

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

SEC MATTERS



► SUBJECT

SAB 74 DISCLOSURES RELATED TO NEW ACCOUNTING STANDARD ON REVENUE

With the issuance of ASU 2014-09, *Revenue from Contracts with Customers*, in May, SEC registrants will need to make corresponding disclosures under Staff Accounting Bulletin No. 74 (codified in SAB Topic 11-M) in their next interim and annual filings. SAB 74 addresses disclosure of the impact that recently issued accounting standards will have on the financial statements of the registrant when adopted in a future period.

Companies will understandably need time to assess the standard's effects on their financial statements. Accordingly, the initial SAB 74 disclosures about the standard's effect may not be specific in nature. An example of such disclosure to be made in the initial reporting periods following the issuance of ASU 2014-09 might be as follows:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the

CONTACT:

WENDY HAMBLETON

National Director of SEC Practice
(312) 616-4657 / whambleton@bdo.com

JEFF LENZ

National Assurance Partner
(312) 616-3944 / jlenz@bdo.com

PAULA HAMRIC

National Assurance Senior Manager
(312) 616-3947 / phamric@bdo.com

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 49 offices and over 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,264 offices in 144 countries.

www.bdo.com

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

The SEC staff has indicated that it expects these disclosures to evolve over time as companies begin to better understand how the standard will impact their financial statements. As encouraged by SAB 74, registrants should also consider making disclosure of the potential impact of other significant matters that may result from the adoption of the standard (e.g. technical violations of debt covenants or planned changes in business practices). The method of transition should be disclosed as soon as one is elected (which will likely vary across entities). Further, the staff is expected to address issues such as whether registrants that adopt the new standard retrospectively must do so for all periods presented in selected financial data tables. Stay tuned for future guidance.

Material discussed in this Flash Report is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.