implementation Plan as a high-level road map to begin organizing your organization's implementation.

Task 1: Form a task force (2014-2015)

Don't wait to get all of the major players involved. The standard replaces most transaction- and industry-specific guidance with a principle-based approach, making it difficult—if not impossible—for CPAs to estimate the implementation effort required in a specific organization without first conducting a detailed assessment to use in developing a work plan. In all but the very smallest private companies, this assessment will require substantial collaboration with most major business functions including sales and marketing, IT, legal and human resources.

Task 2: Evaluate the impact (2014-2016)

Evaluate the changes from current GAAP to the new revenue recognition standard and evaluate the impact on how your company accounts for existing revenue streams and the results to your company's financial statements. In addition, evaluate how the standard will affect operational and performance metrics, company contracts, compensation plans, accounting policies, internal controls and tax matters. Work with your auditor to ensure that your approach to implementing the new revenue recognition standard and any changes in accounting for revenue recognition are documented completely and accurately.

Task 3: Choose how to retrospectively adopt (2014)

The standard should be applied using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any

of the following practical expedients:

a. For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
b. For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
c. For reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

2. Retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. If an entity elects this transition method, it also should provide the additional disclosures in reporting periods that include the date of initial application of the following items:
   a. The amount by which each financial statement line item is affected in the current reporting period by the application of the standard as compared to the guidance that was in effect before the change.
   b. An explanation of the reasons for significant change.

In September, the Securities and Exchange Commission determined that companies electing full retrospective adoption will only be required to apply the new standard for three years rather than the expected five years.

Task 4: Determine IT changes needed (2014)

Based on the determinations made in Tasks 2 and 3, the new standard may require modifications to IT systems to capture the appropriate level of information related to data used to make estimates on revenue recognition and new disclosures. Determine whether any changes will need to be made to IT systems or software applications to capture information needed for the new revenue recognition standard, including the following retrospective adoption and the additional qualitative and quantitative disclosures required.

Task 5: Determine interim disclosures needed for public companies (2014-2016)

Public companies should consider the guidance in SEC Staff Accounting Bulletin (SAB) No. 74 (Topic 11:M), Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period, to determine the appropriate interim disclosures to be made prior to the adoption of the new standard.

Task 6: Develop project plan (2014–2016)

Develop an evolving project plan for implementation of the revenue recognition standard considering all of the tasks above and facilitate training for your staff.

Task 7: Educate key stakeholders (2015-2016)

Based on the determinations made in Tasks 2 and 3, the new revenue recognition standard may result in changes in timing of revenue recognized as well as new qualitative and quantitative disclosures that will need to be explained to stakeholders. Educate key stakeholders such as your audit committee, board of directors, investors and lenders on the new revenue recognition standard and what changes they should expect in your company’s financial statements.