

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



► SUBJECT

FASB ISSUES ASU ON REVENUE RECOGNITION

► SUMMARY

Today, the FASB issued ASU 2014-09.¹ It takes effect in 2017 and establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The new standard is the culmination of a joint project with the IASB and therefore entities reporting under IFRS will apply a substantially converged model. The new ASU is available [here](#).

► SCOPE, EFFECTIVE DATE AND TRANSITION

Public entities will apply the new standard for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available—full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g., January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited.²

Nonpublic entities have an additional year to adopt, i.e., the new standard applies for annual periods beginning after December 15, 2017. In addition, the

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¹ *Revenue from Contracts with Customers*

² The IASB has decided to permit early-adoption for entities applying the IFRS standard.

new standard is effective for interim periods within annual periods that begin after December 15, 2018. The same three transition alternatives apply.

However, nonpublic entities are allowed to early adopt the new standard as follows, if they choose to do so:

- The new requirements may be applied no earlier than an annual reporting period beginning after December 15, 2016, including interim reporting periods within that period (as required for public entities),
- They may be applied for annual reporting periods beginning after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017, or
- They may be applied for an annual reporting period beginning after December 15, 2017, including interim periods within that period.

► MAIN PROVISIONS

The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements.

► ON THE HORIZON:

The FASB and the IASB have established a joint transition resource group that is designed to inform the Boards about interpretive issues that are likely to arise as implementation efforts commence. Interested parties are encouraged to monitor the resource group's deliberations.

Separately, the AICPA has developed multiple industry-based task forces that have already begun initial discussions about the new standard's impact with a view to providing white papers before and after the standard's effective date. The white papers will not be authoritative U.S. GAAP, but rather are designed to provide emerging best practices. The task forces consist primarily of industry professionals and auditors, including BDO. In addition, the Firm will issue an in-depth publication in the coming weeks that discusses the new standard in detail. Additional training events are also planned for clients and contacts through the BDO Knowledge program, as well as internally for BDO professionals and BDO Alliance firms.

Material discussed in this report is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.