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The New Revenue Standard — Are We There Yet?

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Introduction

With the effective date of the FASB's new revenue standard[1] roughly one month away, we are in the homestretch of public companies' implementation efforts. Throughout 2017, we have been monitoring the implementation status of public companies through our review of SAB Topic 11.M[2] ("SAB 74") disclosures included in those companies' periodic filings with the SEC.[3] Specifically, to understand how companies are considering the SAB 74 requirements, we reviewed the disclosures in periodic filings of a random sample of 100 companies from the Fortune 1000 that did not early adopt the new revenue standard. This *Heads Up* provides updated observations from the third-quarter filings of our sample population and some reminders for companies to consider in their year-end disclosures.

Overall Observations

We note that companies are making progress on their implementation efforts, with approximately 15 percent of our sample disclosing that their evaluations are "substantially complete." That figure is up slightly from 10 percent as of the second quarter. Further, more than half of our sample registrants provided expanded or updated disclosures as compared

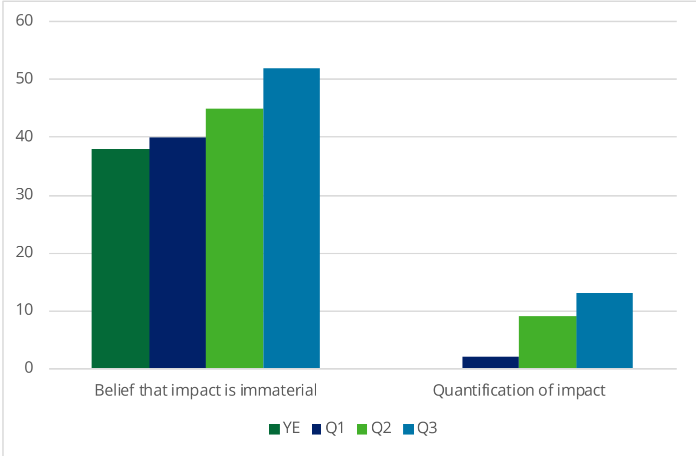
[1] FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*, as amended. See Deloitte's ***A Roadmap to Applying the New Revenue Recognition Standard*** for a comprehensive discussion of the new standard.

[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] See Deloitte's June 5, 2017, and September 5, 2017, *Heads Up* newsletters for previous discussions and analysis.

with their second-quarter filings. However, with a January 1 effective date looming, it appears that many registrants still have some work to do before their year-end filings. As indicated in Figure 1, while more than half of our sample companies have stated that the standard's effect will be immaterial, only slightly better than 10 percent have quantified some or all of the standard's impact upon adoption. Notwithstanding that most companies believe that the new standard's adoption will not have a material impact on the amount or timing of recognition of revenues, the majority of our sample disclosures indicate that implementation efforts are ongoing.

Figure 1: Quantification of Impact

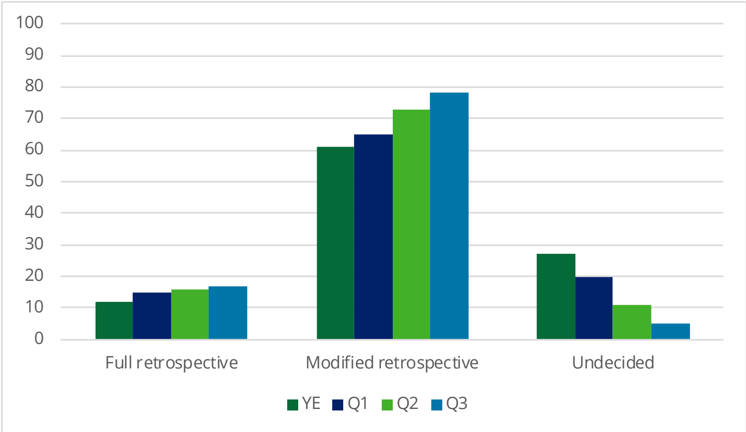


Companies should be mindful of the important information to be conveyed to financial statement users through quantification of the impact that adoption will have on a registrant's financial statements, particularly in the year-end filing before adoption of the new standard. Accordingly, we expect that the number of companies that disclose a quantification of the standard's impact (i.e., state that the effect will be immaterial or quantify some or all of the impact upon adoption) will increase significantly in the year-end filings.

Method of Transition

We also continue to see progress in the method of transition selected. 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. Most companies have elected the modified retrospective method as of the third quarter, with only 5 percent still undecided.

Figure 2: Method of Transition



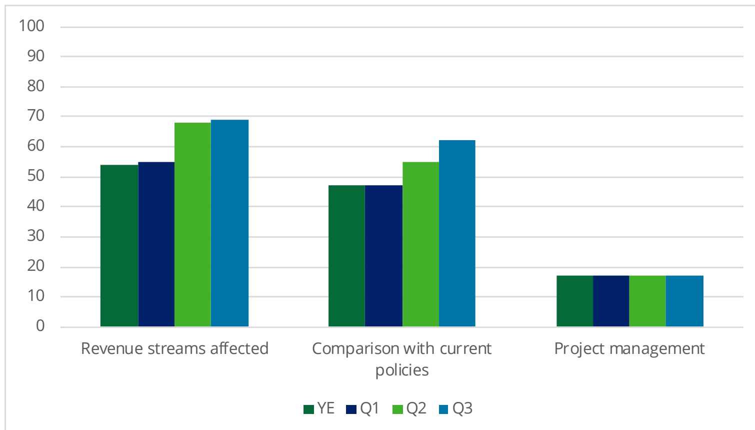
Qualitative Considerations

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").

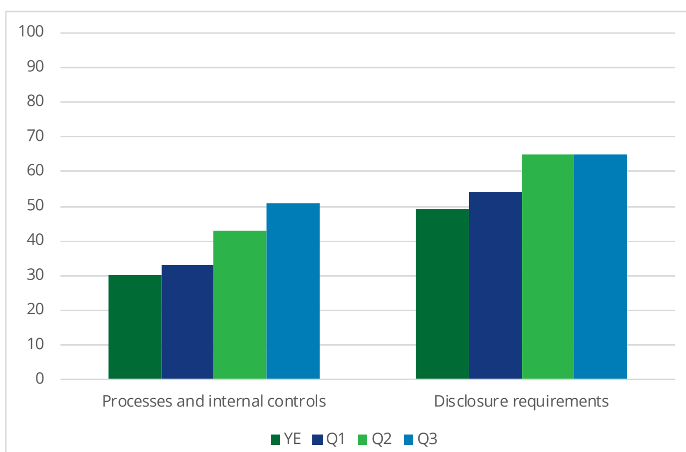
Generally, these disclosures were similar to those in previous periods, although, as noted in Figure 3, we continue to see enhanced disclosure about which revenue streams will be affected and a comparison with current policies.

Figure 3: Qualitative Considerations



In addition, as noted in Figure 4, we observed no change in the number of companies discussing the new disclosure requirements under the new revenue standard; however, we noted an increase in the discussion of the standard's effect on their accounting processes and internal controls.

Figure 4: Other Considerations



Under the new standard, companies must disclose much more information about revenue activities and related transactions than they currently do, including (but not limited to):

- Quantitative and qualitative information about performance obligations.
- Significant judgments and estimates.
- Contract assets and liabilities.
- Disaggregation of revenue.

For further discussion of these disclosure requirements, see Deloitte's *A Roadmap to Applying the New Revenue Recognition Standard*.

Final Reminders

The SEC staff has indicated throughout 2017 that it will be expecting companies to expand their disclosures about the significance of the effect of adopting the new revenue standard as we approach the effective date. Accordingly, as we head into the year-end reporting season, companies should be mindful of these expectations and, to the extent necessary, accelerate their implementation efforts to ensure robust and transparent disclosure of the impact of adoption within their 2017 Form 10-K filings.

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