The New FASB & IASB Revenue Recognition Standards; Implementation and Effects

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Overview

In recent years there has been a growing recognition in the accounting profession that given the speed and scope of economic globalization, the need for comparability and transparency has never been more important. Accountants and financial professionals increasingly have recognized the necessity for accounting standards that are uniform across all industries and business entities. Investors, regulators, lenders, and ultimately the public must be able to compare very complex financial statements. With simplified rules, it becomes easier for all financial statement users to analyze the substance of these organizations and make informed decisions based on uniform standards. Financial professionals need these uniform standards to be able to easily and more efficiently analyze business entity finances to make investment and growth decisions. The government, for tax and other purposes, needs to see all financial statements in a uniform format to promote transparency and comparability. Thus, we have seen the Securities & Exchange Commission become an important proponent of these accounting changes.

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have undertaken several projects to unify the accounting methods for various topics world-wide. In essence, the controversy of rules based versus principles based accounting frameworks is moving towards the latter and away from the former, yielding consistency and uniformity in accounting applications. Revenue recognition here will mean, when, why, and how business and other entities will recognize revenue from contracts and other transactions that may lead to revenue for these entities.

This research article will study the pronouncement of the new revenue recognition standard, ASU2009-14 Topic 606, created by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) IFRS-15, as a step in the direction to unify accounting standards worldwide. We will analyze the reasons for the new revenue recognition standards; the new standards will be explained in detail, which will include accounting for contracts, disclosure requirements and other transactions that will be affected by the new standards. In addition, the current and future effects of these new standards will be studied in depth, the future of unification of financial standards will be discussed. Finally professional opinions will be given as to how different entities can adopt these new standards and adhered to the new laws stated in the pronouncement.

Purpose

These new standards will:
1. Remove and replace any inconsistencies, weaknesses and loopholes in the current revenue recognition standards; thereby allowing for greater transparency on financial statements.
2. Improve the level of comparability and consistency methods and processes used in revenue recognition across entities, industries, capital markets and Jurisdiction.
3. Allow for easier preparation of financial statements by reducing the amount of processes and requirements that organizations need to do for revenue recognition.

(FASB)

Steps Before Recognition

1. Identify the contract with the customer
2. Identify the performance obligations promised in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue when the performing organization completes the performance obligation.

Implementation and Effective Dates

Originally, the standard was supposed to become effective after December 15, 2016, with all interim periods of reporting included in the annual report. The date has been postponed by a year to January 1, 2018 and for all US GAAP public companies and January 2019 for nonprofit organizations. In adopting the new standard, companies have the option of choosing from in order to enable smooth transition to the new standards they include; 1. a full retrospective method, which requires organizations to apply the new standards to each period presented, and 2. a modified retrospective method, which requires organizations to apply the new standards directly to existing and future contracts, as well as other financial statement items that were previous recorded, under different standards.

Conclusion

For the first time, there is a universal recognition that simplified accounting principles can be applied on a worldwide basis. The business and accounting communities have addressed the major concerns of completeness, comparability, and transparency as formal goals of accounting practice. In the years to come revenue reporting across the globe must conform to the published standards. The implementation will require new auditing standards and training for financial statement preparers and auditors. Special consideration to footnotes and disclosures on revenue policy will be a key component of financial audits. Information Technology systems may have to be reengineered to comply with the intricacies of the standard. Based upon its success, there will be a greater movement toward future convergence of the domestic and international rules of accounting.