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The New Revenue Standard — Are You Still Assessing the Impact?

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Introduction

As we move closer to the effective date of the FASB's new revenue standard,¹ we continue to monitor the implementation status of public companies. Our June 5, 2017, *Heads Up* discusses our observations from a review of SAB Topic 11.M² ("SAB 74") disclosures included in periodic filings with the SEC by a sample of Fortune 1000 public companies.³ This *Heads Up* provides updated observations from the second-quarter filings of our sample population and additional perspectives for companies to consider in the final months leading up to adoption.

Overall Observations

We note that companies are making progress on their implementation efforts, with approximately 10 percent of our sample disclosing that they are "substantially complete" with their evaluations. Further, more than half of our sample registrants provided expanded or updated disclosures as compared with their first-quarter filings. Despite this progress, the disclosures also indicate that substantial work remains, with 90 percent of our sample

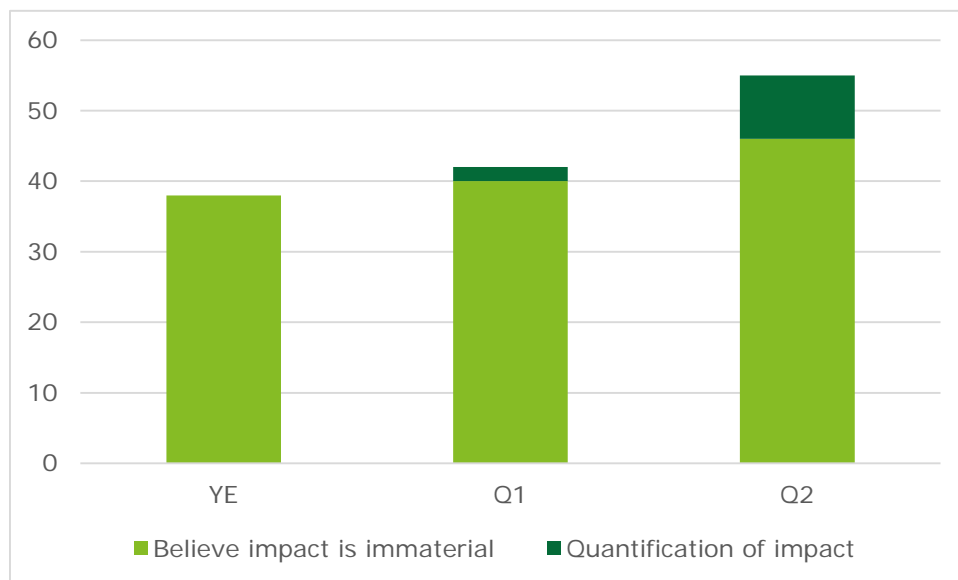
¹ FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*, as amended. For calendar-year-end public business entities and other entities that elect early adoption, the standard's effective date is less than six months away. See Deloitte's [A Roadmap to Applying the New Revenue Recognition Standard](#) for a comprehensive discussion of the new standard.

² SEC Staff Accounting Bulletin Topic 11.M, "Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period."

³ To further understand how companies are considering the SAB 74 requirements, we reviewed the disclosures in periodic filings associated with the calendar year-end and the first and second calendar quarters of a random sample of 100 companies from the Fortune 1000 group that did not early adopt the new revenue standard.

companies disclosing that their implementation efforts are ongoing. In addition, as indicated in Figure 1, only slightly better than half of our sample companies have provided any quantification of the standard's impact (i.e., stated that the effect will be immaterial or quantified some or all of the impact upon adoption).

Figure 1: Quantification of Impact

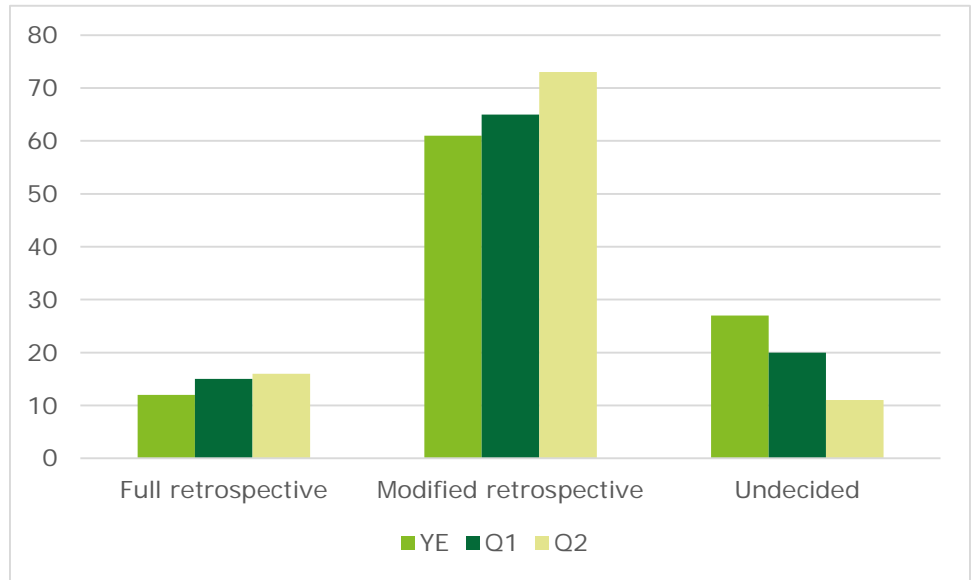


Companies should be mindful of the important information to be conveyed to financial statement users through quantification of the impact that adoption will have on a registrant's financial statements. Although such disclosures should be subject to a company's internal control over financial reporting and disclosure controls and procedures, SEC registrants should not be discouraged from providing their best estimate of the impact upon adoption. At the 2016 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff observed that if a registrant discloses a quantitative impact on the basis of its best estimate but the ultimate amounts recognized differ, the difference does not necessarily indicate a control weakness if the cause of the change was information that was not available when the registrant's best estimate was developed. In the months leading up to adoption, such disclosures will provide important information to users of the financial statements.

Method of Transition

One notable area of progress since the first-quarter periodic filings is in the method of transition, with a number of companies electing a transition method during the most recent quarter. Under the standard, entities can use either the full retrospective method or the modified retrospective method. Figure 2 shows the selected transition methods indicated by our sample companies. The majority of companies have elected the modified retrospective method as of the second quarter, with only 11 percent still undecided.

Figure 2: Method of Transition



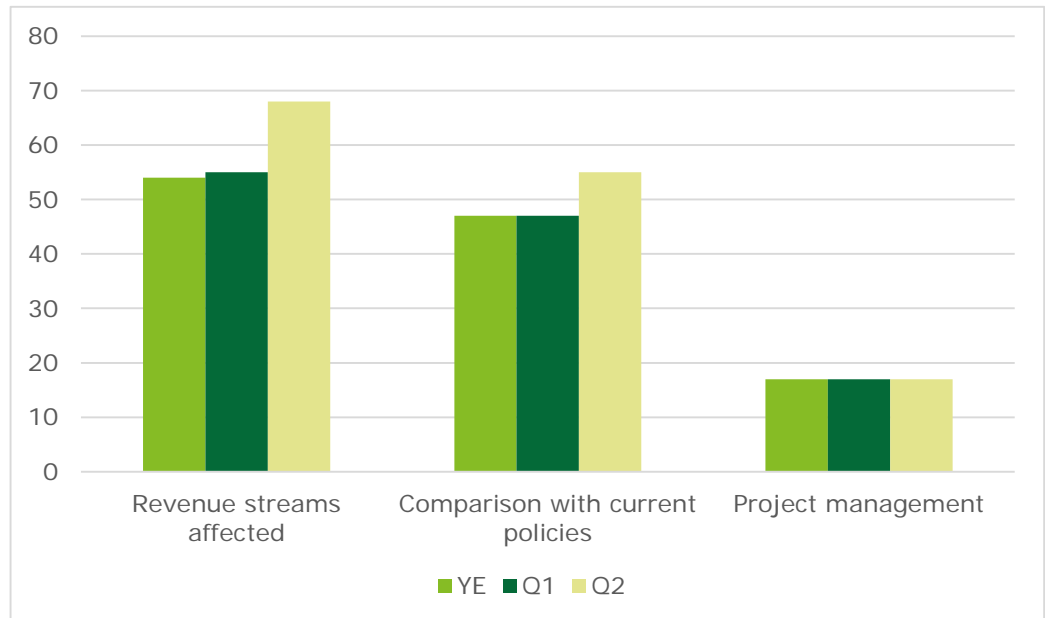
Qualitative Considerations

In a manner consistent with our prior reviews, we also considered certain qualitative disclosures, including those related to:

- The identification of affected revenue streams.
- A comparison of current and new revenue policies.
- Details of the implementation process and the status of implementation project plans ("project management").

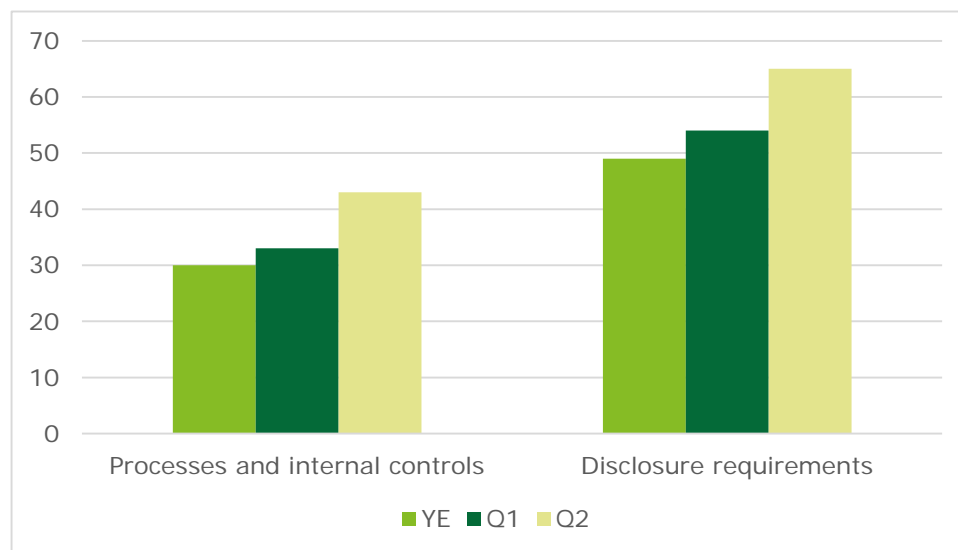
Generally, these disclosures were similar to those in previous periods, although, as noted in Figure 3, we continue to see enhanced disclosure about which revenue streams will be affected and a comparison with current policies.

Figure 3: Qualitative Considerations



In addition, as noted in Figure 4, we observed an increase in the number of companies describing what their ongoing disclosure requirements will be under the new revenue standard as well as the standard's effect on their accounting processes and internal controls.

Figure 4: Other Considerations



Comment Letters

Finally, we have also observed that the SEC staff has been commenting on registrants' SAB 74 disclosures with respect to the new revenue standard. The following is an example comment received from the SEC staff:

You state . . . that you continue to make progress in evaluating the impact that the amended revenue recognition guidance will have on your future consolidated financial statements. We further note your disclosures in the Form 10-Q appear to describe the approach you are undertaking in your analysis of the standard, without providing an understanding of any known potential impact or the current status of your evaluation. Please revise to provide qualitative financial statement disclosures of the potential impact that this standard will have on your financial statements when adopted. In this regard, include a description of the effects of the accounting policies that you expect to apply, if determined, and a comparison to your current revenue recognition policies. Describe the status of your process to implement the new standard and the significant implementation matters yet to be addressed. In addition, to the extent that you determine the quantitative impact that adoption of Topic 606 is expected to have on your financial statements, please also disclose such amounts. Please refer to ASC 250-10-S99-6 and SAB Topic 11.M.

These comments are consistent with the SEC's September 2016 staff announcement outlining best practices for registrants to follow in the periods leading up to the standard's adoption.⁴ Because of the importance of revenue to users of the financial statements, we expect the SEC staff to continue to monitor registrants' implementation efforts, including their SAB 74 disclosures.

⁴ See Deloitte's September 22, 2016, *Financial Reporting Alert* for additional information.

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