Revenue from Contracts with Customers

Preparation for the new revenue standard should start now.

DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

BUSINESS ADVISORS CPAs CONSULTANTS

Preparation for the new revenue standard should start now

For the past few years, the accounting profession has been discussing the impact of the new revenue recognition accounting standard. Many public companies have already performed significant work to start preparing for their effective date. However, most private companies[1], while being aware that the changes are coming, have deferred the work necessary to prepare. For private companies, the effective date of the new revenue recognition accounting standard will commence with December 31, 2019 year-ends, thus leaving only six months left for calendar year reporting organizations to prepare for the new accounting treatment to commence on January 1, 2019.

The new revenue recognition standard is considered historic in its breadth and impact across organizations and industries. Its impact, unlike most accounting standards, is beyond merely accounting treatment changes within the financial statements. Companies impacted are likely to also need to change processes, internal controls, communication protocols, and maybe even IT and software systems. The broad reach across the organization impacts many functional areas, such as accounting, tax, sales, legal, IT, and human resources (e.g., employee compensation plans).

Private companies with calendar year reporting periods must commence preparation for the new standard now, or risk significant issues with their 2019 accounting and reporting functions.

Generally, the process to prepare for the standard requires two main steps:

1. Impact analysis
2. Implementation plan

[1] For the purpose of the new revenue recognition standard adoption and disclosure requirements, the term "private company" (as used throughout this document) refers to an entity, except for a public business entity (as defined by ASU 2013-12), a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, or an employee benefit plan that files or furnishes financial statements with or to the SEC.

Overview of the new standard

The new standard requires a five-step process in determining revenue recognition:

Step 1

Identify the contract with a customer. The contract is an agreement that identifies the rights of each of the parties and the payment terms, has commercial substance, and is probable of collection.

Step 2

Identify the separate performance obligations within the contract. Performance obligations fall into two main categories:

A. **Explicit:** Explicit performance obligations are those that are explicitly stated within the contract with the customer.

B. **Implicit:** Implicit performance obligations are other obligations that a customer reasonably expects the organization to perform; for example, because they are normally performed within the industry, or a representative of the selling organization has offered the performance obligation (perhaps through a side agreement). Implicit performance obligations are not stated within the contract.

Step 3

Determine the transaction price. Significant judgments may be required in this step if there is variable consideration; for example, contracts that include bonuses, incentives, rebates, and penalties.

Step 4

Allocate the transaction price to the various performance obligations in the contract. This step is required if Step 2 identified more than one performance obligation. Management will be required to exercise significant judgment to allocate the transaction price between the performance obligations. Generally, the allocation should be based on the standalone selling price at contract inception of each performance obligation.

Step 5

Recognize revenue when (or as) the performance obligations are satisfied. Satisfaction of the performance obligations may occur at a point in time or may occur over a period of time. Judgment may be required to determine how the revenue will be recognized as the performance obligations are satisfied. Generally, a performance obligation is satisfied when the customer has obtained control of the good or service, which is defined as the customer's ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service.

Impact analysis

Many organizations are likely to find that the amount and/or timing of revenue recognition is different to current accounting policies generally accepted in the United States (GAAP). Other organizations may find that there is little to no impact on their accounting for revenue. The significance of the variances between current GAAP and the new standard will be very specific to the facts of circumstances of the particular organization, and its particular contracts and relationships with its customers. Without a robust impact analysis, the organization will not be able to conclude on the significance of the variances, the impact on the organization, and the necessary responses.

An impact analysis will likely involve many functional areas of the organization. While the assessment will likely be led by the accounting department, with help from its external CPA firm, accountants alone will not be able to fully assess the impact of the new standard. For example:

A. Due to Step 2 of the revenue recognition process requiring identification of the explicit and implicit performance obligations within contracts, it is likely that the sales department (and maybe even legal counsel) will need to provide the analysis of contracts being used by the organization and the performance obligations within the various types of contracts.

B. Due to the potential impact of the new standard on financial results, human resources may need to be included in the process to assess impacts on compensations and bonus agreements, and to help the organization communicate those changes. Again, legal counsel may also need to be involved in this portion of the impact analysis.

An impact analysis project manager or team should be created to monitor the progress of the impact assessment and to ensure that those performing the analysis are held accountable and that the project remains on schedule.

The impact analysis should include the following:

A. Identify the various contracts within the organization. The organization may be simple in nature and have one standard contract that needs to be analyzed and assessed. Organizations that are more complicated may have multiple revenue streams or multiple types of contracts. The organization may also have a contract for a specific customer or type of customer. The impact analysis needs to include all types of contracts with customers in use within the organization.

B. Identify the explicit performance obligations in each of the types of contracts identified.

C. Identify any implicit obligations that the organization generally performs, even though those performance obligations are not specifically included in the contracts being assessed.

D. Identify if contracts include variable consideration, and how that variable consideration will impact revenue recognition.

E. Identify how revenue would be recognized for each of the performance obligations and transactions prices, and determine if the timing or amount of revenue would likely be different to current GAAP.

An impact analysis does not need to include exact dollar amounts; a theoretical approach or an example transaction price may be utilized.

Impact analysis

In order to evaluate the impact analysis, the following questions should be considered by the impact analysis project manager (or team), and those charged with governance (senior management, board of directors, audit committee, etc.):

A. Were all relevant parties involved in the analysis, including accounting, sales, legal, IT, and human resources?

B. Were all relevant contracts considered, including all revenue streams and types of contracts? If certain contracts or revenue streams were excluded, is it reasonable that they would be immaterial to the revenue recognition analysis?

C. Were all performance obligations included—implicit and explicit (e.g., maintenance agreements, set-up and install, future upgrades or improvements, return or refund provisions, warranties, guarantees, licenses, royalties, collaborative agreements)?

D. Were the various transaction prices properly identified, especially those that would result in variable consideration (e.g., reward or loyalty programs, incentives, rebate programs, fees and interest provisions)?

E. Were the impacts on revenue properly analyzed, especially with regards to variable consideration and performance obligations that occur at a point in time (e.g., point of sale transactions) versus those that occur over a period of time (e.g., warranty periods)?

F. Were other impacts to the organization considered (e.g., compensation and bonus agreements, debt covenants, tax implications, costs to obtain new contracts [especially if the organization has "one-off" or customer specific contracts], ability of current IT systems to process the new accounting treatment [and to identify the key drivers in revenue recognition])?

G. Has the organization's external auditor viewed the impact analysis? What is their feedback? What are the auditor's views on management's assessment of the impact, proposed accounting treatment, and overall readiness?

The impact assessment should also determine which transition method the organization will use. The revenue recognition standard allows use of either of the following:

A. **Full retrospective application:** The new revenue recognition standard will be applied to all periods presented in the financial statements, with a cumulative effect adjustment as of the beginning of the earliest period presented. For example, in the first year of adoption for the year ended December 31, 2019 in financial statements with two years presented, the amounts for both 2019 and 2018 will be presented in accordance with the new standard, with a cumulative effect adjustment as of January 1, 2018.

B. **Modified retrospective application:** The new revenue recognition standard will be applied to periods presented in the financial statements after the date of adoption. For contracts not yet completed as of the date of adoption (i.e., contracts initiated prior to the date of adoption for which all or substantially all of the revenue has not yet been recognized under previously existing US GAAP revenue guidance), retrospective application is required with a cumulative effect adjustment as of the beginning of the adoption period presented. For example, in the first year of adoption for the year ended December 31, 2019 in financial statements with two years presented, the amounts for 2018 will be under the old rules, the amounts for 2019 will be in accordance with the new revenue standard, and there will be a cumulative effect adjustment as of January 1, 2019 for contracts not yet completed as of the date of adoption. Additional disclosures are required if using the modified retrospective application (see Appendix A).

The impact analysis should also identify all of the relevant disclosures that need to be made and assess whether current systems are in place to be able to prepare those footnotes (see Appendix A for relevant private company disclosure guidelines, and Appendix B for example disclosures).

Implementation plan

Once the impact analysis is complete and has been authorized by the relevant members of senior management and those charged with governance, the organization then can move into the implementation phase for the new standard.

An implementation plan should be developed. An implementation project manager or team should be created to monitor the progress of implementation and to ensure that those performing the implementation are held accountable and that the project remains on schedule. Once again, due to the breadth of the new standard across the organization, implementation will include many functional areas, including accounting, sales, legal, IT, and human resources.

The organization should consider the following with regards to implementation:

A. What are the risks associated with implementation? How will those risks be managed and mitigated?

B. Who should be involved in the implementation team?

C. Is the accounting team experienced enough, with a sufficient level of knowledge, to implement the new standard?

D. Does the accounting team, and other company personnel, have the necessary time to implement the new standard? How will the time taken for the implementation affect the normal operations of the organization?

E. Will changes will be made in a test environment or immediately go live? To what extent will parallel systems be used?

F. Are systems adequate to account for revenue under the new standard? If manual processes are necessary, what controls are in place to ensure completeness and accuracy of accounting for revenue, including any data inputs?

G. Who will be responsible for reviewing and approving that the implementation steps have been performed appropriately, and that the desired outcome has been achieved?

H. Who will be responsible for reviewing and approving new accounting policies and significant judgments?

I. How will communication of changes be performed company-wide to ensure compliance with the new policies and procedures?

Implementation plan

The implementation plan should include:

A. Changes required within operations, internal controls, IT/software systems, etc.

B. Changes to communication protocols that will be required. For example, will accounting personnel be involved in advising sales personnel in negotiating the contract about the accounting impact of sales contract terms? How will the accounting department be informed of performance obligations, transactions prices, and satisfaction of the performance obligations?

C. Other changes that will be required, such as changes to compensation agreements, debt agreements, standard contract templates, etc.

D. Testing that will be performed internally to ensure that desired outcomes are achieved and results meet expectations.

E. Training that will be required and the timing of such trainings.

F. Key implementation milestones and dates for those milestones.

G. How key members of senior management and those charged with governance will be updated on the status of the plan (key management will likely include the members of senior management responsible for accounting, sales, legal, IT, and human resources).

H. How external auditors will be informed of the status. Will the auditors perform testing of changes as they are completed to ensure that they meet the objectives of the new accounting standard? How will the auditors report back findings to the implementation team, senior management, and those charged with governance?

I. Whether other external parties (e.g. legal counsel, IT vendors, other consultants) will be involved. How will the other external parties report back to the implementation team, senior management, and those charged with governance?

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Simon Keemer, CPA, CGMA, ACA
Director of Assurance Services
skeemer@deandorton.com
502.566.1036

Ryan Walker, CPA
Associate Director of Assurance Services
rwalker@deandorton.com
859.425.7764

Appendix A: Relevant private company disclosures

The new revenue recognition standard includes a significant amount of quantitative and qualitative disclosures, which are intended to provide financial statement users with an enhanced understanding of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Many of these disclosure requirements are new, and as a result, may include information that was not previously accumulated and analyzed by the company. Therefore, when performing an impact analysis and developing an implementation plan, companies should carefully consider whether the information necessary to complete the required disclosures is readily available within existing systems, or if system changes are necessary in order to collect such information.

Under the new standard, private companies are provided the ability to make elections to opt out of some, but not all, of the required disclosures. The tables that follow summarize each of the key disclosure requirements under the new standard and provide information regarding whether such disclosures are required for private companies. For any "**No**" answers below, private companies are not required to disclose the information; however, they may still choose to do so, if desired.

GENERAL DISCLOSURE REQUIREMENTS:

Disclosure Description	Required for Private Companies?
606-10-50-1 An entity shall disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.	YES
606-10-50-2 An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.	YES
606-10-50-3 Amounts disclosed are for each reporting period for which a statement of comprehensive income is presented and as of each reporting period for which a statement of financial position (i.e., a balance sheet) is presented. An entity need not disclose information in accordance with Topic 606 if it has provided the information in accordance with another Topic.	YES
606-10-32-2A An entity may make an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer (for example, sales, use, value added, and some excise taxes). Taxes assessed on an entity's total gross receipts or imposed during the inventory procurement process shall be excluded from the scope of the election. An entity that makes this election shall exclude from the transaction price all taxes in the scope of the election and shall comply with the applicable accounting policy guidance, including the disclosure requirements in paragraphs 235-10-50-1 through 50-6.	YES

Appendix A: Relevant private company disclosures

CONTRACTS WITH CUSTOMERS:

Disclosure Description	Required for Private Companies?
606-10-50-4 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Topics: a. Revenue recognized from contracts with customers, which the entity shall disclose separately from its other sources of revenue b. Any impairment losses recognized (in accordance with Topic 310 on receivables) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts	YES

DISAGGREGATION OF REVENUE:

Disclosure Description	Required for Private Companies?
606-10-50-5 An entity shall disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.	NO
606-10-55-90 When selecting the type of category (or categories) to use to disaggregate revenue, an entity should consider how information about the entity's revenue has been presented for other purposes, including all of the following: a. Disclosures presented outside the financial statements (for example, in earnings releases, annual reports, or investor presentations) b. Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions	NO

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Appendix A: Relevant private company disclosures

DISAGGREGATION OF REVENUE (continued):

Disclosure Description	Required for Private Companies?
606-10-55-91 Examples of categories that might be appropriate include, but are not limited to, all of the following: a. Type of good or service b. Geographical region c. Market or type of customer d. Type of contract e. Contract duration f. Timing of transfer of goods or services g. Sales channels	**NO**
606-10-50-6 An entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment, if the entity applies Topic 280 on segment reporting.	**NO**
606-10-50-7 A private company may elect not to apply the quantitative disaggregation disclosure guidance described directly above. If an entity elects not to provide those disclosures, the entity shall disclose, at a minimum, revenue disaggregated according to the timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred to customers over time) and qualitative information about how economic factors (such as type of customer, geographical location of customers, and type of contract) affect the nature, amount, timing, and uncertainty of revenue and cash flows.	**YES** *(if electing not to apply the above quantitative disaggregation disclosure guidance)*

Appendix A: Relevant private company disclosures

RECONCILIATION OF CONTRACT BALANCES:

Disclosure Description	Required for Private Companies?
606-10-50-8 An entity shall disclose all of the following: a. The opening and closing balances of receivables, contract assets, and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed b. Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	**YES with respect to 50-8(a)*** **NO with respect to 50-8(b)**
606-10-50-9 An entity shall explain how the timing of satisfaction of its performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.	**NO**
606-10-50-10 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following: a. Changes due to business combinations b. Cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained), or a contract modification c. Impairment of a contract asset d. A change in the time frame for a right to consideration to become unconditional (that is, for a contract asset to be reclassified to a receivable) e. A change in the time frame for a performance obligation to be satisfied (that is, for the recognition of revenue arising from a contract liability)	**NO**

**Minimum required disclosure if electing not to apply the additional contract balance disclosure guidance above*

Appendix A: Relevant private company disclosures

PERFORMANCE OBLIGATIONS:

Disclosure Description	Required for Private Companies?
606-10-50-12 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: a. When the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered, or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement b. The significant payment terms (for example, when payment typically is due, whether the contract has a significant financing component, whether the consideration amount is variable, and whether the estimate of variable consideration is typically constrained) c. The nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (that is, if the entity is acting as an agent) d. Obligations for returns, refunds, and other similar obligations e. Types of warranties and related obligations	YES
606-10-50-12A An entity shall disclose revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).	NO
606-10-50-13 An entity shall disclose the following information about its remaining performance obligations: a. The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period b. An explanation of when the entity expects to recognize as revenue the amount disclosed in accordance with paragraph 606-10-50-13(a), which the entity shall disclose in either of the following ways: i. On a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations ii. By using qualitative information	NO
606-10-50-14 *Practical Expedient*: An entity need not disclose the information in paragraph 606-10-50-13 for a performance obligation if either of the following conditions is met: a. The performance obligation is part of a contract that has an original expected duration of one year or less b. The entity recognizes revenue from the satisfaction of the performance obligation in accordance with paragraph 606-10-55-18	NO

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Appendix A: Relevant private company disclosures

PERFORMANCE OBLIGATIONS (continued):

Disclosure Description	Required for Private Companies?
606-10-50-14A *Practical Expedient*: An entity need not disclose the information in paragraph 606-10-50-13 for variable consideration for which either of the following conditions is met: a. The variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property accounted for in accordance with paragraphs 606-10-55-65 through 55-65B b. The variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct good or service that forms part of a single performance obligation in accordance with paragraph 606-10-25-14(b), for which the criteria in paragraph 606-10-32-40 have been met	NO
606-10-50-15 An entity shall disclose which optional exemptions in paragraphs 606-10-50-14 through 50-14A it is applying. In addition, an entity applying the optional exemptions in paragraphs 606-10-50-14 through 50-14A shall disclose the nature of the performance obligations, the remaining duration, and a description of the variable consideration that has been excluded from the information disclosed. This information shall include sufficient detail to enable users of financial statements to understand the remaining performance obligations that the entity excluded from the information disclosed. In addition, an entity shall explain whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed.	NO

Appendix A: Relevant private company disclosures

SIGNIFICANT JUDGMENTS:

Disclosure Description	Required for Private Companies?
606-10-50-17 An entity shall disclose the judgments, and changes in the judgments, made in applying the guidance in this Topic that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgments, and changes in the judgments, used in determining both of the following: a. The timing of satisfaction of performance obligations b. The transaction price and the amounts allocated to performance obligations	YES
606-10-50-18 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following: a. The methods used to recognize revenue (for example, a description of the output methods or input methods used and how those methods are applied) b. An explanation of why the methods used provide a faithful depiction of the transfer of goods or services	YES with respect to 50-18(a) NO with respect to 50-18(b)
606-10-50-19 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgments made in evaluating when a customer obtains control of promised goods or services.	NO
606-10-50-20 An entity shall disclose information about the methods, inputs, and assumptions used for all of the following: a. Determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money, and measuring non-cash consideration b. Assessing whether an estimate of variable consideration is constrained c. Allocating the transaction price, including estimating standalone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable) d. Measuring obligations for returns, refunds, and other similar obligations	YES with respect to 50-20(b) NO with respect to 50-20(a), (c), (d)

Appendix A: Relevant private company disclosures

ASSETS RECOGNIZED FROM THE COSTS TO OBTAIN OR FULFILL A CONTRACT:

Disclosure Description	Required for Private Companies?
340-40-50-2 An entity shall describe both of the following: a. The judgments made in determining the amount of the costs incurred to obtain or fulfill a contract with a customer (in accordance with paragraph 340-40-25-1 or 340-40-25-5) b. The method it uses to determine the amortization for each reporting period	NO
340-40-50-3 An entity shall disclose all of the following: a. The closing balances of assets recognized from the costs incurred to obtain or fulfill a contract with a customer (in accordance with paragraph 340-40-25-1 or 340-40-25-5), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs, and setup costs) b. The amount of amortization and any impairment losses recognized in the reporting period	NO
606-10-50-22 If an entity elects to use the practical expedient in either paragraph 606-10-32-18 (about the existence of a significant financing component) or paragraph 340-40-25-4 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.	NO

Appendix A: Relevant private company disclosures

ADOPTION/TRANSITION:

Disclosure Description	Required for Private Companies?
Paraphrased from 606-10-65 If electing ***full retrospective adoption***, companies must disclose nearly all of the disclosures required by ASC 250, *Accounting Changes and Error Corrections*—with the exception that the requirement to disclose the change in the current period on certain financial balances and metrics, as described in ASC 250-10-50-1(b)(2), is no longer required.	YES
Paraphrased from 606-10-65 If electing ***modified retrospective adoption***, companies must disclose both of the following: a. The use of the modified retrospective method b. The amount by which each financial statement line item is affected by the adoption in the year of initial application	YES

While the modified retrospective adoption method is intended to reduce transition time, it is important for companies to realize that the requirement described above to disclose the amount by which each financial statement line item is affected will effectively result in the application of both the new revenue standard and the old revenue standard in the year of initial application. As a result, companies may not ultimately save as much transition time as expected, if any at all.

Appendix B: Example disclosures, modified retrospective application

Included below are example disclosures that may serve as a guideline for private companies implementing the new revenue recognition standard using modified retrospective application. The below disclosure examples are relevant for a company in the manufacturing industry that provides both products and services to customers, but may be used and tailored for companies operating in other industries as well. It is important to remember that these example disclosures should be used as an initial guideline only. There is not a one-size-fits-all model with respect to disclosure under the new revenue recognition standard. Each company's disclosure will be heavily dependent on its revenue model, industry, adoption approach, and the ultimate impacts on the financial statements resulting from adoption. As such, the example disclosures below should be tailored based on company-specific information. In addition, any information in [brackets] below should be updated to be applicable to each company and consistent with the presentation/verbiage in the remainder of its financial statements.

Please consult with your Dean Dorton engagement team regarding any questions you may have about the new revenue recognition standard, including questions regarding company-specific facts and circumstances impacting disclosure, additional industry-specific example disclosures, or if your company would prefer to use full retrospective application instead of the modified retrospective application illustrated below.

Statements of Changes in [Stockholders'] Equity

Within the Statements of Changes in [Stockholders'] Equity, a line item should be included in the 2019 section titled "Adoption of new revenue standard (see Notes 2 and 3)."

Note 2: Summary of Significant Accounting Policies *(excerpt)*

New Accounting Pronouncements *(excerpt)*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The core principle of ASU 2014-09 is to recognize revenues when a customer obtains control of a good or service, in an amount that reflects the consideration to which an entity is expected to be entitled for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 by one year.

Effective January 1, 2019, we adopted the requirements of Topic 606 and all related amendments ("new revenue standard") to all contracts using the modified retrospective method. Accordingly, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings [*or "equity", "members' equity", etc.—ensure that the line item description used is consistent with the applicable line item description per the accompanying balance sheets*]. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the comparative period. The details of the significant changes are disclosed below.

[*The following should be tailored based on each company's specific facts and circumstances, and separate disclosures should be included to separately describe the different components of the changes (e.g., the changes on each revenue stream). The following represents only a limited example of the type of information that the company should include.*]

Prior to the adoption of the new revenue standard, the initial revenue recorded by the Company for products and services sold in bundled packages excluded any amounts that were contingent on the delivery of future services. In accordance with the new revenue standard, the total consideration in the contract is now allocated to all products and services based on their stand-alone selling prices, which are determined based on the prices at which the Company sells the separate products and services. Accordingly, we now recognize greater product revenue initially and less service revenue over time.

Appendix B: Example disclosures, modified retrospective application

In accordance with the new revenue standard requirements, the impact of adoption on our financial statements is disclosed below.

Balance Sheet

	December 31, 2019		
	As Reported	**Balances Without Adoption of Topic 606**	**Effect of Change** Higher/(Lower)
[Current assets:]			
[Cash and cash equivalents]	$XXX	$XXX	$ —
[Accounts receivable]	XXXX	XX	XX
[*Etc. – Tailor to include all line items presented on the face of the balance sheet*]			

Statement of Income

	Year Ended December 31, 2019		
	As Reported	**Balances Without Adoption of Topic 606**	**Effect of Change** Higher/(Lower)
[Revenue]	$XXXX	$XX	$XX
[Cost of goods sold]	XX	X	X
[*Etc. – Tailor to include all line items presented on the face of the statement of income*]			

Statement of Cash Flows

	Year Ended December 31, 2019		
	As Reported	**Balances Without Adoption of Topic 606**	**Effect of Change** Higher/(Lower)
Cash flows from operating activities:			
[Net income]	$XX	$X	$X
[Adjustments to reconcile net income to net cash provided by operating activities:]			
[Depreciation and amortization]	—	—	—
[*Etc. – Tailor to include all line items presented on the face of the statement of cash flows*]			

Appendix B: Example disclosures, modified retrospective application

Note 3: Revenue

[*The following should be tailored based on each company's specific facts and circumstances, and separate disclosures should be included to separately describe the different components of each required disclosure (e.g., separate information for each revenue stream, contract balance, performance obligation, etc.). The following represents only a limited example of the type of information that the company should include.*]

Revenue is recognized when obligations under the terms of a contract with a customer are satisfied; generally, this occurs with the transfer of control of our products or services. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales taxes that we collect concurrent with revenue-producing activities are excluded from revenue.

The Company sells our products and services to both residential and commercial customers primarily located in Kentucky and California. Service contracts include installation of products at the customer location. The duration of our service contracts varies based on the type of customer. Service contracts for residential customers are generally one week in duration, while service contracts for commercial customers are generally 12 to 18 months in duration.

Revenue for products sold is recognized upon delivery of the product. Revenue for service contracts is recognized as services are provided. For products and services sold in bundled packages, the total consideration in the contract is allocated to all products and services based on their stand-alone selling prices, which are determined based on the prices at which the Company sells the separate products and services.

Payment for residential contracts is due on demand and is collected upon delivery of the products and completion of the services. For commercial contracts, payment is collected over time; specifically, for commercial product sales, payment is generally due and collected 30 days after delivery of the product, and for sales of commercial services and for bundled commercial packages, payment is generally due and collected in monthly installments over the duration of the contract.

The following table disaggregates our revenue recognized from contracts with customers by timing of revenue recognition for the year ended December 31, 2019.

Products transferred at a point in time	$XXX
Services transferred over time	X
Total revenue	$XXXX

Appendix B: Example disclosures, modified retrospective application

Receivables, contract assets, and contract liabilities arising from contracts with customers consisted of the following as of December 31, 2019 and 2018 [*ensure that the Summary of Significant Accounting Policies section of Note 2 adequately describes any contract assets or contract liabilities, if applicable*]:

	December 31, 2019	**December 31, 2018**
Receivables (included in Accounts Receivable in the accompanying balance sheets)	$XX	$XX
Contract assets	XX	XX
Contract liabilities	XX	XX

Impairment losses recognized on receivables arising from contracts with customers were $X and $X during the years ended December 31, 2019 and 2018, respectively. Impairment losses recognized on contract assets arising from contracts with customers were $X and $X during the years ended December 31, 2019 and 2018, respectively.

[*Within the Revenue footnote, if applicable the Company should also disclose any further significant judgments related to:*

- *The timing of satisfaction of performance obligations*
- *The transaction price and amounts allocated to performance obligations*
- *The methods used to recognize revenue for performance obligations satisfied over time*
- *The methods, inputs, and assumptions used to assess whether an estimate of variable compensation is constrained.*]