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REVENUE RECOGNITION CHANGES
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The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which is the most significant revision to U.S. GAAP revenue recognition standards in history. The new guidance takes effect for private companies for annual reporting periods beginning after December 15, 2018.

The core principle of this standard is that an entity should recognize revenue as performance obligations are met. When a contract consists of multiple performance obligations, a company is required to allocate the revenue amongst the various performance obligations. A company will need to determine what the stand-alone transaction price of each performance obligation would be at the inception of the contract.

The five-step framework for companies to determine when and how much revenue should be recognized is as follows:

1. Identify the contracts 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 the entity satisfies a performance obligation.

If the contract simply requires the delivery of goods for a price, then all of the revenue will be allocated to the single performance obligation of delivery of goods. Revenue recognition gets more complicated if there are other performance obligations made to the customer as part of the contract such as maintenance services, extended warranties, or options to purchase additional goods or services at a reduced price. Communication between the accounting function and the sales function is critical to ensure revenue is recorded appropriately to comply with the new revenue recognition standard.

ASU 2014-09 will significantly increase the disclosures required in a company's financial statements. Required disclosures include the following:

1. Revenue disaggregated separately by revenue from its contracts with customers; revenue in accordance with ASC Topic 606; and revenue transactions accounted for in accordance with other accounting standards.
2. Revenue from contracts with customers disaggregated into categories that depict how the nature, timing, amount and uncertainty of revenue and cash flows are

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affected by economic factors. Examples include major product lines, geographical regions, types of customers, etc.

Nonpublic companies may elect not to apply this new quantitative disaggregation of revenue disclosure requirement; however, it will then be required to disclose qualitative information related to economic factors that affect the nature, amount, timing, and uncertainty of its revenue. Additionally, companies will still be required to disaggregate revenue according to the timing of revenue recognition (a point in time vs. over time) and disclose in the footnotes. The following qualitative information will be required to be disclosed:

1. When the company typically satisfies a performance obligation (i.e., upon shipment or upon delivery)
2. Significant payment terms such as payment due dates, financing components, if variable consideration exists
3. Obligations for returned products or refunds
4. Any type of warranties they are providing or related obligations

The impact the new standard will have on current and future contracts should be assessed now in order to have strong processes in place to ensure compliance with the new reporting requirements for revenue.

If you have any questions about this or any other business or tax issue, please contact your Account Manager or Andrea Schaefer, CPA, at (314) 205-2510 or via email at aschaefer@connerash.com.