



ALERT

FASB, IASB Issue Revenue Recognition Standard

Today the FASB and IASB issued their joint revenue recognition standard that is intended to improve and converge the financial reporting requirements for revenue from contracts with customers.¹

The core principle of the standard is that “an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” The Boards developed a five-step model and related application guidance, which replaces most existing revenue recognition guidance in U.S. GAAP and IFRS.

Key Facts

The effective dates and transition provisions are:

- **Public business entities and certain not-for-profit entities**² – fiscal years beginning after December 15, 2016, and interim periods within those years (early adoption prohibited).
- **All other entities** – fiscal years beginning after December 15, 2017, and interim periods in fiscal years subsequent to that year (early adoption allowed, but not earlier than public business entities).
- **Companies can transition** to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption.

Key Impacts

- **Key financial measures and ratios** may change, affecting analyst expectations, earnouts, bonuses, and compliance with contractual covenants.
- **IT systems** may need to be changed to capture additional data (e.g., data used to make revenue transaction estimates and to support disclosures).
- **Sales and contracting processes** may need to be reconsidered.
- **Accounting processes and internal controls** may need to be revised.

¹ FASB Accounting Standards Update 2014-09, Revenue from Contracts with Customers, May 28, 2014, available at www.fasb.org, and IASB IFRS 15, Revenue from Contracts with Customers.

² A not-for-profit entity that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market. See KPMG’s Defining Issues No. 14-7 for more on the definition of a public business entity; available at www.kpmginstitutes.com/financial-reporting-network.

The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The five steps are:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

Many companies will need to use more judgment than what current U.S. GAAP requires. Companies also may need to develop processes to capture and document management's judgments and any subsequent changes on a timely basis and incorporate those into their accounting process.

For variable or contingent consideration, companies will estimate the amount to which they expect to be entitled to the extent that it is probable that the estimate is not subject to a risk of significant reversal. Current U.S. GAAP may defer recognition of variable or contingent consideration entirely due to lack of fixed or determinable prices. Therefore, the standard may accelerate revenue recognition for some transactions.

For sales of bundled goods or services, the standard's separation criteria apply to all contracts. Judgment is required to determine whether a performance obligation in a bundle of goods or services is distinct.

In the next few days we will issue another *Defining Issues* that will provide a more detailed analysis of the revenue standard. Additionally, we will present a series of Webcasts that will explain the revenue standard and discuss implementation considerations. The four parts are:

- Part I – Overview of the Final Joint Revenue Recognition Standard, June 9, 2014
- Part II – The Five Step Model, June 24, 2014
- Part III – Implementation Guidance, Cost Capitalization and Disclosure Requirements, July 16, 2014
- Part IV – Transition and Other Considerations, August 13, 2014

Register for the CFO Financial Forum/IFRS Institute Webcasts at [KPMG's Financial Reporting Network - Latest on Revenue Recognition](#).

Contact us: This is a publication of KPMG's Department of Professional Practice 212-909-5600

Contributing authors: Paul H. Munter and Arturis I. Spencer III

Earlier editions are available at: <http://www.kpmginstitutes.com/financial-reporting-network>

Legal—The descriptive and summary statements in this newsletter are not intended to be a substitute for the potential requirements of the standard or any other potential or applicable requirements of the accounting literature or SEC regulations. Companies applying U.S. GAAP or filing with the SEC should apply the texts of the relevant laws, regulations, and accounting requirements, consider their particular circumstances, and consult their accounting and legal advisors. Defining Issues® is a registered trademark of KPMG LLP.