

# The New Global Guidance of Revenue Recognition in the Anglo-Saxon Market

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7 **Abstract**  
8 The purpose of this research study is to provide an understanding of the adoption of revenue  
9 recognition in the Anglo-Saxon market. One of the main findings is that the steps involved in  
10 revenue recognition mentioned in the literature review should be implemented at the  
11 organizational level. Public companies are expected to adopt the new revenue recognition  
12 guidelines by 2018. Notably, the FASB will bring a global vision to a new set of accounting  
13 rules in the United States. Research limitations indicate organizations are running out of time  
14 to adopt the new deadlines proposed by FASB. Any delay in the adoption of revenue  
15 recognition will have an impact on companies' bottom line finances. The participation of tax  
16 professionals in the adoption process mentioned above is minimal. Therefore, businesses are  
17 expected to be affected directly by the lack of tax professional participation.

**Index terms**— FASB, IASB, FinRec, USGAAP, IFRS, revenue recognition

1 L<sub>2</sub>

21 The Complexity of Revenue Recognition in the Anglo-Saxon Market The focus of this article is on the  
22 implementation of revenue recognition in the Anglo-Saxon market. Presently, both boards indicate there are  
23 some existing areas of financial reporting challenges and weaknesses under USGAAP and IFRS. Guidelines under  
24 Rules-based and principles-based have been prepared for particular industries to report revenue as governed under  
25 each accounting setting format.

26 The five steps of the revenue recognition process are designed to support the core principles of business contract  
27 and the accountability of major business entities. The five steps are: (a) identify a contract with a customer, (b)  
28 identify separate performance obligations, (c) determine the transaction price, (d) allocate the transaction price  
29 to separate performance obligations, and (e) recognize revenue when or as performance obligations are satisfied.  
30 "The main objective of the joint revenue recognition project is to consolidate the financial reporting inconsistencies  
31 that exist under the Financial Accounting Standard Board (FASB) and the International Accounting Standard  
32 Board (IASB)" ??Lemus, 2014, p. 1). Financial users will require more comprehensive training and guidance to  
33 deal with the new revenue recognition contract in the near future (Tysiac, 2017).

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35 In 2016, Bell, Kalavacherla, and Thompson conducted an accounting survey by analyzing the results of the new  
36 revenue recognition in different business sectors and find the need of aligning customer business contract service.  
37 The implementation of the new revenue recognition standard will bring new financial challenges to the operating  
38 aspects of both public and private companies. According to the results of a survey of more than 140 companies,  
39 where the majority of the companies are public and carrying revenue of \$1 billion would face operational and  
40 financial challenges (Bell et al., 2016).

41 2 II.

42 3 Review of the Literature a) New Revenue Recognition His-  
43 torical Timeline Approach

44 In 2011, the FASB and the IASB issued an Exposure Draft (ED) detailing the necessary steps to implement the  
45 new revenue recognition from contracts with customers. In 2014, both boards agreed the earliest date to adopt  
46 the new revenue recognition would be January 1, 2015. The ED that was presented by the FASB and the IASB  
47 was similar to the Exposure Draft (ED) issued in 2010. As a result, the revised ED is consistent with the five  
48 steps of revenue recognition mentioned previously (Holzmann & Ramnath, 2013).

49 In 2014, the FASB and the IASB began the convergence effort toward revenue recognition by bringing alignment  
50 to the revenue from contracts with customers. The Transition Resource Group (TRG) was established by  
51 the FASB and IASB. Revenue recognition under USGAAP and IFRS continues to experience some accounting  
52 technical challenges such as revenue recognition in the financial statement consolidation process (Kepple, 2016).

53 In 2016, the FASB issued several standards to clarify and propose a new set of principles guidance interpretation  
54 related to revenue recognition. Public companies are expected to adopt the new revenue recognition guidance by  
55 January 1, 2018. Non-public companies should engage in the transition to the new revenue adoption guidance  
56 a year later. The new revenue recognition guidance promotes principlesbased standards. Therefore, public  
57 companies are finding the need to make changes in their accounting policies and auditing settings (Bell et al.,  
58 2016).

59 In 2018, public companies should commence the new revenue recognition adoption and by 2019 non-public  
60 companies should commence this new financial effort. The FASB, with the new revenue recognition standard,  
61 will bring a global vision to the world financial sector. For example, one industry that is expected to be affected  
62 by the revenue recognition change is the health care industry. Therefore, the companies that will be affected  
63 directly by this change are companies that follow specific guidance under USGAAP as it relates to their industry  
64 (Munter, 2016) There is limited guidance-one general standard for goods and services and one for construction-  
65 type activities-supplemented by a few interpretations. Some standards/topics focus on completion of the earnings  
66 process while others focus on activities.

67 The general standard focuses on completion of the earnings process, whereas the standard on construction-type  
68 activities focuses on activities. There is a lack of comparability among entities because similar transactions are  
69 accounted for differently as different standards/topics apply.

70 There is a lack of comparability among entities because the lack of guidance results in different conclusions  
71 reached by companies about the accounting for similar transactions. Some of the guidance contains bright lines,  
72 giving rise to a significant difference in the accounting outcome for similar arrangements. Some of the guidance was  
73 developed from an antiabuse perspective, establishing implicit bright lines through rebuttable presumptions that  
74 are difficult to overcome. There is limited guidance on applicable disclosures, resulting in boilerplate disclosure  
75 about revenue by some entities.

76 There is limited guidance on applicable disclosures, resulting in boilerplate disclosures about revenue by some  
77 entities. The separation guidance for multiple element arrangements differs among standards/topics, which results  
78 in different units of account and therefore different revenue recognition patterns for similar arrangements.

79 There is limited guidance on separation for multiple element arrangements, which results in diversity in practice  
80 and a lack of comparability among entities in accounting for similar arrangements.

81 Most of the specific guidance has been developed for particular industries such as insurance, the health sector,  
82 and other service industries. In the health care industry, revenue is recognized at the time when the service is  
83 rendered. As mentioned by Munter (2016), "According to ASC paragraph 954-605-45-4, if the patients do not pay,  
84 the providers present the resulting bad debts as an adjustment to revenue" (p. 31). Other health care services  
85 guarantee the collectability of the service provided prior to recognizing revenue. At this point in time, there are  
86 limited disclosure items related to revenue recognition. Financial statement users are primarily concerned with  
87 the limited disclosure items under the revenue recognition governed by USGAAP (Munter, 2016).

88 4 c) Five Steps of the Revenue Recognition Process

89 Financial users will require more comprehensive training and guidance to deal with the new revenue recognition  
90 contract. The following five steps of the revenue recognition process will support the core principles of business  
91 contract and the accountability of major business entities. The five steps are: (a) identify a contract with  
92 a customer, (b) identify separate performance obligations, (c) determine the transaction price, (d) allocate  
93 the transaction price to separate performance obligations, and (e) recognize revenue when or as performance  
94 obligations are satisfied.

95 Step 1. A contract should exist when a service is rendered to a customer where it can be legally enforceable  
96 and create a commitment of future cash flows. Also, liability will remain in the contract until all conditions are  
97 met.

98 Step 2. The contract should specify how the customer can benefit from the service and how to identify the  
99 promises in the contract as they relate directly to performance obligation.

100 Step 3. It is imperative that the entity indicate whether the transaction price is fixed or variable, because  
101 the new revenue recognition standard states that if there is fluctuation in the price, adjustment should be in  
102 accordance with the concession of the price changes indicated in the contract by not necessarily altering the cost  
103 of goods sold reported in the income statement.

104 Step 4. The transaction price should be identified as distinct and meet the performance obligations of the  
105 contract.

106 Step 5. All obligations should be satisfied as anticipated in the performance obligation at a point in time.

107 The implementation of the new revenue recognition by the FASB is raising a number of challenges for financial  
108 users as well as for auditors in public companies. The American Institute of Certified Public Accountants (AICPA)  
109 mentioned that the new revenue recognition is expected to provide specific guidance on an industry basis and  
110 auditors require a degree of adaptability to the new accounting measurement changes in the financial market. In  
111 the aerospace and defense industry, entities are expected to deal with step 5 under the new guidelines of revenue  
112 recognition, which is to "recognize revenue when (or as) the entity satisfied a performance obligation." This is  
113 related to FASB Accounting Standards Codification (ASC) Topic 606. In the aerospace and defense industry, the  
114 nature of contracts tends to vary across the board. The satisfaction selection progress should reflect the timing  
115 and service delivery. As a result, in the aerospace industry, revenue can be measured as straight-line revenue  
116 recognition and cost-to-cost for the service to be rendered to the customer (Tysiac, 2017).

117 In the case of asset management, financial preparers deal with step 1, which is to identify the contract with  
118 a customer. Financial Reporting Executive Committee (FinRec) developed the following characteristics for  
119 financial users when dealing with asset management:

120 ? Legal entities such as corporations, partnerships, and business trusts should be recognized as legal entities ?  
121 The board of directors should have full control of the entity governance ? Investors should have the availability  
122 to negotiate their advisory fees ? Investors' diversity will contribute to the expansion of the entity ? Investors  
123 who register through a third party will have a lack of visibility as to who is the ultimate investor in the company  
124 ? Investment companies in the United States should be regulated ? The asset manager should have different  
125 contractual services (Tysiac, 2017) The fact is that the changes related to the new revenue recognition will affect  
126 industries in the private sector. Professionals in the accounting and financial sector are aware of the topic of  
127 ASC 606. Public companies should prepare for the upcoming changes in the financial sector. In 2018, non-public  
128 organizations will commence making changes in their financial reporting. This will involve assessing the company's  
129 day-to-day operations and streaming the process of revenue recognition activity. As a result, the implementation  
130 of the new revenue recognition should commence at the organizational level because organizational leaders will  
131 have to use their best judgement to adopt the principles-based standards for optimization purposes (Arms &  
132 Bercik, 2015).

133 The FASB recommends that public entities adopt the new revenue recognition standard by December 15,  
134 2017. Public companies are not permitted to engage in early adoption. Moreover, all other major companies are  
135 expected to adopt the new revenue recognition after December 15, 2018, with interim periods of annual reporting  
136 by December 15, 2019 (Holloway, Sutton, & Swafford, 2017).

137 The new revenue recognition standard presents two methods as important rules. The FASB will have a degree  
138 of flexibility with public companies in electing either two of the rules. The first method is to allow an organization  
139 to adopt retrospectively the new revenue recognition at the end of each reporting period. The second method  
140 is for an organization to recognize the opening balance at the initial date of the application of the period. It is  
141 anticipated that the new revenue recognition will replace some of the rules written under USGAAP. As a result,  
142 the adoption is overwhelming for both organizations and practitioners in the accounting industry. Therefore,  
143 in order to advance and comply with the time table of deadlines proposed by FASB, organizations should have  
144 dual-reporting capabilities in place (Holloway et al., 2017).

145 The AICPA noted that financial sustainability can be attributed to the relationships that exist among business  
146 members in the community, industry services, and the government. Financial users are recommended to visit the  
147 FASB website ([www.fasb.org](http://www.fasb.org)) to explore the most recent updates and developments as they pertain directly to the  
148 new revenue recognition convergence standard. The purpose of the new revenue recognition is easy to understand  
149 and serves as the financial communication process for revenue recognition by industry. The FASB revealed that  
150 the revenue treatment and related transactions of recognition differ from industry to industry (James, 2016).

151 The SEC commented that the new revenue recognition is a new era for fraud in the U.S. capital market. On the  
152 other hand, IFRS have two standards of revenue recognition and including minimal guidance of interpretation.  
153 For instance, experts on revenue recognition have criticized the elements arrangements that exist under IFRS.  
154 The accounting software that should be updated includes OneSource, Corp Tax, and other related tax accounting  
155 software. Also, during the tax evaluation process of the adoption of the new revenue recognition, different stages  
156 should be considered. As a result, effective communication is paramount so optimal results can be achieved.  
157 The implementation of the new revenue recognition should depart from comparability and consistency, most  
158 importantly in different governing jurisdictions around the globe. It is recommended that the Joint Transition  
159 Group for Revenue Recognition (TRG) create a public forum as an educative avenue for stakeholders, internal  
160 and external auditors, and users of financial statements (Levin-Epstein, 2015).

161 Historically, changes in the financial market have been the main driving force for progress in business  
162 development. By 2019, it is expected that public and private companies will have embraced the new guidelines of

## 9 I) NEW

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163 revenue recognition under ASC 606. The AICPA stated that the adoption of accounting guidelines will have an  
164 impact on day-to-day business operations. The FASB's top priority is to create new guidelines for future investors.  
165 Bell et al., (2016) International Accounting Survey study results revealed 40% responded to the implementation  
166 process that will have results by seeking harmonization from USGAAP to IFRS. Furthermore, 54% of professionals  
167 in the finance industry have not begun to assess the technicality aspect of revenue recognition under ASC 606, 36%  
168 do not have a plan for implementing the changes, and 24% are confident new change may affect the accounting  
169 industry. Organizational leaders will have to conduct an extensive review to find comparability in the accounting  
170 policies and at the same time be innovative. Therefore, the global economy is constantly changing and operational  
171 challenges are in the horizon (Bredehoft, 2016).

172 Organizations are running out of time to meet the deadlines proposed by the FASB. Organizations have not  
173 completed as of yet the assessment of new accounting system changes. According to Steve Thompson, consultant  
174 at KPMG, some companies are undermining the time effort needed to implement the new revenue recognition  
175 (Bell et al., 2016).

### 176 5 d) Revenue Implementation Status

177 Public companies are behind schedule. Regulators in the United States have expressed a degree of concern because  
178 80% of public companies have not yet began the assessment phase (Bredehoft, 2016). The delayed process will  
179 have an impact on the bottom line finances of companies because the operation costs are expected to be inefficient  
180 and increase risks across the board, and identify new strategic role settings. Also, 60% of public companies as  
181 participants surveyed acknowledged they were running behind schedule (Bell et al., 2016). The configuration  
182 of software to be implemented through the new revenue recognition adoption can take approximately 9 to 12  
183 months. Participants in the survey study anticipated that 49% will process accounting data manually. As a  
184 result, the software that should be considered in the adoption of the new revenue recognition is SAP, Rev Pro,  
185 Rev Stream, and Oracle (Bell et al., 2016). Figure 2. to revenue accounting systems ??Bell et al., 2016, p. 6).

186 The configuration of software to be implemented through the new revenue recognition adoption can take  
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188 data manually. As a result, the software that should be considered in the adoption of the new revenue recognition  
189 is SAP, Rev Pro, Rev Stream, and Oracle (Bell et al., 2016).

### 190 6 f) Revenue Adoption Cost

191 When calculating the adoption cost, it will be significant to consider internal and external resources in the  
192 budget. Bell et al. (2016) noted 34% of the survey participants anticipated that the total cost of the new  
193 revenue recognition guidance would be in excess of \$1 million. The operational adoption cost is expected to  
194 continue increasing. Several areas of key leading indicators can affect companies tremendously. Throughout the  
195 adoption process, company leaders are encouraged to take into consideration accounting disclosure requirements,  
196 accounting policies, guideline procedures, internal systems, timing adoption processes, customer contracts, tax  
197 implications, and the human resource department (Bell et al., 2016). Figure 3 reveals that the costs related  
198 to the adoption of the new revenue recognition at the assessment phase will exceed \$1 million. In terms of  
199 business impacts, companies are expected to consider three major key drivers: comparability trends, financial  
200 reporting consistency, and systems reliability. The key drivers mentioned previously will bring uniformity to the  
201 new convergence of revenue recognition (Bell et al., 2016).

### 202 7 e) Revenue Accounting Systems

### 203 8 h) Revenue and Tax Implications

204 The participation of tax professionals in the adoption of new revenue recognition standards is minimal. Business  
205 are expected to be affected directly by the lack of tax professional participation. Bell et al.'s (2016) survey results  
206 demonstrated the areas that may lead to roadblocks from the taxable aspect are as follows:

207 ? Existing tax compliance processes ? Taxable income ? Accounting for income taxes (ASC 740)  
208 ? Tax accounting method changes ? Other areas of tax, including transfer pricing (p. 11) Furthermore,  
209 organizations are expected to rely on one or more accounting tax methods for financial reporting purposes.  
210 However, a careful analysis should be considered when treating the calculation of accounting policies related to  
211 revenue recognition. Therefore, tax professionals are expected to assess the tax compliance needs and evaluate  
212 the systems in a timely manner (Bell et al., 2016).

### 213 9 i) New

#### 214 Revenue Recognition Road Map Implementation

215 Figure 4 shows a new revenue recognition road map timeline to illustrate a proposed chronological event for the  
216 new revenue recognition guidelines by meeting the approaching deadline of December 2017. Susan Callahan, CPA  
217 for Ford Motor Corporation directing the American market, suggested the new revenue recognition will bring,  
218 to some degree, more uncertainty in the U.S. market among business practitioners. The FASB and IASB had  
219 already begun a convergence process to harmonize the two accounting standards into one universal accounting

language. For example, Callahan indicated the FASB and IASB created a joint transition group to help companies seek clarity when implementing the new revenue recognition. Both accounting standard boards shared common ground about the implementation of the new revenue recognition standard (Tysiak & Murphy, 2015).

## 10 III.

## 11 Conclusion

In conclusion, public companies are finding the need to make changes to their accounting policies. The implementation of the new revenue recognition should commence at the organizational level, because organizational leaders will have to use their best judgement to adopt the principles-based standards for optimization purposes. As a result, in order to advance and comply with the time table of deadlines proposed by the FASB, organizations will need to have a dual financial reporting system in place. Financial statement users are primarily concerned with the limited disclosure items under the revenue recognition governed under USGAAP. Major companies are expected to adopt the new revenue recognition after December 15, 2018, with interim periods of annual reporting by December 15, 2019.

## 12 IV. Recommendations for Future Studies

The author of this article suggests the following aspects be considered for future studies into the implementation of revenue recognition in the Anglo-Saxon market:

? The FASB should consider the following four industries as early adopters of the new revenue recognition standard: airlines, gaming, hospitality, and time-share. <sup>1 2 3</sup>

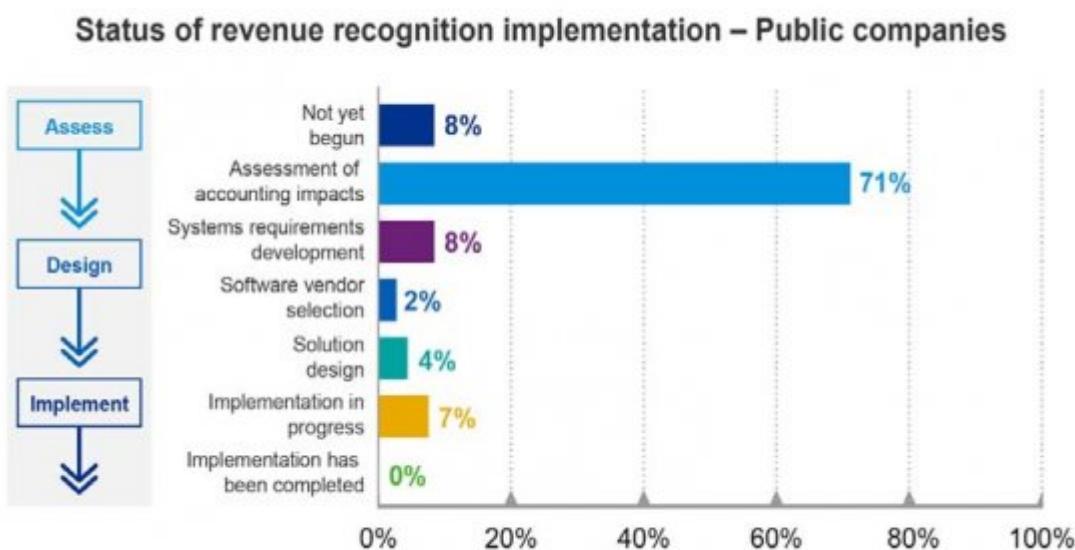


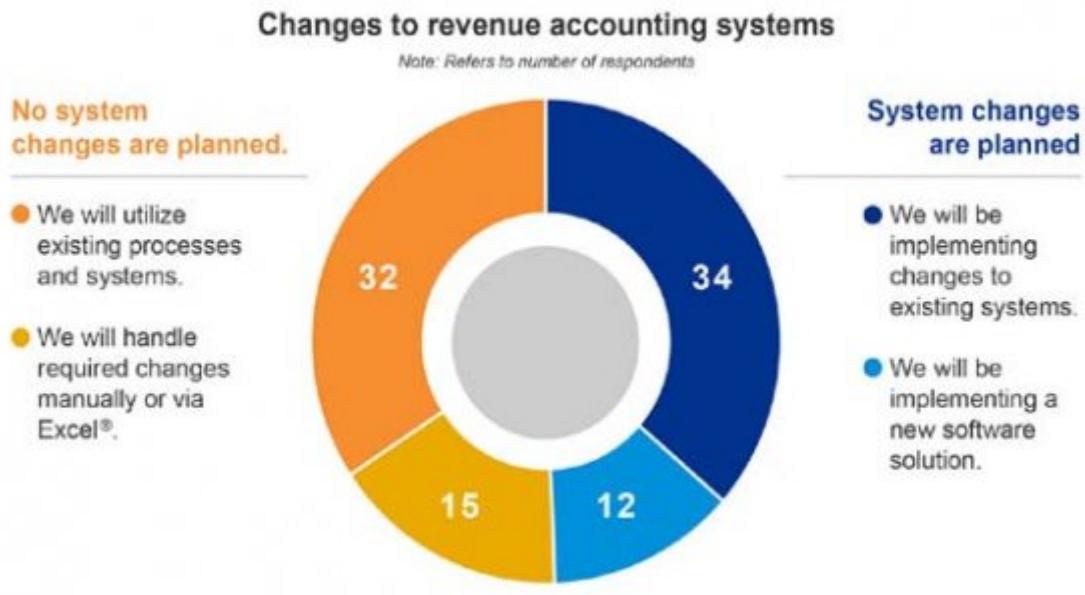
Figure 1:

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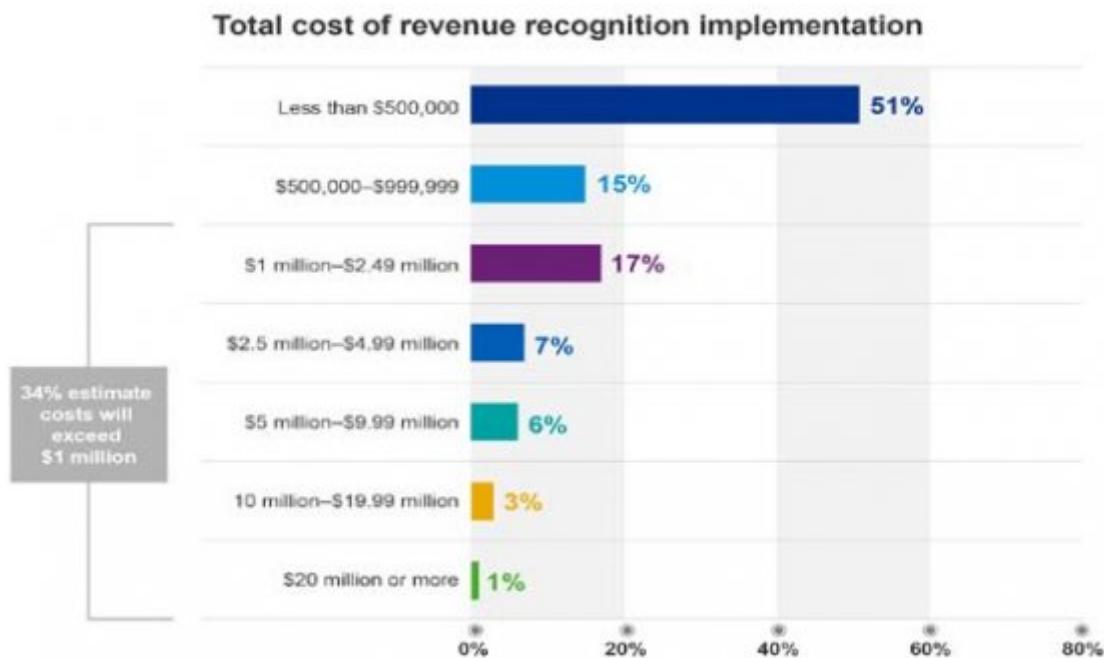
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Figure 2: Figure 1 .) 2017 D



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Figure 3: Figure 3 :



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Figure 4: Figure 2 g

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b) Concerns or Weaknesses in Existing Revenue Recognition Standards

Table 1 (Munter, 2016, p. 31) shows some areas of financial reporting weaknesses under USGAAP and IFRS.

USGAAP

Contains a large number of individual standards or codification topics, making it difficult to determine which standard or topic is applicable in some situations.

IFRS

Figure 5: Table 1 :

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Year

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Figure 6:



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