The new revenue recognition standard
Assessing impact and implementation
Issued by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (“Boards”) in May 2014, the new principles-based revenue recognition standard (“new standard”) replaces prescriptive, industry-specific guidance, improving comparability across industries and throughout global capital markets. Companies across various industries will use the new five-step model to recognize revenue from customer contracts. Not only could this change the way companies recognize revenue, but depending on the nature of your business, it could also involve significant management judgment, require new estimates and disclosures, and potentially drive changes in business processes, policies, systems and internal controls.

Originally slated for January 2017, the effective date of the new standard was deferred this summer by a year, moving the adoption date for U.S. GAAP public companies to January 1, 2018 and non-public companies to January 1, 2019.

While the extent of the impact will vary by company, it is clear that adoption is already presenting a rocky road. After seeking input on possible implementation issues last year, the Boards not only chose to defer the standard’s effective date by a year, but there have also been ongoing discussions and changes to the standard in a number of areas.

Nevertheless, the Boards are hopeful to finalize changes to the new standard by year-end, and with the 2018 deadline looming, it is time for companies to take a hard look to determine what effect the new guidance will have on their organizations and what changes, if any, must be put into motion in order to apply the new guidance.

Companies can choose one of two adoption methods to transition their financial reporting to the new standard: 1) a full retrospective method requiring the standard to be applied to each period presented (e.g., 2016, 2017 and 2018) or 2) a modified retrospective method requiring the standard to be applied to existing and future contracts as of the effective date, with additional disclosure of financial statement line items that are different under the new standard versus what would have been recorded under legacy guidance each quarter. Regardless of the adoption method selected, some level of dual GAAP reporting will be required; therefore, companies will have to maintain two sets of accounting records and supporting processes for some period of time.

Surveying implementation progress

To better understand where organizations stand with their implementation of the new standard and the expected impacts and implementation issues that may arise, PwC and Financial Executives Research Foundation (FERF) collaborated for the second year on a revenue recognition implementation survey. Conducted during the summer of 2015, our survey explored executives’ perspectives on key considerations for companies implementing the new standard, from adoption method and overall readiness to accounting policy decisions, systems, controls and process changes.
A total of 335 respondents across a variety of industries participated in the survey. Respondents were from companies of all sizes (based on annual revenue), 60% of whom represented companies with $1 billion or more in revenue. Just under 18% represent companies with less than $100 million in revenue.
Key findings

Analysis of the results from the PwC-FERF survey indicates that despite the delay in effective date of the standard, the overall state of readiness may be lagging.

Many companies do not yet have a clear understanding of how the new standard will impact their organization. There has been little actual implementation to date, and significant indecision exists regarding which of the two methods of adoption companies are likely to follow.

Given that the impacts of the standard extend far beyond technical accounting, this level of preparedness may be a cause for concern. Most companies will see at least some level of change. While most public companies will not start applying the new guidance until 2018, preparing for the change will likely require a significant effort that could entail a substantial amount of time.

Changes to the way revenue is recognized could have broader business impacts, including go-to-market strategies, income taxes, compensation arrangements, budgeting and forecasting, and systems, among others. Not only will many companies need to make certain systems changes, but some organizations report that they will also make certain changes to their business models.

Companies should assess their business processes, data, systems and internal controls to determine whether they can capture and report the information needed to comply with the new standard.

In addition to the key findings in this section, more data is available in the Appendix.
We have not started an initial impact assessment 27%

We have started, but have not yet completed an initial impact assessment 48%

We have completed an initial impact assessment 20%

We have started to implement systems, controls and process changes 5%

Q. How far along is your company in implementing the new revenue recognition standard? N=286

Some conclusions drawn from the survey data follow:

**Many companies do not yet have a complete understanding of how the standard will affect their organizations**

We asked survey participants the level of preparedness for adopting the new standard their companies have achieved. A majority (75%) of respondents have not yet completed their initial impact assessment, and almost 27% of respondents have not begun an assessment. An initial assessment enables an organization to determine the required timeline, costs, and resources needed, if any. Without having completed an assessment, companies may not have enough information to understand what the impact of the change may be. Only 5% of respondents have started to implement systems, process and controls changes, despite the fact that public companies planning to utilize the full retrospective method of adopting the standard will need 2016 information.
**Reasons for delayed implementation vary**

Key explanations cited for why companies have not begun to address the standard change include resource constraints (18%) as well as a sizeable group of respondents (27%) who are waiting on additional guidance. However, given the approaching deadlines, waiting for amendments and/or clarification on guidance could put companies behind, leaving them at risk for financial misstatements.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not believe there will be a significant impact on our company’s financials</td>
<td>38%</td>
</tr>
<tr>
<td>Resource constraints</td>
<td>18%</td>
</tr>
<tr>
<td>Waiting for clarification on additional accounting topics</td>
<td>14%</td>
</tr>
<tr>
<td>Waiting for finalization of the proposed amendments</td>
<td>13%</td>
</tr>
<tr>
<td>Expect to initiate efforts now that the FASB and IASB have voted on the effective deferral date</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Do not have the proper IT systems in place</td>
<td>4%</td>
</tr>
</tbody>
</table>

Q. If you have not begun your implementation efforts, what are the reasons behind the delay?  
N=197

Multiple choices were provided
Financial statement impacts may be underestimated

A significant majority (78%) of respondents reported that their company has not attempted to quantify the financial statement impact of the new standard.

Half do not believe there will be a material impact to financial statements

With many respondents stating that they have not attempted to quantify the financial statement impact, it is risky to assume that the new standard will not have an impact on financial statements. Nevertheless, our survey found that 50% of respondents indicated that they do not expect the standard to have a material impact on their companies’ income and/or balance sheet.

Q. Has your company attempted to quantify the financial statement impact of the new revenue recognition standard?  
N=282

78%  No  
22%  Yes

Q. Do you expect the standard to have a material impact on your company’s income statement and/or balance sheet?  
N=282

No  50%

30%  Not determined at this time

11%  Yes, material impact to both b/s and i/s

4%  Yes, material impact to b/s but limited impact to the i/s

5%  Yes, material impact to i/s but limited impact to the b/s
There is considerable indecision regarding method of adoption

There is still a lack of clarity on which of the two methods of adoption companies are planning to take. Only 17% of respondents could definitively say that they plan to use the modified retrospective or full retrospective method of standard adoption. This indicates that the remaining 83% are undecided. Companies may want to quantify potential impacts of both adoption methods and weigh the pros and cons of each in order to determine which option will be best for their organization.

Q. Has your organization decided on a method of adoption?
N=335
Respondents are working toward a 2018 effective date

Only 9% of survey respondents are planning for adoption prior to 2018, with over 66% of respondents indicating that their company plans on taking advantage of the deferral.

While the effective date has been extended by a year, over a year has passed since the standard was released. Hence, for those where activity may be lagging, the timeline is again becoming compressed.

Q. When does your company plan to adopt the standard?
N=286
**Significant effort will be required**

Implementing the new standard will be a big endeavor for many companies and will require substantial effort. A majority of respondents (67%) acknowledge that moderate to significant effort will be necessary to implement the new standard, influenced by the complexity of applying the model and related disclosures, potentially changing business models, and modifying systems.

Q. What level of effort will be required to implement the new revenue recognition standard?
N=283
**Business models may change**

Our survey results confirm that implementing the new standard represents a major change for some organizations. Accounting is just the tip of the iceberg. While the amount of change will vary by company, organizations should assess the level of impact. Thirty-three percent believe that there will be at least some level of change to how they do business (with an additional 23% unsure). This might reflect more flexibility provided by the principles based standard. These changes, however, are further examples of change that needs to be managed, and may extend the implementation timeline.

**Q.** Do you expect to make changes to your company’s business models and/or how it goes to market with its customers as a result of the new revenue recognition standard?  
N=284
**Systems changes are pervasive**

Survey results also show that systems changes will be pervasive. A majority of respondents (53%) expect to make at least some system changes to accommodate the new standard as part of their implementation efforts, with an additional 23% unsure.

Implementing the new revenue standard could become more of a burden as companies make system changes to capture additional data required for accounting and reporting under the new standard. Individual organizations will need to identify business and system requirements for revenue recognition scenarios and define future-state requirements before implementing a new technology solution. In addition, the selected solution must be compatible with existing enterprise architecture and align with IT strategic plans.

Choosing a technology solution is complicated by the fact that ERP and specialized software vendors continue to enhance and develop functionality to address the evolving revenue standard. Companies that have not already, should begin assessing their business processes, data, systems and internal controls to determine whether they can capture and report the information needed to comply with the new standard.

**Q.** Do you expect to make system changes, e.g. (billing, AR, etc.) to accommodate the new revenue recognition standard or even change your ERP system as part of implementation?

N=281
Many business aspects were deemed difficult

Survey participants were asked to rate what they believed would be the most difficult aspects of applying the new standard. Respondents ranked reviewing customer contracts, disclosure process, and billing systems as the areas that would be most difficult, but only minimally more so than other issues. In fact, most of the business issues seemed to be of similar importance or concern to respondents.

Q. Please rate the expected impact of the new revenue recognition standard [ranked by difficulty].
Conclusion

Our survey results show that there is little actual implementation to date (see Appendix for additional survey data points) and that most respondents are expecting some level of change to their businesses. Sixty-seven percent of respondents expect it will take a significant to moderate level of effort to implement the new standard. With very few companies having completed an initial impact assessment, and even fewer attempting to quantify the financial statement impacts. Most companies likely have not gathered enough information to determine what detailed changes may be necessary.

Although the 2018 effective date may still seem a long way off, the earlier you identify the implications of the new guidance, the better positioned we believe you will be to plan and implement.

There is no “one-size fits all” solution to address the new standard. For some, challenge may be limited to additional disclosures, while others may be challenged by implementing the right combination of technologies and processes to address the new requirements. And for many, the focus may be on validating that current practices are compliant with the new model. In each case, companies can prepare and more adequately plan for the various scenarios by performing an assessment early on.

PwC and FERF will continue to share these types of perspectives regarding the new standard. Change can be difficult. By listening to the marketplace, it is our joint goal to help companies down the path to implementation. If you have not started already, it is time to do so now. And for those that have begun, it is time to make some real progress.
Appendix

Responses to survey questions not highlighted within the body of the survey report include the following.
What industry is your company engaged in?

- **Consumer Industrial Products & Services:**
  - Aerospace and Defense
  - Agriculture Inputs
  - Alternate Energy
  - Automotive
  - Consumer Packaged Goods
  - Consumer Products: Metal Manufacturing
  - Distributor
  - Engineering and Construction
  - Fast Casual Restaurant Chain
  - Forest, Paper, and Packaging
  - Industrial Products, Chemicals, & Manufacturing
  - Manufacturing/Distribution
  - Metals
  - Mining
  - Oil and Gas
  - Power and Utilities
  - Professional Services
  - Recycling and Waste Management
  - Retail and Consumer
  - Transportation and Logistics
  - Wholesale Distribution

- **Technology, Information, Communication & Entertainment**
  - Entertainment and Media
  - Hospitality and Leisure
  - Services-Computer Processing & Data Preparation
  - Software
  - Sports Entertainment
  - Technology [other than software]
  - Technology Solutions [including software]
  - Technology, Services and Software
  - Telecommunications

- **Financial Services**
  - Asset Management/Investment Management
  - Banking and Capital Markets
  - Consumer Finance
  - Derivatives Exchange/Clearing
  - Financial Services and Insurance
  - Insurance
  - Real Estate

- **Health Industries**
  - Education
  - Healthcare
  - Non-Profit
  - Non-Profit Higher Education
  - Pharmaceutical and Life Sciences

N=335
How closely has your company been monitoring the Boards' ongoing deliberations and proposed amendments to the new standard?

- 45% Very closely
- 42% Closely
- 13% Not following closely

N=335

If you have started evaluating the new standard, what are your findings?

- Consistent with expectations: 47%
- Not started or ongoing evaluation: 26%
- More differences [or at least more analysis] than initially expected: 17%
- Less differences than initially expected: 10%

N=278
What accounting areas of the new standard are causing you the most challenges?

- Accounting for licenses (N=270) - 39%
- Financial systems (N=274) - 35%
- Accounting for variable consideration (N=270) - 33%
- Other (N=74) - 32%
- Timing of revenue recognition (N=271) - 31%
- Reporting systems (N=270) - 31%
- Business models (N=267) - 31%
- Identifying performance obligations (N=271) - 30%
- Business processes/policies (N=271) - 29%
- Sales practices/compensation (N=270) - 29%
What system(s) do you plan to use to manage your new revenue recognition processes?

- Not sure: 28%
- Other: 21%
- SAP: 19%
- Oracle: 14%
- Excel spreadsheets: 14%
- RevPro: 3%
- Big 4 software: 1%

N=283

How are you managing resources to implement the new standard?

- Not sure: 19%
- Leveraging existing resources: 66%
- Hiring consultants: 15%

N=281

Appendix
Do you expect that an accounting method change for tax purposes will be needed at your company in order to align the timing of revenue recognition for books versus tax purposes?

- 5% Yes
- 35% No
- 60% Not determined at this time

N=282
To discuss the survey results in more detail, please contact any of the following PwC authors:

**Joseph R. Tort**  
Partner, US GAAP Change Leader  
(646) 471-0603  
joseph.tort@pwc.com

**Chad A. Kokenge**  
Partner, Deals, Accounting Advisory Services Leader  
(646) 471-4684  
chad.a.kokenge@pwc.com

**Dusty Stallings**  
Partner, Deals, Capital Markets and Accounting Advisory Services  
(973) 236-4062  
dusty.stallings@pwc.com
About PwC

PwC helps organizations and individuals create value. We’re a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax, and advisory services. Find out more by visiting us at www.pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees, and agents do not accept or assume any liability, responsibility, or duty of care for any consequences of anyone acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

About Financial Executives Research Foundation (FERF)

Financial Executives Research Foundation (FERF) is the non-profit 501(c)(3) research affiliate of Financial Executives International (FEI). FERF researchers identify key financial issues and develop impartial, timely research reports for FEI members and non-members alike, in a variety of publication formats. FERF relies primarily on voluntary tax-deductible contributions from corporations and individuals. Questions about FERF can be directed to bsinnett@financialexecutives.org.

The views set forth in this publication are those of the authors and do not necessarily represent those of the FERF Board as a whole, individual trustees, employees, or the members of the Advisory Committee. FERF shall be held harmless against any claims, demands, suits, damages, injuries, costs, or expenses of any kind or nature whatsoever except such liabilities as may result solely from misconduct or improper performance by the Foundation or any of its representatives. FERF publications can be ordered by logging onto http://www.ferf.org.