Journey to implementation—Key participants

FASB & IASB boards
- Amend standard clarifications & practical expedients

SEC
- Staff announcements

AICPA
- 16 Industry specific working groups
- Audit & Accounting Guides

PCAOB

TRG
- Inform the boards of implementation issues
- Quarterly meetings

Preparers

Auditors

Users

ASU 2014-09 / IFRS 15
Issued May 2014
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
  - Automotive
  - Life Sciences
  - Media & Entertainment
  - Oil & Gas
  - Power & Utilities
  - Real Estate
  - Technology
  - 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