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ASC 606 Implementation: SAB 74 Disclosures and First Quarter Adoption

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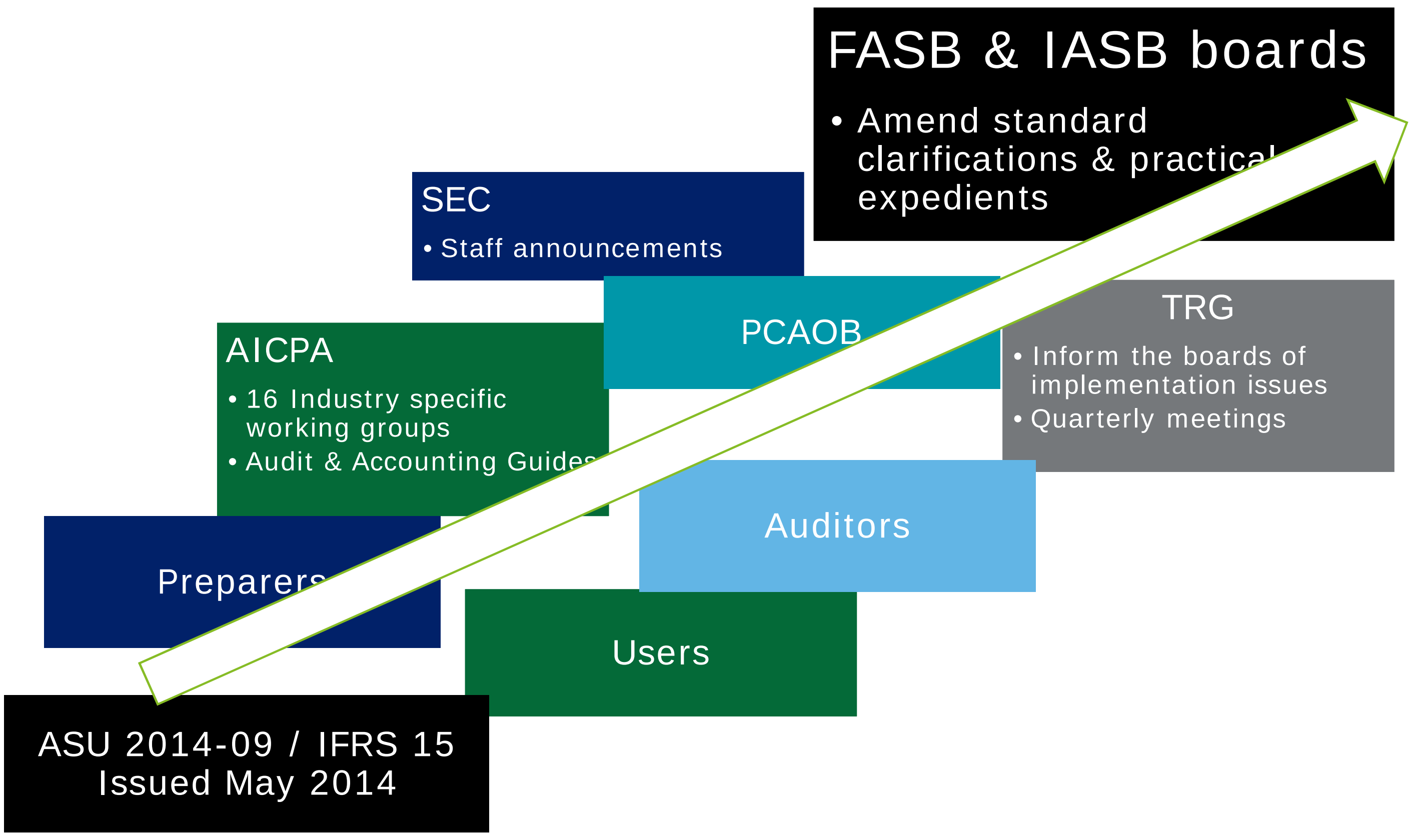
Journey to implementation—Key participants



Revenue recognition—Transition

- A small population early adopted in 2017 (roughly 2% of the Fortune 1000)
  - e.g., Ford, Microsoft, Alphabet, First Solar, General Dynamics, Raytheon, United Health, Workday, Power Integrations
- Remaining US public companies with calendar-year ends generally filed using Topic 606 for the first time in late April or early May 2018
- Approximately 85% of the Fortune 1000 elected the modified retrospective transition method (no restating of prior year information)

Impact across industries

Application of the ASU may change…

- The timing and amount of revenue recognized
- The timing of the recognition of customer-related costs
- The manner in which an entity discloses its revenue recognition practices

Degree of change varies largely based on industry…

- Industries where accounting practices/policies could change significantly:

• Aerospace & Defense	• Media & Entertainment	• Real Estate
• Automotive	• Oil & Gas	• Technology
• Life Sciences	• Power & Utilities	• Telecom

- SEC registrants were required to disclose the expected effects of adopting the ASU as they become known (SEC SAB Topic 11.M)

Revenue recognition—Industry impact

Impact on timing, recognition and presentation:

- Approximately 50% of companies disclose that no material impact is expected from 606
  - Industries more likely to say ‘material impact’
    - Travel & Hospitality (*loyalty points, mileage credits, contract costs*)
    - Technology (*acceleration of revenue in integrated product offerings, commissions*)
    - Aerospace & Defense (*measurement of progress during the contract*)
  - Industries with more of a mixed impact
    - Financial Services (*gross vs net, contract costs*)
    - Industrial Products (*presentation of payments to customers*)
  - Industries more likely to say ‘no material impact’
    - Energy
    - Life Sciences & Healthcare
    - Real Estate Investment Trusts

Revenue recognition—SEC comment themes

- Disaggregation of revenues
- Whether a contract contains a significant financing component
- Why the measure of progress selected (within step 5 of the revenue model) is appropriate
- Significant judgments about when control transfers to the customer
- Principal vs agent considerations
- Significant payment terms
- Amortization period/method used for capitalized contract costs

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