

# Revenue Recognition from Contracts with Customers



In May 2014, the new revenue recognition standard (Accounting Standards Update No. 2014-09) was introduced. There have been various amendments since 2014 to provide additional clarification to the standard.

The implementation time is finally here. For public business entities, certain not-for-profit entities, and certain employee benefit plans, the effective date is for reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The effective date for all other entities is for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

The standard eliminated the transaction and industry specific revenue recognition guidance that existed under GAAP and replaced it with a principle based approach.

Businesses should now be using the *Five Step Process to Recognize Revenue* in accordance with the standard

## Determining and identifying if you have a contract

1

- Can be written or oral
- It is clear what each party is giving or receiving
- The exchange has value and collectability is probably

## Identifying what the performance obligations are under the contract

2

- Specify each obligation under distinct pieces
- A distinct item can support a sale with no further work

## Determining the price of the contract

3

- Need to take into account factors such as rebates, royalties, discounts, returns, noncash items received, ext.
- Transaction price in recording revenue will be the most likely outcome of consideration to be received

## Breaking out the contract price by performance obligations

4

- Allocate the consideration given to each performance obligation in a contract

## Recognizing the revenue as the obligations are satisfied

5

- When the customer can benefit from the goods or services, revenue can be recognized
- Indicators of the performance obligations being met are as follows:
  - » Entity has present right to payment
  - » Customer has legal title to goods
  - » Entity has transferred the physical possession of goods
  - » Customer has the risks and rewards of owning the goods
  - » Customer has accepted the goods