New Revenue Recognition Standard / New Leasing Standard

Discussion Participants

Kelsey White
Deloitte & Touche LLP

Kelsey White is in her sixth year with Deloitte & Touche LLP serving public and private clients in retail, manufacturing, distribution, and other industries. Kelsey joined the Boise office of Deloitte & Touche LLP in 2011 after earning her bachelors in Accounting and Finance from the University of Idaho. Kelsey was recently selected to serve in a National Office Accounting Research role where she engages in consultations on complex and leading-edge matters for clients on areas such as revenue, business combinations and other miscellaneous topics.

Ryan Tolley
Deloitte & Touche LLP

Ryan Tolley has nine years of professional experience serving public and private clients across various industries including: Aerospace and Defense, Retail and Telecommunications. He currently serves as an audit, accounting and advisory Senior Manager. In his role, he has assisted clients with IPO readiness, technical accounting analysis, new accounting standard adoptions, audit preparation, financial statement audits and project management. Prior to this role, Ryan has also been dedicated to providing merger and acquisition related services.

Ben Johnson
Deloitte & Touche LLP

Ben Johnson joined Deloitte in 2008. During his nine years at Deloitte, he has served clients throughout the United States in both the public and private sectors in various industries including, power and utilities, retail, manufacturing, media, retail, private equity, healthcare, and not for profit. He currently serves as an audit and accounting advisory senior manager in Deloitte Boise office. In this role, Ben assists clients with technical accounting analysis, new accounting standard adoptions, financial statement audits, and mergers and acquisitions. Prior to his current role, Ben also spent time in Deloitte’s mergers and acquisition and national office accounting consultation groups.
ASC 606
Revenue Recognition
Five-step model for recognizing revenue

Core principle: Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

This revenue recognition model is based on a control approach, which differs from the risks and rewards approach applied under current accounting principles generally accepted in the United States of America (GAAP).
Other Guidance – Additional Topics

- Contract Costs
- Principle vs. Agent Considerations
- Contract Combinations and Modifications
- Sales With a Right of Return
- Consignment Arrangements
- Breakage/Customer’s Unexercised Rights
- Repurchase Agreements
- Bill-and-hold Arrangements
- Warranties
- “Material Rights”
- Customer Acceptance Clauses
- Nonrefundable Up-front Fees
Disclosure Considerations

Overview

**Annual Disclosures (ASC 606)**

<table>
<thead>
<tr>
<th>Disclosures about contracts with customers</th>
<th>Disclosures about significant judgments and estimates</th>
<th>Other required disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaggregation of revenue</td>
<td>Information about contract balances</td>
<td>Policy Elections</td>
</tr>
<tr>
<td>Information about contract balances</td>
<td>Remaining performance obligations</td>
<td>Contract costs</td>
</tr>
<tr>
<td>Remaining performance obligations</td>
<td>Information about performance obligations</td>
<td></td>
</tr>
</tbody>
</table>

**Interim-only disclosures**

- ASC 270, Interim Reporting

Disclosure not required for interim reporting
ASC 606 Overview – Effective Dates

Effective for annual reporting periods beginning:

<table>
<thead>
<tr>
<th>Public Companies</th>
<th>Nonpublic Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>After December 15, 2017</td>
<td>After December 15, 2018</td>
</tr>
</tbody>
</table>

• Interim Requirements
  - PBE’s – Interim periods beginning after December 15, 2017
  - All other entities – Interim reporting periods within annual reporting periods beginning after December 15, 2019

• Early adoption allowed as of the original effective date (annual reporting periods beginning after December 15, 2016)

**IFRS Companies (IFRS 15)**

On or after January 1, 2018

• Immediate early adoption is permitted under IFRS
Five-step model for recognizing revenue

Core principle: Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

This revenue recognition model is based on a control approach, which differs from the risks and rewards approach applied under current accounting principles generally accepted in the United States of America (GAAP).
The “Big Picture”

Key takeaways of the new standard

- **Most leases on balance sheet for lessees**
  
  *Classification will drive expense profile*

- **Lessor model**
  
  *Most changes result from alignment with ASC 606*

- **FASB tried to make things easy**
  
  *Classification, reassessment, transition*

- **Effective 2019 but don’t wait to assess impact**
  
  *Process and systems changes may be required*
  
  *Potential impact on debt covenants*
Presentation requirements

**Lessee model**

<table>
<thead>
<tr>
<th>Financing Lease</th>
<th>Operating Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet</strong></td>
<td><strong>Income Statement</strong></td>
</tr>
<tr>
<td>ROU asset</td>
<td>Amortization expense</td>
</tr>
<tr>
<td>Lease liability</td>
<td>Interest expense</td>
</tr>
<tr>
<td></td>
<td>Lease expense</td>
</tr>
<tr>
<td>(single line on straight-line basis)</td>
<td></td>
</tr>
</tbody>
</table>

**Lessor model**

Presentation consistent with current lessor model:
- **Balance sheet** — presentation depends on lease classification
- **Income statement** — profit or loss recognized in a manner consistent with business model
- **Cash flow statement** — recognized as cash inflows from operating activities
Disclosure requirements

**Disclosure Objective**
Enable financial statement users to assess the amount, timing, and uncertainty of cash flows arising from leases

<table>
<thead>
<tr>
<th><strong>Lessee Disclosures</strong></th>
<th><strong>Lessor Disclosures</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Nature of its leases</td>
<td>□ Nature of its leases</td>
</tr>
<tr>
<td>□ Information about leases that have not yet commenced</td>
<td>□ Significant assumptions and judgments used</td>
</tr>
<tr>
<td>□ Related-party lease transactions</td>
<td>□ Related-party leases transactions</td>
</tr>
<tr>
<td>□ Accounting policy election regarding short-term leases</td>
<td>□ Tabular disclosure of lease-related income</td>
</tr>
<tr>
<td>□ Finance and operating lease costs</td>
<td>□ Components of the net investment in a lease</td>
</tr>
<tr>
<td>□ Short-term and variable lease costs</td>
<td>□ Information on the management of risk associated with residual asset</td>
</tr>
<tr>
<td>□ Sublease income</td>
<td>□ Maturity analysis of operating lease payments and lease receivable</td>
</tr>
<tr>
<td>□ Gain or loss from sale-and-leaseback</td>
<td>□ Information required by ASC 360</td>
</tr>
<tr>
<td>□ Maturity analysis for lease obligations</td>
<td></td>
</tr>
<tr>
<td>□ Weighted-average remaining lease term</td>
<td></td>
</tr>
<tr>
<td>□ Weighted-average discount rate</td>
<td></td>
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</tbody>
</table>
Introduce Accounting Standard Codification 842, Leases (ASC 842) as issued by the Financial Accounting Standards Board (FASB)

1. The FASB has issued new approaches to lease accounting
2. The new approach will result in most leases being on balance sheet; a new requirement
3. Changes will impact the nature and extent of financial statement disclosures