

Revenue Recognition

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Recap of areas of “significant judgment”

- Identifying the contract/performance obligations
 - Contract modifications
 - Promises (explicit and implicit) to a customer
 - Customer credit risk
 - Legal interpretations
- Determining the transaction price
 - Reasonably possible outcomes and appropriate estimation method
 - Likelihood of significant revenue reversal
- Allocating the transaction price
 - Standalone selling price
 - Variable consideration and discounts can be allocated to one or more (but not all) performance obligations
- Determining when control transfers to the customer
 - Affects timing of revenue recognition

Key audit steps related to revenue recognition

- Audit planning
- Risk assessments
 - Inherent risk
 - Control risk
- Tests of controls
- Substantive analytical procedures
- Other substantive tests of contracts and transactions

Audit planning and risk assessments

- **Audit planning**
 - Consider related effects on other financial statement areas (e.g., taxes, compensation arrangements, sales of nonfinancial assets, debt covenants)
 - Audit team training and resources
- **Risk assessments**
 - Overall and account specific effect
 - Risk of fraud or management manipulation

Internal control considerations

- Risk assessments
- Business / IT process changes
 - New or revised business processes
 - New or revised IT systems
 - New processes / controls over new disclosures
 - Evaluate control testing approach and evidence, specifically related to management review controls, judgments and estimates
 - Update understanding of the flows of transactions, including walkthroughs of the processes
- Re-consider use of others
- Evaluation of deficiencies

Substantive procedures

- Substantive procedures
 - Nature, timing and extent of audit procedures
 - Increased use of judgments and estimates
 - Evidence / documentation – by management and by audit team
 - Changes to financial statement close process
 - Disclosures developed from data gathered outside of general ledger or financial statement close process
 - Substantive analytical procedures
 - Comparison of current period revenues to prior periods and budgeted amounts during transition period may be less effective if there is a significant change in timing of revenue recognition

Implementation considerations

- Business / IT process changes
 - Review of how new standard will affect existing processes or review of new processes created
- Implementation method
 - Process for determining effect in 2015, 2016 under full retrospective approach
 - Process for determining the cumulative effect on opening retained earnings
- Management's process for implementing the new standard
- Consideration of new disclosure requirements and process to obtain necessary data
- Audit committee communications/involvement