Exploring Revenue Recognition in the Local Community

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Contents

Abstract

This thesis studies the extent to which the business community in general, and local community in particular, is ready for the new Section 606 Revenue Recognition accounting standards that come into effect in 2018. This paper first includes a comparison of the old standards and the new standards for revenue recognition. It also identifies improvements to the revenue recognition process because of implementing the new standards. Second, it examines the results of a national survey done by PricewaterhouseCoopers and the results of an original local survey to determine the preparedness of the national business community and local community, respectively. Finally, this study also identifies the results and impacts of early adopters of Section 606, and identifies implications for the future of the accounting profession.

The results of this thesis show that the business community does not appear prepared for the upcoming implementation of Section 606. The PwC survey indicates that many firms are still assessing how they will implement the new standards, and are yet to choose an adoption method. The lack of responses to the local survey may imply that the local business community has not spent sufficient preparing for the new standards. Only a few early-adopters of Section 606 were found, meaning that only a small number of the largest firms in the country have actually implemented the new standards. Overall, the adopting companies and their auditors appear to be severely underprepared for the new standard.

Introduction

When looking at a company's financial statements, one of the most important sections that many people focus on is the revenue section. Currently, the Financial Accounting Standards Board (FASB) is working with the International Accounting Standards Board (IASB) to develop new standards related to the way that companies are required to report revenue. The two boards are working together to develop one new set of standards with minimal differences. This will allow for increased comparability between the financial statements of companies around the world, which has become increasingly important with the spread of globalization.

While the revenue line is of critical importance, historically it has also been at high risk of manipulation and misrepresentation. According to SAS 99, "the auditor should ordinarily presume that there is a risk of material misstatement due to fraud relating to revenue recognition" (PCAOB, AU Section 316, 2002). This one sentence captures the importance of the revenue accounts, as well as its susceptibility to fraudulent behavior. The new standard is a conceptual framework and it is applicable to all revenue situations, rather than various sections of the codification that apply to specific industries and transactions. This shift from rule-based to concept-based standards may create more judgement calls for both the individual businesses and the auditors reviewing those businesses, which could increase the importance of the auditor.

This paper is comprised of three sections. The first contains a discussion about details on the background of the previous standards that were in place. This section will cover both an overview of the standards that were already in place, and the perceived problems with these standards. I conduct a detailed analysis of the differences between the previous standards and the new standards will be included in order to examine how the new standards apply to revenue recognition scenarios. In addition, explaining how the new standards will improve financial reporting will be a key point of the second section. Not only does it describe what the new standards are, but it also explains the reasoning behind developing the new standards. It is not an easy process to develop an entire new set of standards for a whole section of the codification, so it was a big decision to create the new standards.

The next part of this paper details a survey conducted by PricewaterhouseCoopers. In contrast to my own survey, PwC's survey subjects were individual companies around the United States, rather than CPA firms. The combination of the two surveys helps to give a complete look at who had really begun to prepare for the changing revenue recognition standards. Although implementation is going to take place approximately one year from now, many companies and firms have not begun to prepare, or have only done minimal preparation to date. One of the major themes from PwC's survey seems to be that although there are a few early adopting companies, and companies that have been proactive in preparing for Section 606, the vast majority of companies have still either not begun preparation, or remain in the beginning phases of preparation.

Finally, I distributed a survey to several accounting firms across the Syracuse, Buffalo, and Rochester area in order to learn how changes to revenue recognition standards have already affected local accounting firms and how changes to revenue recognition standards will continue to affect local accounting firms. This survey includes questions relating to hours spent preparing, money spent, training done, etc. Many people believe that the new set of revenue recognition standards is a significant change. The survey responses act in a manner similar to a case study, where the individual responses are an example of what two local firms have done in response to the implementation of Section 606 revenue recognitions standards. The third section discusses the survey, and answers the main research question of how the standards will affect the local accounting community.

The results of the local survey largely align with PwC's national survey. Both surveys showed a surprisingly high level of businesses and accounting firms that have not done much to prepare. In addition, responses to the local community were only from a very small portion of the firms that were invited to participate. Of the 50 accounting firms from Rochester, Buffalo, and Syracuse that the survey was sent to, I received two complete responses. This may also give an indication of how little preparation local firms have done thus far, both within their firms and with their clients.

Lastly, a topic that came up throughout this research was the role of auditors in a principles-based accounting regulation, versus the role of auditors in a rules-based accounting regulation. It seems that the switch from the old revenue recognition standards, which were rule-based, to the new revenue recognition standards, which are much more principles-based, is going to be a challenge for companies in the United States in particular. There are currently so many detailed rules and regulations for the accounting of a business, as well as for the auditors, that it will be a huge transition from "check-the-box" accounting and auditing to accounting and auditing that requires the application of a principle, and the professional judgement of the individual preparing or auditing the financial statements.

Although many companies are predicting that there will be no or few material changes to the financial statements, material changes may not be the most significant impact of the new standards. The numbers at the end of the financial statements may not change significantly, but the process of how the accountants and auditors got to those numbers is changing dramatically. Accountants and auditors will no longer be able to rely on "check-box" requirements to help them when they do not have a deeper understanding of revenue recognition. The switch from rules- to principles-based accounting standards will force auditors and accountants to switch their mentality about what their job entails. Increased reliance on professional judgement will force accounting professionals to think more critically and to understand the concepts that they are working with on a deeper level. Of course, there will always be professionals who hope to get by without a true understanding, but implementing Section 606 seems to be the first step in a transformation of the field of accounting.

1. Revenue Recognition Standards

1.1 Prior Revenue Recognition Standard

According the Financial Accounting Standards Board itself, "U.S. GAAP has complex, detailed, and disparate revenue recognition requirements for specific transactions and industries" (FASB, 2014). One of the major differences between Section 605 (old revenue recognition standard) and Section 606 (new revenue recognition standard) is that Section 605 is rule-based system, where Section 606 is a conceptual framework. Section 605 discusses "general recognition concepts", and its goal is to "recognize revenue only when realized or realizable" (FASB, ASU 2014-09). FASB's four general recognition concepts are:

1. Persuasive evidence of an arrangement exists
2. Delivery has occurred or services have been rendered
3. Price is fixed or determinable
4. Collectability is reasonably assured (FASB, March 2012)

These four concepts are quite complex. For example, there are many different ways that evidence can be "persuasive". There is not a rule that explicitly defines persuasive evidence. In some cases, it may be an official written contract, and in other cases, it may be another type of authorization for a transaction, however, "the form of persuasive evidence must be consistent with customary business practice" (FASB, March 2012). In other words, based on the industry that the company operates in, it may be most acceptable for a certain type of "persuasive evidence" to be common.

Many factors can determine whether delivery is complete. Similar to the term "persuasive evidence" above, the term "substantial accomplishment" defines completion of delivery, and "usually occurs upon delivery of good(s) or performance of service(s)" (FASB, March 2012). This still leaves a lot of room for management judgement based on different situations, and can be hard to measure. Next, the price must be "fixed or determinable", which is more straightforward than the previous two concepts. If the company that will be receiving the revenue from a transaction is unable to determine the selling price, they will not know the amount that they must recognize as revenue, therefore, the price must be stated (most likely in the evidence of the arrangement) or must be possible to determine through research, etc.

Finally, "an arrangement's consideration must be considered collectible for revenue to be recognized", and this collectability must be "reasonably assured" (FASB, March 2012). Reasonable assurance provides a lot of room for judgement for the company accounting for the revenue. If there were no chance that the company will actually receive the money from the other party purchasing the good or service, then there would be no reason to recognize any revenue. There must be some sort of assurance that the buyer will be able to pay the agreed upon amount of consideration to the seller. Without any type of assurance, most likely, the seller would have reason not to accept the agreement in the first place, however, if the agreement does exist, the seller must not recognize any revenue unless there is "reasonable assurance" that the consideration can be collected.

Once a transaction meets these criteria, there are several different codification sections that refer to different types of contracts, such as Subtopic 605-35: Construction- and production-type contracts and Subtopic 360-20: Real estate sales (FASB, March 2012). Because different revenue standards for different types of contracts are scattered throughout the code, the current standard was often difficult to use and apply. Companies had to refer to several different sections of the codification, and it was somewhat common for similar transactions to apply different revenue recognition procedures. Aside from being difficult and cumbersome for companies themselves to manage numerous codification sections for revenue recognition, auditors also had to make sure that they had sufficient knowledge and understanding of all of the different revenue codes. By implementing the new revenue recognition standards, all of the revenue codification will be located in one section, with very few exceptions to this rule.

Not only was U.S. GAAP scattered and difficult to use with respect to revenue recognition, it also differed significantly from International Financial Reporting Standards. While GAAP implemented broad revenue recognition concepts with many specific requirements for different industries or transactions, IFRS has two main revenue standards that are difficult to apply to complex transactions. As a whole, IFRS has very limited guidance on revenue recognition. Both GAAP and IFRS were becoming outdated and impractical to use, therefore, the FASB and IASB formed their joint committee to create the new revenue recognition framework. By working together on a joint committee, GAAP and IFRS will be much more similar than they previously were. Although some differences may remain, the differences will be minor compared to the differences between the old revenue recognition standards.

The joint committee of FASB and IASB outlined several goals for implementing the Section 606 revenue recognition standard. First, the committee wanted to "remove inconsistencies and weaknesses in revenue requirements" (FASB, March 2012). Many of these problem areas appeared above, including ambiguous concepts, scattered codification sections, and differences between GAAP and IFRS standards. Along the same lines, their goal was to create a framework with more information that applies to nearly all revenue recognition situations. By creating a more "robust framework", the new revenue recognition standards would also "improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets" (FASB, March 2012).

The new framework limits the number of different sections of the codification that an entity must refer to (comparability of industries), which would in turn result in less occurrence of economically similar transactions resulting in different accounting treatments. This would make it much easier for various entities to compare their accounting treatments and financial statements, because all transactions will be referring to the same framework for applying revenue recognition. In addition, it would be less difficult for entities to prepare their financial statements when they only have to refer to a single section of the codification, rather than multiple industry-specific sections. Finally, another reason for the development of the new revenue standard is to “provide more useful information to users of financial statements through improved disclosures” (FASB, March 2012).

Before the new Section 606 requirements, disclosure requirements were only included in the scattered, industry-specific sections of the codification. According to the FASB, “no single Topic or Subtopic provides comprehensive disclosure requirements for revenue” (March 2012). The new revenue recognition standards aim to expand on these limited requirements, in order to give users of the financial statements more quality information that they can use. The Accounting Standards update also outlines improvements brought about by implementing the new standards:

1. Enhanced comparability
2. Creation of a comprehensive framework
3. Wide applicability to contracts
4. Enhanced relevance - even when changes occur
5. Reduced requirements
6. Reduced complexity of requirements

7. Improved understandability of revenue
8. Wide applicability to entities (public and non-public) (FASB, ASU 2014-09)

One of the major recurring problems that Section 605 standards created was that the standard “sometimes resulted in different accounting for economically similar transactions” (FASB, ASU 2014-09). In other words, similar transactions would yield different revenue recognition. Another major problem is the lack of disclosure requirements. According to ASU 2014-09, disclosure requirements were limited and lacked cohesion, and were insufficient to analyze an entity’s revenue. One of the most important improvements that FASB and IASB have made by implementing the new revenue recognition standards is the increase in required disclosures.

1.2 New Revenue Recognition Standard

In May 2014, the Financial Accounting Standard Board issued Accounting Standard Update 2014-09, which established ASC 606: "Revenue from Contracts with Customers". Since the issuance of the first accounting standard, numerous other updates have been published that address certain topics in more detail, and make corrections and changes to the original standard based on feedback from members of the accounting community. In addition, one update pushed back the effective date by one year in order to give businesses more time to fully assess and implement the new revenue recognition standard. According to ASU 2015-14, public companies are required to transition to the new standard starting December 15, 2017, while nonpublic entities are required to transition beginning December 16, 2018 (FASB). Because the new revenue recognition standard requires extensive assessment and planning before implementation is possible, many members of the accounting community overwhelmingly pushed for a deferral; "respondents noted that providing sufficient time for implementation of the guidance in Update 2014-09 is critical to its success" (FASB, ASU 2015-14).

ASC 606 will affect most companies because the new standard establishes a framework that applies to all contracts with customers. More specifically, a firm will have to apply ASC 606 if it "enters into contracts with customers to transfer goods or services" and/or it "enters into contracts for the transfer of nonfinancial assets" (FASB, ASU 2014-09). There are some specific types of contracts, such as insurance or lease contracts, however, that fall under separate sections of the codification. In circumstances such as this, the various code sections, rather than ASC 606, apply to the contracts.

According to FASB's ASU 2014-09, the core principal of ASC 606 is to "recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services". In other words, companies should recognize the amount of revenue that it expects it will be able to receive for the goods or services it is providing. The Financial Accounting Standard Board implemented five steps to accomplish this core principle. The five steps are as follows:

I. Identify the contract(s) with a customer

II. Identify the performance obligations in the contract

III. Determine the transaction price

IV. Allocate the transaction price to the performance obligations in the contract

V. Recognize revenue when (or as) the entity satisfies a performance obligation (FASB, ASU 2014-09)

While the technical language may sound quite complicated, the basic idea of the new revenue recognition standard is relatively simple. Every business required to follow ASC 606 should be able to recognize what it must do to meet the obligations of the contract for each contract that it forms. For example, the company may have to ship 100 units of its product, or provide a particular service. Next, the company must know the consideration established in the contract, and allocate this consideration to each independent obligation contained in the contract. Lastly, as the company completes its performance obligations, it is then able to recognize revenue that it receives.

I. Identify the Contract(s) with a Customer

The steps above are a simple overview of the framework that the FASB has created for the new revenue recognition standards. As companies work to assess and apply these new standards, additional detailed issues affect each of the five steps. To begin, section 606 applies to a contract that meets the following five criteria:

1. Approval and commitment of the parties
2. Identification of the rights of the parties
3. Identification of the payment terms
4. The contract has commercial substance
5. It is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (FASB, ASC 606-10-25-1)

When a contract meets the above criteria, the entity should apply Section 606 revenue recognition standards. Unlike the old standards, a contract "may be oral, written, or implied by customary business practices" (FASB, March 2012).

II. Identify the Performance Obligations in the Contract

Step two of the new revenue recognition framework entails identifying the performance obligations contained within the contract. A performance obligation is "a promise in a contract to transfer a good or service to the customer" (FASB, ASU 2014-09). In other words, the performance obligation is the action that the entity must complete to fulfill the contract. If there is more than one performance obligation contained within the contract, each "distinct" performance obligation requires individual attention. A distinct good or service must meet two criteria in order to fall in the category of being distinct. First, the good or service must be capable of being distinct, or "the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer" (FASB, ASU 2014-09). Second, the good or service must be distinct within the context of the contract, which means that "the promise to transfer the good or service is separately identifiable from other promises in the contract" (FASB, ASU 2014-09). Each distinct good or service requires separate accounting. If an individual good or service is not distinct, the entity should combine several goods or services from the contract in order to create a "bundle" of goods and services that is distinct. The two criteria above determine when the "bundle" is distinct.

III. Determine the Transaction Price

Once the distinct performance obligation or obligations have been identified, the entity must then determine the transaction price, which is defined as "the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties" (FASB, ASU 2014-09). There are several factors that to consider when determining the transaction price, such as variable consideration, a financing component, noncash consideration, and consideration payable to the customer. Variable consideration is the estimate of expected value, or the most likely amount that the entity will be able to collect. When variable consideration exists, the entity should include its estimate of variable consideration "only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved" (FASB, ASU 2014-09). In other words, the entity is limited with respect to the amount of variable consideration it can recognize. It is limited to recognize the amount of revenue that is "reasonably assured" (FASB, March 2012). "Reasonable assurance" is one topic that requires management judgement. Reasonable assurance is not a set level of assurance, rather the management of an entity can decide at what level the assurance is reasonable.

Another factor to consider when determining consideration of a transaction is whether a significant financing component is included in the transaction. When financing exists, the entity is required to adjust the revenue it is going to recognize based on the time value of money. This adjustment applies when payment will take place over a period of time that exceeds one year. If significant financing exists, but the period is less than one year, the entity does not need to make an adjustment for the time value of money. When noncash consideration is part of a transaction, management measures these additional goods or services at fair value, and should be included in the consideration for the transaction (FASB, ASU 2014-09). Finally, the entity should take into account any consideration payable to the customer. The FASB explains that "if an entity pays, or expects to pay, consideration to a customer in the form of cash or items that the customer can apply against amounts owed to the entity, the entity should account for the payment as a reduction of the transaction price or as a payment for a distinct good or service" (ASU 2014-09). Essentially, the good or service or cash being paid to the customer should be treated as a separate transaction.

VI. Allocate the Transaction Price to the Performance Obligations in the Contract

Step four of the revenue recognition framework is concerned with the allocation of the transaction price to the various performance obligations that make up the contract. If there is only one performance obligation contained in the contract, this step can be very simple, however, if there are multiple individual performance obligations it can be more challenging to allocate the transaction price among the different performance obligations. The company allocates the transaction price according to the consideration it expects to receive for each of the performance obligations from the contract. The "standalone selling price" of each performance obligation determines the consideration the company expects to receive for each performance obligation

(FASB, ASU 2014-09). The standalone-selling price is "the price at which an entity would sell a promised good or service separately to a customer", which is generally just the observable selling price of the good or service (FASB, March 2012). The entity may also use substitute methods of estimation, such as adjusted market assessment, expected cost plus a margin, and residual value, when appropriate (FASB, March 2012).

V. Recognize revenue when (or as) the entity satisfies a performance obligation

The fifth and final step of the revenue recognition framework is to recognize revenue when (or as) the entity satisfies a performance obligation (FASB, ASU 2014-09). Performance obligations are satisfied either at one point in time or over a period, and depending on which way the performance obligation is satisfied, there are different requirements to recognize the revenue. First, if one of the three criteria below applies, the company must recognize revenue over time:

1. "The customer simultaneously received and consumes the benefits provided by the entity's performance as the entity performs"
2. "The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced"
3. "The entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date" (FASB, ASU 2014-09)

On the other hand, other factors indicate that revenue recognition at one point in time. These factors include, but are not limited to,

1. "The entity has a present right to payment for the asset"
2. "The customer has legal title to the asset"
3. "The entity has transferred physical possession of the asset"

4. “The customer has the significant risks and rewards of ownership of the asset”
5. “The customer has accepted the asset”

   (FASB, ASU 2014-09)

It is important to note again that the underlying principle of this entire framework is to “recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services” (FASB, March 2012). Although the codification does not specifically mention a timeframe in this underlying principle, step five is critical because it outlines when the company is able to recognize its revenue. If the entity were to recognize its revenue during the wrong accounting period, either too early or too late, it could present misleading financial statements to its users. Sometimes it may be difficult for the entity to identify when exactly the performance obligation has been satisfied, but some indicators include “right to payment, passage of legal title, physical possession, significant risks and rewards, and customer acceptance” of goods and services (FASB, March 2012). The manner in which these factors are met can also be indicators of whether the performance obligations are being met at a single period in time or over a period.

Aside from the specific issues related to each step of the revenue recognition framework, there may be other issues to be address. These topics include incremental costs of obtaining a contract and costs to fulfill a contract. Incremental costs are “those costs that the entity would not have incurred if the contract had not been obtained” (FASB, ASU 2014-09). According to the new revenue recognition framework, these costs should be accounted for by recognizing them as an asset, up to the amount of incremental costs that the entity expects to recover. In addition to incremental costs, costs to fulfill a contract are also an important factor to consider when dealing with contracts with customers. First, the rules in Section 606 regarding costs to fulfill a contract only apply if other topics, such as Topic 303 (Inventory) and Topic 360 (Property, Plant and Equipment), do not apply. Once the entity has determined that these topics do not apply, there are three criteria to meet in order recognize the costs to fulfill a contract. The costs must "relate directly to a contract (or a specific anticipated contract), generate or enhance resources of the entity that will be used in satisfying performance obligations in the future, and are expected to be recovered" (FASB, ASU 2014-09).

Another major improvement brought about by the implementation of Section 606 revenue recognition standards is the expansion of required disclosures. As previously noted, the disclosure requirements under Section 605 did not contain many details, and they were scattered amongst the industry specific codification. With the new Section 606, there are more specific disclosure requirements that will apply to all contracts with customers. This will make it much easier for entities to know and meet the disclosure requirements. In addition, this will benefit users of financial statements, because entities will be required to provide more additional information to the users. According to the Accounting Standards Update 2014-09 outlining the new revenue recognition standards, "an entity should 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" (FASB, 2014).

According to Section 606, three main disclosures must be included. These disclosures require both quantitative and qualitative data about three different topics. First, the entity must disclose information about contracts with customers. This includes "revenue and impairments recognized, disaggregation of revenue, and information about the contract balances and performance obligations, including the transaction price allocated to the remaining performance obligation" (FASB, ASU 2014-09). Next, disclosures must address significant judgements that management has made with regard to contracts with customers, as well as changes that made to prior judgements. Finally, the entity must disclose information about "assets recognized from the costs to obtain or fulfill a contract" (FASB, ASU 2014-09). Again, all the disclosures focus on providing useful information to the users of financial statements.

One industry that may have significant changes due to Section 606 requirements is the healthcare industry. The American Institute for Certified Public Accountants (AICPA) has set up a "Health Care Entities Revenue Recognition Task Force" with the goal of recognizing any possibly challenges that health care entities may face, and providing additional, industry specific guidance (Fast, 2016). Although this seems like a contradiction to one of the reasons for the creation of the new standard, this will not be additional sections added to the codification; rather, the AICPA is trying to provide additional advice to the health care industry in order to make their transition to Section 606 more successful. Fast states that "the greatest impact of the new rules will be on transactions that overlap at the end of reporting periods" (2016). This seems like another section that requires a management judgement call, in order to determine which accounting period is appropriate to recognize the entity's revenue.

Aside from the financial reporting side of an entity's accounting, there are also the tax consequences to consider. As of right now, the IRS has not issued any specific guidance regarding the new revenue recognition standards, but it is likely that they will have to address the topic in the near future, as the full implementation date is drawing closer. According to Abraham and Martin (2016), "If a company's tax method has been following financial accounting and the company changes its book method, it cannot simply change its tax method to follow the new book method…it needs to evaluate whether applying the tax rules would result in the same answer as the new book method…" In other words, all the entities that are required to use the new Section 606 guidance will be applying a new book method for their accounting. The entity must not assume that the new book method will give the correct tax results.

2. "Big Four" Survey Analysis

As Section 606 reaches implementation, companies around the United States, and around the world, may have to make significant changes in their revenue recognition procedures. The extent of the changes will depend largely on the nature of each individual business. CPA firms are a great resource for companies to turn to for more information concerning changes to accounting requirements. Each of the "Big Four" accounting firms (KPMG, PwC, EY, and Deloitte) have extensive resources online related to the new revenue recognition standards. In addition, PwC, in partner with the Financial Executives Research Foundation, has published its survey entitled "2016 Revenue Recognition Survey: Readiness update, impacts, and remaining challenges". PwC surveyed individual companies around the country to determine preparation level in various industries, as well as challenges that some industries may be facing. In addition, more than half of the companies surveyed are publicly held.

One statistic that stood out from PwC's survey was the implementation status of survey respondents. At the time of the survey, 22% of companies identified that they "have not started an assessment", while 65% of companies are still in the "assessment phase", and the remaining 13% of companies are in the midst of "implementation of the standard". Even though the official implementation date was delayed by one year, it is still surprising that just under a quarter of firms have not started assessing the impact that Section 606 will have on its business. Of the 13% of firms who have begun implementing the new standard, more than half are at or below 50% implementation. In other words, most of the companies who are in the midst of applying Section 606 are less than half way complete.

Another statistic of importance is the "anticipated or determined level of difficulty in implementing the new revenue recognition standard". In particular, 68% of firms stated that "revisions to systems and associated controls" would be either very difficult or somewhat difficult. One challenge that firms are going to face, especially during the assessment phase, is the need to update accounting systems. Many companies may currently have systems that are inadequate to perform the necessary functions for implementing Section 606. Along the same line, 23% and 31% of businesses said that they expect to see a high and moderate impact, respectively, on IT systems. Companies should not underestimate the time and money necessary to make the necessary changes to their accounting systems; 58% of businesses surveyed by PwC expects between $500,000 and $999,000 "of incremental costs…required to implement the new revenue recognition standard".

Related to the level of difficulty and monetary investment above is the type of human resources that companies will be using. Most companies, 63% of those surveyed, state that they will be "leveraging existing resources" rather than hiring more individuals directly into the firm for the implementation process or hiring consultants. If companies wait until the last minute to begin preparing for implementation, it may result in higher costs due to hiring more individuals or individuals at the firm needing input from consultants. With the drastic change from a rules-based system of revenue recognition to a much more principles-based system, the overarching theme is that firms and companies, who will be required to implement the new standards, and audit the new standards, should not wait to start preparing. There are many details to consider, and companies will not be able to simply implement it overnight. One statistic from the survey reflects this is that 76% of companies surveyed find that "developing and implementing new accounting policies" is very difficult.

In addition, 25% and 47% of companies believe that "quantification of adjustments" will be very difficult or somewhat difficult, respectively. One of the issues that comes up when a standard changes from rule-based to framework-based is that the number of judgements the company has to make increases. This means that management decisions rely more on a person's professional judgement, rather than specific rules and requirements. Finally, one surprising statistic from the PwC revenue recognition survey references the question "Do you expect the standard to have a material impact on your company's income statement and/or balance sheet". In response to the question above, 64% of respondents answered "no, we do not expect a material impact to your income statement and/or balance sheet". Since this new standard was proposed, there has been a lot of talk about the impact that it will have on company's accounting. It seems surprising that, based on the amount of changes some companies are going to have to make to their accounting, such a high percentage of companies believe that there will not be a material impact. Even though many accounting and other procedures will change, many companies do not expect material differences with respect to the financial statements. The amount of disclosures, however, increased from its current form.

3. Local Survey

In order to evaluate the impact of the new revenue recognition standards the Rochester, Buffalo, and Syracuse areas, I created and distributed a survey to approximately 50 CPA firms. In the western New York area, regional CPA firms are more dominant than the "Big Four" accounting firms, and smaller, privately held companies often have a close relationship with their auditors. For this reason, I chose to survey CPA firms in the area to determine what the firms had done to help its staff and clients prepare for the standard. I administered the survey using Qualtrics, an online survey tool, by distributing a link to potential participants. Qualtrics anonymously collected survey responses from participants that followed the link and answered questions.

A complete transcript of the survey is attached in Appendix A. Out of the 50 CPA firms that received the link to the survey, I received six responses, although only two of the six respondents completed the entire survey. In addition, one of the complete responses referenced the new leasing standards, rather than the new revenue recognition standards, therefore, the one remaining survey response will be used as a specific example of what a CPA firm in the local area is doing to prepare for the new revenue recognition standard. The two complete survey responses are attached in Appendices B and C. The survey contained questions about benefits and obstacles of the new standard, education of firm staff and clients, and expected changes to services offered by the firm. The only identifiers requested in the survey was the location and the size of the firm.

One large regional CPA firm (more than 100 staff members) based in Buffalo, New York has already begun working with both its staff and its clients to prepare for the new Section 606 requirements. According to a manager at this firm, "The implementation [of Section 606 revenue recognition requirements] will be on a client by client basis. Some clients will have almost no effect from the new standard. Others in certain industries will have a lot of work to implement the new standard." Generally, this firm informs its clients of new/updated accounting standards using memos and meetings with the CEO/President/Principal, CFO, and/or the Controller from a client's company. More specifically, they have spent time with their client's CEO/President/Principal, CFO, and/or the Controller discussing Section 606 updates, by using memos, informal presentations, and meetings. This CPA firm estimates that its clients are about 30% prepared for the implementation of the new revenue recognition standards.

Aside from educating clients about the new revenue recognition requirements, this firm also trains its staff on new and updates standards. Because the books and financial statements of the CPA firm's clients will look different because of the new standards, it is important to train the CPA firm's staff so that they are able to understand and properly audit its clients. According to the manager who completed the survey, the staff at this particular CPA firm is approximately 60% prepared for the implementation of the new revenue recognition standard. This firm has made a monetary investment to educate its staff and clients on the new standard. Finally, the firm expects that the planning phase of its assurance services will increase by approximately one hour per engagement. This increase may be due, at least in part, to the fact that "principles based guidance leads to a lot of judgement". In addition, the performance phase of assurance services may increase by two hours per engagement because of the new revenue standards.

The second survey response provided general information about how the firm typically educates its clients and its staff, however, some of the open-ended responses included answers referenced the new leasing standard (Section 842). Although this is not the intended topic of this study, I feel that their response is informative with respect to the way that the firm typically handles implementing new standards. This second firm is a small/medium firm (26-50 staff members) located in Syracuse, New York. They typically use formal training sessions to inform its staff of new and updated accounting standards, which take approximately one hour per month. Specifically for Section 842 updates, the firm plans to spend about eight hours training its staff, but at the time of survey completion the firm was yet to discuss Section 842 with its employees.

The firm uses memos and informal presentations to inform its clients (CEO/President/Principal, CFO, and/or the Controller) of new accounting standards, which take up approximately one hour per month. They are yet to discuss Section 842 with clients; however, they plan to before full implementation of the standard using the same methods above. According to the partner who completed the survey on behalf of this firm, “As Section 606 gets closer to its implementation date my firm will begin training our staff and informing our affected clients about this new and somewhat complex leasing standard change”. Although this statement references the leasing standard, rather than the revenue recognition standard, it is still useful information that applies to how the firm handles new and complex changes to the codification.

4. Early Adopters: Results and Impacts

As recently as December 2016, many companies are expressing concern about having enough time to prepare fully for the upcoming changes (Audit Analytics, 2016). Compliance Weekly states that of the companies that it surveyed, “less than 20% of the executives are fully prepared for the new standard effectiveness” (Audit Analytics, 2016). In fact, when discussing plans for implementation of the new standards, many companies use language in their company filings that is quite vague. This really gives a feeling that the overall business community is severely underprepared for the upcoming changes.

There are, however, a handful of “early adopters”. For example, First Solar, Inc. was “planning to move to the new revenue recognition method in 2017” (Audit Analytics, 2016). According to First Solar’s 10-K filed on February 22, 2017, “We expect to adopt ASU 2014-09 in the first quarter of 2017 using the full retrospective method. However, our ability to early adopt…is subject to the completion of our analysis of certain matters…” (First Solar, 2017). After reviewing several 10-K forms from various companies, this language is quite standard when addressing updates to accounting standards. The following paragraph, however, in First Solar’s 10-K provides more insight on its expectations for Section 606 requirements. The company states:

> We anticipate that ASU 2014-09, which supersedes the real estate sales guidance under ASC 360-20, will require us to recognize revenue and profit from our systems business sales arrangements earlier and in a more linear fashion than our historical practice under ASC 360-20, including the estimation of certain profits that would otherwise have been deferred (First Solar, 2017).

It continues to discuss how other portions of its business will not likely experience material changes. This company is one of only a few that have chosen to early adopt the new revenue recognition standards, and it appears that they have done their research and will be prepared to manage the changes at implementation. Other companies, however, are not nearly as prepared, and many people in the accounting community continue to worry that there will be major issues for the companies that wait until the last minute to prepare for the new standards.

Another "early adopter" is Raytheon Company. Raytheon stated in its most recent 10-K that "we will early adopt the requirements of the new standard in the first quarter of 2017 and will used the full retrospective transition method" (Raytheon Company, 2017). Raytheon has been working on the implementation of Section 606 since 2014 when it "established a cross-functional implementation team… [using] a bottom-up approach to analyze the impact of the standard on our contract portfolio" (Raytheon Company, 2017). Clearly, the implementation of Section 606 is not a quick and easy process. For companies with a large number of contracts, it will take a lot of time and effort to analyze each contract in order to apply the new revenue recognition standards correctly and efficiently.

Raytheon Company also states that "the impact of adopting the new standard on our 2015 and 2016 total net sales and operating income is not material" (Raytheon Company, 2017). They have not found a material impact because the new standards are very similar to the method of revenue recognition that Raytheon has used in the past. In particular, most of its contracts are completed over time, so the change in revenue recognition standards will not have a material impact on the way that Raytheon recognizes revenue over time. Although Raytheon is one example of a successful implementation, there are not many examples of other companies who have also successfully implemented Section 606. It is hard to say whether other companies will also experience an immaterial effect, depending on the types of contracts that they generally deal with. The major takeaway from Raytheon, however, is that they have been working on this implementation since 2014. The segment of companies from the PwC survey that have not begun assessment have a lot of catching up to do, and may struggle to have enough time to fully assess before the full implementation date.

5. Conclusion

The goal of this thesis is to identify how prepared both the overall business community, as well as the local accounting community, is to implement the new Section 606 Revenue Recognition Standards in 2018. Even though the effective date was officially pushed back one year from its original effective date, many companies appear to be severely underprepared. Both the national survey of businesses and the local survey of CPA firms indicate that much preparation and assessment is still needed. This is not a simple standard that can be implemented overnight. Companies that have early adopted the standard spent years preparing for implementation, so it is quite concerning than many companies and auditors have done little to nothing to prepare.

The major goals of implementing the new revenue recognition standards are to make the following improvements:

1. Enhanced comparability
2. Creation of a comprehensive framework
3. Wide applicability to contracts
4. Enhanced relevance - even when changes occur
5. Reduced requirements
6. Reduced complexity of requirements
7. Improved understandability of revenue
8. Wide applicability to entities (public and non-public) (FASB, ASU 2014-09).

Despite the positive changes that are going to take place from the new Section 606 standards, there will be several challenges with implementing them. For instance, many companies do not have IT and accounting systems that are capable of implementing the new standards (Knachel &

Chiriatti, 2016). During the time before implementation, there will be a huge workload. Entities will have to develop a strategy to adopt the new required standards, as well as manage their normal workload.

Another challenge will be the increased number of judgements that managers will have to make. This may present challenges to both the entities management and the auditors. Auditors may have an expanded role that relies more on their professional judgement, because the standards are much less rule based than they previously were. There is evidence that suggests that there may be a link between a principles-based system and the expansion of the roles of both the accountant and the auditor. According to Carmona and Trombetta (2008), "the principles-based nature of IAS/IFRS standards and the related notions of openness and flexibility exert a lasting effect on the educational background and professional skills of accountants and auditors." Rather than depending on a serious of specific rules that create a sort of "check-box" accounting, principles-based standards require a complete understanding and knowledge of accounting and the business of a company. Alexander and Jermakowicz's (2006) research also supports this idea that accounting and auditing should be more than just following specific rules; it should focus on creating information that is not misleading to financial statement users.

One problem that arises, potentially particularly in the United States, is whether the education of accounting students sets up the accountants and auditors to be able to function successfully under the framework of a principles-based system. After experiencing a four-year accounting program in the United States, it would seem that if the United States were to shift to a principles-based accounting system, changes would be necessary throughout the entire industry of accounting, starting at the most basic level of the accountant's college education. In order to implement a principles-based system effectively, there needs to be a "comprehensive understanding" of the material (Carmona & Trombetta, 2008).

The focus on memorization for many accounting classes is not conducive to working within a principles-based framework, which requires a deep understanding, and the ability to use critical thinking to make smart and education professional judgements. Carmona and Trombetta also suggest that there is a certain level of "ambiguity" that exists in a principles-based system. From personal experience, many accounting students are very uncomfortable with any degree of ambiguity. It seems as if the switch from the previous revenue recognition standards to the new Section 606 standards may be receiving so much attention not because it is particularly difficult accounting, but rather it is a big shift in the way that accountants and auditors will be required to think.

If the implementation of the new revenue recognition standards is successful, it would seem likely that more standards may be converted to principles-based in the future. The shift in the makeup of the CPA exam is also indicative of a shift in the accounting profession. With the addition of more critical thinking, long answer questions, the focus of the CPA exam is also shifting away from pure memorization as it was in the past. Both the changes in the CPA exam and the accounting standards from the FASB may be a sign that there may be increased expectations of accountants and auditors in the future.

One concern that many people have about the new revenue recognition standards is that a principles-based system may lead to more ability for accountants to manipulate the revenue numbers. In contrast to this common belief, some studies have shown that "auditors constrain aggressive reporting by their clients to a greater extent under principles-based standards than under rules-based standards" (Peytcheva, Wright, & Majoor, 2014). In other words, when accountants have a true understanding of how revenue is supposed to be represented, they may be less able to find loopholes to manipulate numbers in compared to finding loopholes in detailed rules. Peytcheva et al.'s (2014) research poses an interesting question: "Are there fundamental differences in the psychological processes employed by auditors who face principles versus rules accounting guidance?" This study found evidence to support the fact that "accounting standards based on broad principles are likely to evoke systematic and thorough information processing, thereby leading auditors to strive for a rich and accurate understanding of the issues under consideration" (Peytcheva et al., 2014). Although this research is not definitive, it seems reasonable that when auditors rely on principles to guide their decisions, they are more likely to have a deeper understanding, rather than simply checking off that the company met the criteria of a specific rule. This, in turn, may help create more high quality information for financial statement users.

Despite the fact that many companies believe there will be little or no material impact to the financial statements, material changes to the financial statements are not likely to be the most significant impact of the new standards. The bottom line of the financial statements may not change significantly or at all, but the process of how the accountants and auditors got to those numbers is changing dramatically. Accountants and auditors will no longer be able to rely on "check-box" requirements to help them when they do not have a deeper understanding of revenue recognition. The conceptual framework that the FASB and IASB have developed will force auditors and accountants to switch their mentality about how they complete their job. Increased reliance on professional judgement, rather than specific rules, will force accounting professionals to think more critically and to understand the concepts that they are working with on a deeper level. It will never be a perfect system where every accountant and auditor has a deep understanding of the concepts they are applying, however, I believe that other sections of the codification in the future will be developed as principles-based systems. This will lead to a significant transformation of the field of accounting, particularly in the United States, beginning all the way back at the education level, and continuing out into the professional world.

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Appendix A

Thesis Survey

Q0 You are invited to take part in a research study of the impact on the Financial Accounting Standard Board's changes to the revenue recognition standards. You were selected as a possible participant because you are a CPA firm in the greater Rochester/Syracuse/Buffalo area. I ask that you read this form and ask any questions you may have before agreeing to be in the study. This study is being conducted by: Taylor Forshay, under the advisement of Dr. Barry Hettler, in the Department of Accounting, Economics, and Finance at The College at Brockport.

BACKGROUND INFORMATION
The purpose of this study is to understand the new revenue recognition standards being implemented by the FASB, and how those new standards have affected, or will affect Certified Public Accounting firms. A maximum of 50 firms will take part in this study. The results will be used for a portion of an Honors Thesis, which will be presented at The College at Brockport's Scholar's Day, in April 2017.

PROCEDURES
If you agree to be in this study, I would ask you to do the following: use the link provided to complete the following survey.

COMPENSATION/INCENTIVES
There will be no compensation for participating in this study.

RISKS AND BENEFITS OF BEING IN THE STUDY
This study has minimal risks: The minimal risk you are assuming by participating is the time you are taking to complete the following survey. There are no direct benefits to participation.

CONFIDENTIALITY
The records of this study will be kept private and your confidentiality will be protected. In any sort of report I publish, I will not include any information that will make it possible to identify a subject or his/her responses. Research records will be stored securely and only researchers will have access to the records. All data will be kept electronically in a secure manner by the investigator. Data will be stored on a password protected computer. Computer will be stored in a locked desk in my home office. No other people will have access to the computer. No survey data will have personal identifiers attached as none of this information is requested in the survey. Data will be stored for three years after the research is completed. After this time, all data will be destroyed. Be aware that due to the limited protections of the Internet, confidentiality can be protected, but not guaranteed.

VOLUNTARY NATURE OF THE STUDY
Participation in this study is voluntary. Your decision whether or not to participate will not affect your current or future relations with The College at Brockport or with other cooperating institutions. If you decide to participate, you are free to skip any question. You may also withdraw from this study at any time without penalty In order to participate in this study, your

informed consent is required. If you wish to participate in the project and agree with the statements below, please complete the following survey. Again, you may change your mind at any time and leave the study without penalty, even after the study has begun.

Contacts and Questions:
The researcher conducting this study is: Taylor Forshay, with advisement from Dr. Barry Hettler (bhettler@brockport.edu). If you have questions, you are encouraged to contact me at tfors3@brockport.edu. If you have any questions or concerns regarding this study and would like to talk to someone other than the researchers, please contact The College at Brockport IRB compliance officer, Julie Wilkens, at (585) 395-2779 or jwilkens@brockport.edu

Statement of Consent
I am 18 years of age or older. I have read the above information. I have asked questions and have received answers. I understand that by completing the following survey, I am consenting to participate in the study. Again, you may you may change your mind at any time and leave the study without penalty, even after the study has begun.

Q1 What major metropolitan area(s) is (are) your firm most closely associated with?
❑ Buffalo (1)
❑ Rochester (2)
❑ Syracuse (3)

Q2 How large is your firm, based on the number of current staff members?
❍ 1-10 (1)
❍ 11-25 (2)
❍ 26-50 (3)
❍ 51-100 (4)
❍ 100+ (5)

Q3 What is your position at the firm?
❍ Manager (1)
❍ Partner (2)
❍ Managing Partner (3)
❍ Other (4) ____________________

Q4 What do you see as the biggest obstacles, if any, in implementing the new Section 606 standards, from your firm's perspective?

Q5 What do you see as the biggest benefits, if any, that your firm will enjoy from implementing the new Section 606 standards?

Q6 Does your firm typically discuss new or revised accounting standards with your staff?
❍ Yes (1)
❍ No (2)

Q7 What form does this take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q8 How much time is typically devoted to these activities?
- ❍ Hours Per Week (1) ____________________
- ❍ Hours Per Month (2) ____________________
- ❍ Hours Per Standard Update (3) ____________________

Q9 Do these activities usually count for CPE credit?
- ❍ Yes (1)
- ❍ No (2)

Q10 Has your firm informed your staff about the new updates to Section 606 (Revenue from Contracts with Customers)?
- ❍ Yes (1)
- ❍ No (2)

Q11 What form did this take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q12 How much time has your firm spent updating your staff on the changes to Section 606 (Revenue from Contracts with Customers)?

Total Hours (1)

Q13 If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), does your firm plan on educating or training your staff regarding the application of the Section 606 codification before its full implementation date?
- ❍ Yes (1)
- ❍ No (2)

Q14 What form will this take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q15 How much time do you plan/expect to spend?
Total Hours (1)

Q16 Do you anticipate changing the planning and/or performance phases of assurance, tax preparation, or other services based on the changes to Section 606 (Revenue from Contracts with Customers)?
❍ Yes (1)
❍ No (2)

Q17 Which area(s) specifically do you plan on changing?
❑ Assurance Services (1)
❑ Tax Preparation Services (2)
❑ Other (3) ____________________

Q18 What is the expected impact on the planning phase of assurance services?
Average Hours Per Engagement (1)

Q19 What is the expected impact on the performance phase of assurance services?
Average Hours Per Engagement (1)

Q20 What is the expected impact on the planning phase of tax preparation services?
Average Hours Per Engagement (1)

Q21 What is the expected impact on the performance phase of tax preparation services?
Average Hours Per Engagement (1)

Q22 What is the expected impact on the planning phase of other services?
Average Hours Per Engagement (1)

Q23 What is the expected impact on the performance phase of other services?
Average Hours Per Engagement (1)

Q24 Has (will) any additional monetary investment been (be) made to further client and staff awareness of the new Section 606 standards?
❍ Yes (1)
❍ No (2)

Q25 What is the approximate investment?
$ (1)

Q26 Does your firm typically discuss new or revised accounting standards with your clients?
❍ Yes (1)
❍ No (2)

Q27 What form does this typically take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q28 How much time is typically devoted to these activities?
- ❍ Hours Per Week (1) ____________________
- ❍ Hours Per Month (2) ____________________
- ❍ Hours Per Standard Update (3) ____________________

Q29 Who from your client's company does your firm typically discuss the changes with?
- ❑ CEO/President/Principal (1)
- ❑ CFO (2)
- ❑ Controller (3)
- ❑ Manager (4)
- ❑ Other (5) ____________________

Q30 Has your firm already discussed the updates to Section 606 (Revenue from Contracts with Customers) with your clients?
- ❍ Yes (1)
- ❍ No (2)

Q31 What form did this take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q32 How much time was spent on these activities?
Total Hours (1)

Q33 Who from your client's company has your firm discussed the changes with?
- ❑ CEO/President/Principal (1)
- ❑ CFO (2)
- ❑ Controller (3)
- ❑ Manager (4)
- ❑ Other (5) ____________________

Q34 If your firm has already discussed the changes to Section 606 with your clients, do you plan on providing any further training/education before the full implementation date of the new standards?
- ❍ Yes (1)
- ❍ No (2)

Q35 How much additional time does your firm expect to spend on these activities?
Total Hours (1)

Q36 If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), do you plan on educating or updating your clients regarding the application of the Section 606 codification before its full implementation date?
- ❍ Yes (1)
- ❍ No (2)

Q37 What form will this take?
- ❑ Link to website with new standards (1)
- ❑ Memo (2)
- ❑ Informal Presentation (3)
- ❑ Formal Training Session (4)
- ❑ Other (5) ____________________

Q38 How much time do you plan/expect to spend?
Total Hours (1)

Q39 Who from your client's company will you discuss the changes with?
- ❑ CEO/President/Principal (1)
- ❑ CFO (2)
- ❑ Controller (3)
- ❑ Manager (4)
- ❑ Other (5) ____________________

Q40 Do you feel like your clients are currently prepared for the new Section 606 standards?
______ Level of Confidence (1)

Q41 Do you feel like your staff members are currently prepared for the new Section 606 standards?
______ Level of Confidence (1)

Q43 Thank you for taking the time to complete this survey. If you have any other thoughts regarding the new Section 606 standards, please share them below. I appreciate your feedback.

Appendix B

Survey Response #1

Q1. What major metropolitan area(s) is(are) your firm most closely associated with?

☑ Buffalo

☐ Rochester

☐ Syracuse

Q2. How large is your firm, based on the number of current staff members?

○ 1-10

○ 11-25

○ 26-50

○ 51-100

◉ 100+

Q3. What is your position at the firm?

◉ Manager

○ Partner

○ Managing Partner

○ Other

Q4. What do you see as the biggest obstacles, if any, in implementing the new Section 606 standards, from your firm's perspective?
Educating ourselves and clients

Q5. What do you see as the biggest benefits, if any, that your firm will enjoy from implementing the new Section 606 standards?
Not much- all revenue recognition literature now in one section on the codification, but principles based guidance leads to a lot of judgment.

Q6. Does your firm typically discuss new or revised accounting standards with your staff?

◉ Yes

○ No

Q7. What form does this take?

☑ Link to website with new standards

☐ Memo

☐ Informal Presentation

☑ Formal Training Session

☐ Other

Q8. How much time is typically devoted to these activities?

- (•) Hours Per Week - one
- ( ) Hours Per Month
- ( ) Hours Per Standard Update

Q9. Do these activities usually count for CPE credit?

- (•) Yes
- ( ) No

Q10. Has your firm informed your staff about the new updates to Section 606 (Revenue from Contracts with Customers)?

- (•) Yes
- ( ) No

Q11. What form did this take?

- [x] Link to website with new standards
- [ ] Memo
- [ ] Informal Presentation
- [x] Formal Training Session
- [ ] Other

Q12. How much time has your firm spent updating your staff on the changes to Section 606 (Revenue from Contracts with Customers)?

Very little

Q13. If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), does your firm plan on educating or training your staff regarding the application of the Section 606 codification before its full implementation date?
This question was not displayed to the respondent.
Q14. What form will this take?
This question was not displayed to the respondent.
Q15. How much time do you plan/expect to spend?
This question was not displayed to the respondent.
Q16. Do you anticipate changing the planning and/or performance phases of assurance, tax preparation, or other services based on the changes to Section 606 (Revenue from Contracts with Customers)?

- (•) Yes
- ( ) No

Q17. Which area(s) specifically do you plan on changing?

- [x] Assurance Services
- [ ] Tax Preparation Services
- [ ] Other

Q18. What is the expected impact on the planning phase of assurance services?

Average Hours Per Engagement 1

Q19. What is the expected impact on the performance phase of assurance services?

Average Hours Per Engagement 2

Q20. What is the expected impact on the planning phase of tax preparation services?
This question was not displayed to the respondent.

Q21. What is the expected impact on the performance phase of tax preparation services?
This question was not displayed to the respondent.

Q22. What is the expected impact on the planning phase of other services?
This question was not displayed to the respondent.

Q23. What is the expected impact on the performance phase of other services?
This question was not displayed to the respondent.

Q24. Has(will) any additional monetary investment been(be) made to further client and staff awareness of the new Section 606 standards?

- [x] Yes
- [ ] No

Q25. What is the approximate investment?

$ unknown

Q26. Does your firm typically discuss new or revised accounting standards with your clients?

- [x] Yes
- [ ] No

Q27. What form does this typically take?

- [ ] Link to website with new standards
- [x] Memo
- [ ] Informal Presentation
- [ ] Formal Training Session
- [x] Other
    meetings

Q28. How much time is typically devoted to these activities?

- [ ] Hours Per Week
- [ ] Hours Per Month
- [x] Hours Per Standard Update
    unknown

Q29. Who from your client's company does your firm typically discuss the changes with?

- [x] CEO/President/Principal
- [x] CFO
- [x] Controller

☐ Manager

☐ Other

Q30. Has your firm already discussed the updates to Section 606 (Revenue from Contracts with Customers) with your clients?

◉ Yes

○ No

Q31. What form did this take?

☐ Link to website with new standards

☑ Memo

☑ Informal Presentation

☐ Formal Training Session

☑ Other

meetings

Q32. How much time was spent on these activities?

Total Hours unknown

Q33. Who from your client's company has your firm discussed the changes with?

☑ CEO/President/Principal

☑ CFO

☑ Controller

☐ Manager

☐ Other

Q34. If your firm has already discussed the changes to Section 606 with your clients, do you plan on providing any further training/education before the full implementation date of the new standards?

◉ Yes

○ No

Q35. How much additional time does your firm expect to spend on these activities?

Total Hours unknown

Q36. If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), do you plan on educating or updating your clients regarding the application of the Section 606 codification before its full implementation date?

This question was not displayed to the respondent.

Q37. What form will this take?

This question was not displayed to the respondent.

Q38. How much time do you plan/expect to spend?

This question was not displayed to the respondent.

Q39. Who from your client's company will you discuss the changes with?

This question was not displayed to the respondent.

Q40. Do you feel like your clients are currently prepared for the new Section 606 standards?
30%
Q41. Do you feel like your staff members are currently prepared for the new Section 606 standards?
60%
Q45. Thank you for taking the time to complete this survey. If you have any other thoughts regarding the new Section 606 standards, please share them below. I appreciate your feedback.
The implementation will be on a client by client basis. Some clients will have almost no effect from the new standard. Others in certain industries will have a lot of work to implement the new standard.

Appendix C

Survey Response #2

Q1. What major metropolitan area(s) is(are) your firm most closely associated with?

- [ ] Buffalo
- [ ] Rochester
- [x] Syracuse

Q2. How large is your firm, based on the number of current staff members?

- ( ) 1-10
- ( ) 11-25
- (•) 26-50
- ( ) 51-100
- ( ) 100+

Q3. What is your position at the firm?

- ( ) Manager
- (•) Partner
- ( ) Managing Partner
- ( ) Other

Q4. What do you see as the biggest obstacles, if any, in implementing the new Section 606 standards, from your firm's perspective?
The biggest obstacle will be scheduling out hundreds of leases with varying terms and unique contractual elements that we then will explain to the client as the results of the new leasing standards are implemented on their financial statements.

Q5. What do you see as the biggest benefits, if any, that your firm will enjoy from implementing the new Section 606 standards?
The biggest benefit will be analyzing and understanding components of leases that pre Section 606 were largely ignored.

Q6. Does your firm typically discuss new or revised accounting standards with your staff?

- (•) Yes
- ( ) No

Q7. What form does this take?

- [ ] Link to website with new standards
- [ ] Memo
- [ ] Informal Presentation
- [x] Formal Training Session

☐ Other

Q8. How much time is typically devoted to these activities?

○ Hours Per Week

◉ Hours Per Month
1

○ Hours Per Standard Update

Q9. Do these activities usually count for CPE credit?

◉ Yes

○ No

Q10. Has your firm informed your staff about the new updates to Section 606 (Revenue from Contracts with Customers)?

○ Yes

◉ No

Q11. What form did this take?
This question was not displayed to the respondent.

Q12. How much time has your firm spent updating your staff on the changes to Section 606 (Revenue from Contracts with Customers)?
This question was not displayed to the respondent.

Q13. If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), does your firm plan on educating or training your staff regarding the application of the Section 606 codification before its full implementation date?

◉ Yes

○ No

Q14. What form will this take?

☐ Link to website with new standards

☐ Memo

☐ Informal Presentation

☑ Formal Training Session

☐ Other

Q15. How much time do you plan/expect to spend?

Total Hours 8

Q16. Do you anticipate changing the planning and/or performance phases of assurance, tax preparation, or other services based on the changes to Section 606 (Revenue from Contracts with Customers)?

○ Yes

◉ No

Q17. Which area(s) specifically do you plan on changing?
This question was not displayed to the respondent.

Q18. What is the expected impact on the planning phase of assurance services?
This question was not displayed to the respondent.
Q19. What is the expected impact on the performance phase of assurance services?
This question was not displayed to the respondent.
Q20. What is the expected impact on the planning phase of tax preparation services?
This question was not displayed to the respondent.
Q21. What is the expected impact on the performance phase of tax preparation services?
This question was not displayed to the respondent.
Q22. What is the expected impact on the planning phase of other services?
This question was not displayed to the respondent.
Q23. What is the expected impact on the performance phase of other services?
This question was not displayed to the respondent.
Q24. Has(will) any additional monetary investment been(be) made to further client and staff awareness of the new Section 606 standards?

- (•) Yes
- ( ) No

Q25. What is the approximate investment?

$ 10000

Q26. Does your firm typically discuss new or revised accounting standards with your clients?

- (•) Yes
- ( ) No

Q27. What form does this typically take?

- [ ] Link to website with new standards
- [ ] Memo
- [x] Informal Presentation
- [ ] Formal Training Session
- [ ] Other

Q28. How much time is typically devoted to these activities?

- ( ) Hours Per Week
- (•) Hours Per Month
  1
- ( ) Hours Per Standard Update

Q29. Who from your client's company does your firm typically discuss the changes with?

- [x] CEO/President/Principal
- [x] CFO
- [x] Controller
- [ ] Manager
- [ ] Other

Q30. Has your firm already discussed the updates to Section 606 (Revenue from Contracts with Customers) with your clients?

- ○ Yes
- ◉ No

Q31. What form did this take?
This question was not displayed to the respondent.
Q32. How much time was spent on these activities?
This question was not displayed to the respondent.
Q33. Who from your client's company has your firm discussed the changes with?
This question was not displayed to the respondent.
Q34. If your firm has already discussed the changes to Section 606 with your clients, do you plan on providing any further training/education before the full implementation date of the new standards?
This question was not displayed to the respondent.
Q35. How much additional time does your firm expect to spend on these activities?
This question was not displayed to the respondent.
Q36. If your firm has not already discussed the changes to Section 606 (Revenue from Contracts with Customers), do you plan on educating or updating your clients regarding the application of the Section 606 codification before its full implementation date?

- ◉ Yes
- ○ No

Q37. What form will this take?

- ☐ Link to website with new standards
- ☑ Memo
- ☑ Informal Presentation
- ☐ Formal Training Session
- ☐ Other

Q38. How much time do you plan/expect to spend?

Total Hours 1

Q39. Who from your client's company will you discuss the changes with?

- ☑ CEO/President/Principal
- ☑ CFO
- ☑ Controller
- ☐ Manager
- ☐ Other

Q40. Do you feel like your clients are currently prepared for the new Section 606 standards?
30%
Q41. Do you feel like your staff members are currently prepared for the new Section 606 standards? 50%

Q45. Thank you for taking the time to complete this survey. If you have any other thoughts regarding the new Section 606 standards, please share them below. I appreciate your feedback.
As Section 606 gets closer to it's implementation date my firm will begin training our staff and informing our affected clients about this new and somewhat complex leasing standard change.

Great questions - good luck on your thesis.