Revenue Recognition

Steps for Implementation

The new revenue recognition standard requires that revenue is recognized when goods or services are transferred to a customer and for the amount the seller expects to be entitled, based on a five step process:

1. Identify the contract with the customer
2. Identify performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the individual performance obligations
5. Recognize revenue as the performance obligations are satisfied

Nonpublic Entities Timeline:

(One year from the effective date for public companies)

Early adoption is permitted for annual reporting periods beginning after: Dec. 15, 2016

Develop implementation plan: consult with auditors, outside CPAs, review adoption of the standard by peer public companies and finalize transition approach Nov. 2017

Implementation for annual reporting periods is required begin-ning after: Dec. 15, 2018

Implementation Methods

1. Full retrospective adoption with optional practical expedients would apply the new standard to all periods presented in the financial statements. The practical expedients are:
    - Companies would not restate contracts that begin and end within the same reporting period.
    - For completed contracts with variable consideration, the company can use the transaction price at the date the contract was completed rather than estimating variable consideration for the comparative reporting periods.
    - Companies would not be required to disclose the amount of the transaction price allocated to uncompleted performance obligations and explanations of when the company expects to recognize that revenue for periods presented before the date of initial application.

2. Modified retrospective adoption allows companies to apply the new standard to contracts that are outstanding as of the date of implementation. To elect this method, companies would examine those outstanding contracts and compare how the revenue would be recognized under the new standard versus existing GAAP. Any difference in revenue would be adjusted to beginning retained earnings. No adjustment would be made to prior periods presented. The modified retrospective method requires extensive disclosures on how amounts reported in the financial statements are impacted.

For additional information regarding Steps 1, 2 & 3, visit our Tech Blog: http://aslcpa.com/category/revenue-recognition/. And stay turned for Steps 4 & 5.

Abbott, Stringham & Lynch

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