The flurry of standard-setting activity around revenue recognition in the first half of this year has made the newly converged standard seem like a horse without a saddle.

Some people may be able to ride it anyway. But for others, the horse may remain in the barn a little while longer.

Nonetheless, after FASB agreed in April to propose to delay the effective date of the converged standard by one year, IBM Vice President of Accounting Policy and External Reporting Gregg Nelson said his company plans to keep pushing forward with its implementation work—and encouraged other financial statement preparers to do the same.

"This will ensure that we maintain momentum and existing resource levels," Nelson said during a PwC webcast, "and will provide flexibility for us if we have problems or the standard changes further in the future."
The standard appears certain to change, and FASB's proposed deferral of the effective date is partly an acknowledgement that the rules issued in May 2014 required further revision that has delayed implementation for many preparers (see "FASB's Proposed Delay: What It Means"). For the same reason, the International Accounting Standards Board (IASB) on April 28 also voted to propose delaying the effective date by one year.

The logic behind proposing a delay became obvious to FASB member Daryl Buck, CPA, as he visited with preparers in the media/entertainment and software manufacturing industries and found that they were having difficulty even getting started implementing the standard. Those industries are significantly affected by potential changes in license-of-intellectual-property guidance that the boards voted to propose. Without knowing for sure if and how the guidance would be amended, those preparers have struggled with implementation.

"For those companies, that is a huge percentage of their revenue, and the guidance is still in somewhat a state of flux," Buck said during a board meeting.

MORE UNCERTAINTY

That state of flux is likely to persist, said Susan Callahan, CPA, director of Americas accounting and global accounting policy for Ford Motor Co. FASB and the IASB spent years developing a converged standard designed to apply across all industries and multiple jurisdictions that would enable unprecedented comparability. But sometimes it is not easy to consistently apply principles-based rules across such a wide group of entities. Thus, the boards have agreed to seek feedback on proposed changes in various areas (see "Changes to Be Proposed Affect Many Areas").

Callahan finds some of the implementation issues being discussed at this stage interesting, as some of them had been raised during the drafting process. An example of an issue that significantly impacts the auto industry and had been discussed previously with the boards is the potential for inconsequential marketing incentives to be viewed as performance obligations. Callahan said the FASB/IASB joint transition resource group was a necessity because the standard creates fundamental changes for so many industries that there had to be a forum to discuss issues. FASB Vice Chairman James Kroeker, CPA, said in April that he hopes the need for interpretive guidance is coming to an end, but Callahan isn't sure that's the case.

"The problem is that so many issues are bubbling up that they can't handle them in time for adoption," Callahan said. "I don't think there was an appreciation of practical issues in terms of timing. ... So, they will likely continue to have meetings, and companies will do the best that they can."

Callahan expects that specific revenue implementation issues will continue to be addressed and there will need to be a process for companies to discuss and modify their accounting as the standard evolves. She said a similar process played out with the Derivatives Implementation Group following the release of FASB Statement No. 133 in 2000.

WHAT PREPARERS CAN CONSIDER

Here are some things for financial statement preparers to consider as the revenue recognition standard evolves:

Divergence

FASB generally has agreed to propose more clarifications and changes to the standard than the IASB. This
could make accounting difficult for global companies and reduce global comparability.

Callahan is applying a global standard to all of Ford's international affiliates for the first time. She was enthusiastic about the prospect of simplification that would come from applying the standard consistently across all affiliates.

The possibility of more differences has diminished some of Callahan's enthusiasm for the standard. She said that if principles differ between U.S. GAAP and IFRS, companies will have to have different systems to account for a transaction multiple ways, at significant cost.

"The revenue standard affects the fundamental, day-to-day operations and recording of transactions," she said. "When you are sending millions of transactions through systems, systems don't exist to account for a single revenue transaction in multiple ways. You can't do this accounting topside. Standard setters look at one transaction and take it through the process 'from cradle to grave,' which is a good academic and conceptual process, but when you look at the volume of transactions that so many of us have to deal with on a daily basis, practically speaking it becomes a real challenge or near impossibility."

Callahan said she is finding that accounting firms are not looking at all implementation issues consistently; they are not always agreeing with one another. Disagreement also may exist internally within large firms between U.S. and foreign affiliates. The inconsistencies are a large challenge for multinational companies, Callahan said.

Beneficial changes

Some of the changes the boards are proposing are designed to simplify implementation, instead of just clarifying or adding specificity.

For example, the boards agreed to propose a "use of hindsight" practical expedient designed to make it easier to account for modified contracts. Another expedient FASB agreed to propose would give preparers the opportunity to elect net reporting for all in-scope sales taxes, with disclosure of the policy.

"Many of [the proposed changes] are actually making implementation easier than the original standard would have," Kroeker said. "Practical expedients in transition. Practical expedients for sales taxes. Practical expedients for dealing with performance obligations at the contract level. All of those ought to make implementation easier than would have originally been required."

Momentum

The proposed deferral in the effective date shouldn't cause preparers to delay their implementation work, said Dusty Stallings, CPA, a partner in PwC LLP's capital markets accounting and advisory services practice.

"Given the challenges of implementation, the best plan is to continue to work on the standard," she said. "Implementation takes time. Set up a steering committee, develop a project plan and timeline, and understand your contract terms."

FASB plans to propose an early adoption option for preparers who already have made substantial progress and want to implement early. But it seems likely that many preparers have not moved quickly on implementation. Fifty-seven percent of U.S. technology CFOs surveyed by BDO in December and January...
said they had not yet familiarized themselves with the changes in the standard, even though it had been
issued seven months earlier. IBM's Nelson encouraged preparers to get working on implementation.

"The implementation of the new revenue standard, as we all know, will represent a significant and complex
effort for most entities," he said. "Even if you don't expect a material change in your financial results, the new
model likely will involve new processes, revised internal accounting policies, new control points, new
disclosures, and likely new systems that you will be employing in your revenue accounting model."

Providing feedback

Staying informed on the boards' decisions can help preparers make a smooth transition. The meetings of the
transition resource group, FASB, and the IASB are available via webcast, and the boards' decisions are
posted on their websites.

The boards also are including requests for comment in exposure drafts.

"The time is here to begin implementation activities," FASB Assistant Director Cullen Walsh, CPA, said during
the PwC webcast, "and to the extent that there are issues, to raise them to the transition resource group very
soon."

FASB's proposed delay: What it means

FASB on April 29 proposed a one-year delay in the effective date of the revenue recognition standard,
requesting comments by May 29. The International Accounting Standards Board on April 28 also voted to
propose a one-year delay. Here are the specifics of the delay FASB proposed:

- Public entities would apply the standard to annual reporting periods beginning after Dec. 15, 2017.
  Nonpublic entities would apply the new revenue standard to annual reporting periods beginning after Dec.
  15, 2018.

- Public entities would apply the standard to interim reporting periods within annual reporting periods
  beginning after Dec. 15, 2017 (i.e., a public entity would be required to apply the new revenue standard
  beginning in the first interim period within the year of adoption). Nonpublic entities would apply the new
  revenue standard to interim reporting periods within annual reporting periods beginning after Dec. 15, 2019
  (i.e., a nonpublic entity would not be required to apply the new revenue standard in interim periods within
  the year of adoption).

- Both public and nonpublic entities would be permitted to adopt the standard early but not before the
  original public entity effective date (i.e., annual periods beginning after Dec. 15, 2016). A public entity would
  apply the standard to all interim reporting periods within the year of adoption. A nonpublic entity would not
  be required to apply the standard in interim periods within the year of adoption.

Changes to be proposed affect many areas

FASB and the International Accounting Standards Board (IASB) voted to propose a long list of clarifications
and changes to the converged revenue recognition standard. Here are some of the areas where the boards
voted to seek feedback on potential changes:
• **Licenses of intellectual property.** The boards voted to propose changes designed to make the implementation guidance easier to apply and more understandable. Among the changes proposed was a clarification that the entity’s promise to the customer in granting a license is to provide a right to access the entity’s intellectual property (which is satisfied over time) when the contract requires or the customer reasonably expects the entity to undertake activities (that do not transfer a good or service to the customer) that significantly affect the utility of the intellectual property. In addition, the boards voted to propose a clarification stating that an entity should not split a sales- or usage-based royalty into a portion subject to the royalties constraint and a portion not subject to the royalties constraint.

• **Identifying performance obligations.** The boards voted to propose adding examples to illustrate how they intend the guidance about identifying performance obligations to be applied. FASB also voted to propose amendments that would address implementation issues about identifying promised goods or services that would be subject to the separation guidance; application of the distinct guidance; and accounting for shipping and handling activities.

• **Contract modifications.** The boards decided to propose a practical expedient upon transition for accounting for a modified contract. In addition, the IASB voted to propose a practical expedient on transition that would allow a preparer electing the full retrospective approach to apply the new standard retrospectively only to contracts that are not completed at the beginning of the earliest period presented. The boards would require disclosure of these expedients, as well as a qualitative assessment of the estimated effect of applying the expedients.

• **Sales tax presentation—gross versus net.** FASB agreed to propose a practical expedient that would allow an election for net reporting for all in-scope sales taxes with disclosure of the policy.

• **Noncash consideration.** FASB voted to propose clarifications including a requirement that noncash consideration be measured at contract inception.

• **Collectibility.** FASB decided to propose clarifying when a contract is terminated in accordance with ASC Paragraph 606-10-25-7 and the objective of the collectibility threshold in ASC Paragraph 606-10-25-1(e).


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**JofA articles**

• "Revenue Recognition Revisited (/issues/2015/apr/revenue-recognition-changes.html)," April/May 2015, page 20

• "Revenue Recognition: No Time to Wait (/issues/2014/jul/revenue-recognition-20137809.html)," July

Publications

• General Accounting and Auditing Developments—2014/15 Audit Risk Alert (#ARAGEN14P, paperback; #ARAGEN14E, ebook; #WGE-XX, one-year online access)

• Understanding Revenue Recognition: Changes to U.S. GAAP—AICPA Alert (#ARAREV14P, paperback; #ARAREV14E, ebook; #ARAREVO, one-year online access)

• U.S. GAAP Financial Statements—Best Practices in Presentation and Disclosure (#ATTATT14P, paperback; #ABPPDO, one-year online access)

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