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**Impact of the New Revenue  
Standard on the Industry**

May 25, 2017

# Overview of the new revenue standard

# New revenue guidance

## Effective Date

- 1/1/18 for public companies
- 1/1/19 for private companies

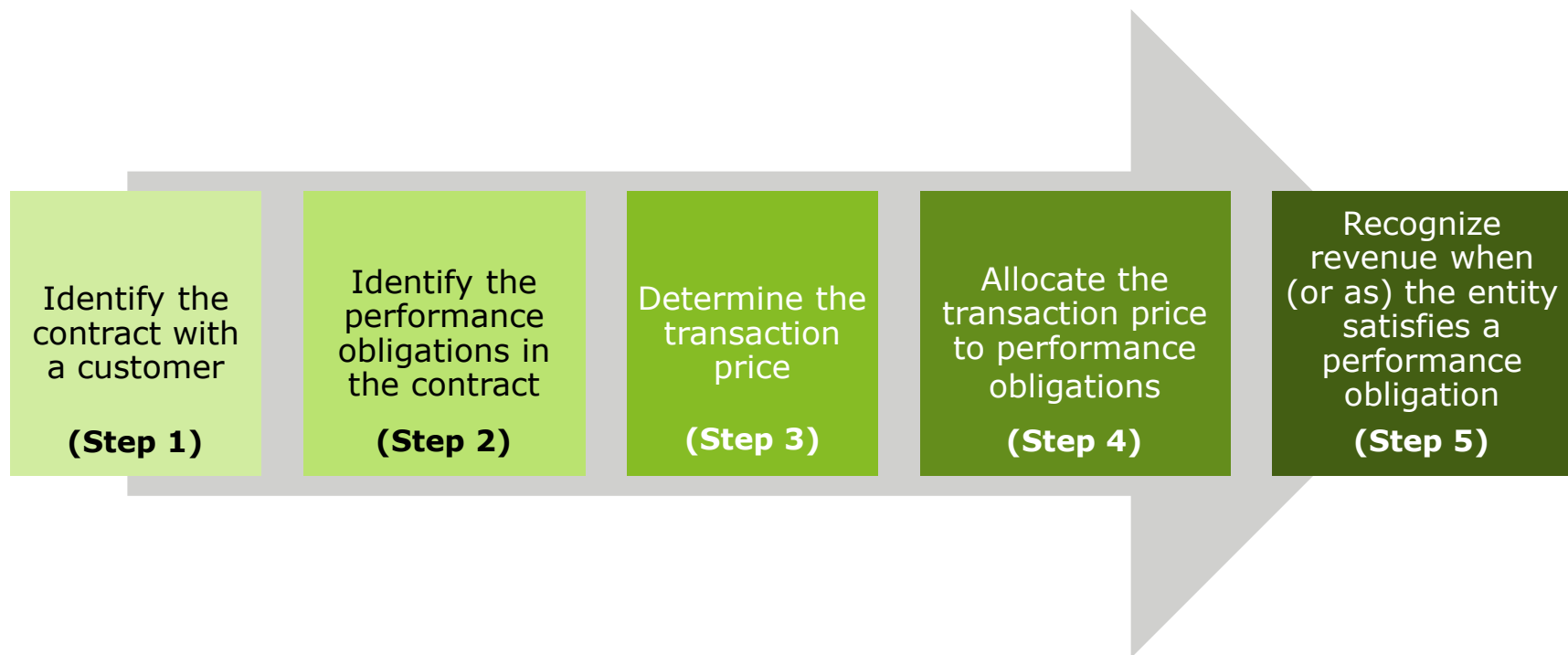
## Transition

- Full retrospective approach
  - Restate prior periods in compliance with ASC 250
  - Optional practical expedients
- Modified retrospective approach
  - Apply revenue standard either to all contracts at the date of initial application or only to contracts that are not completed as of effective date and record cumulative catch-up
  - Required disclosures
- SEC 5-year table

# New revenue guidance

## The five-step model

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



This revenue recognition model is based on a control approach, which differs from the risks and rewards approach applied under current U.S. GAAP

# **Technical accounting issues in the industry**

# Principal-versus-agent considerations

## Applying the control principle

**Whether the entity controls the **specified good or service** before it is transferred to the customer determines whether the it is a principal or an agent**

- Identify **each specified good/service** to be provided to the customer
- Assess whether the entity controls **each specified good/service** before it is transferred to the customer
- Indicators of control:
  - Responsibility for providing the good/service
  - Inventory risk
  - Latitude in establishing pricing

## Oil and gas hot topics (all sectors)

The following are issues or arrangements that all companies in the oil and gas industry are currently considering as they implement ASC 606:

- Standalone selling price for storable commodities
- Contracts with volumetric optionality, variable considerations
- Blend-and-extend (B&E) contract modifications
- Significant financing component
- Interactions with the new lease accounting standard (see later slide)

# Upstream sector hot topics

The following are issues or arrangements that companies within the upstream space are currently considering as they implement ASC 606:

- Sales of mineral interests and production payments
- Take-or-pay arrangements with and without makeup rights
- NPNS contracts
- Contracts with royalty payments
- Determining the customer in a contract
- Revenue disclosure requirements vs. standardized measure of oil and gas (SMOG)



# Midstream sector hot topics

The following are issues or arrangements that companies within the midstream space are currently considering as they implement ASC 606:

- Identifying performance obligations in firm capacity arrangements
- Identifying performance obligations in capacity arrangements with makeup rights
- Identifying performance obligations in gathering and processing arrangements
- Impact of noncash consideration on the transaction price in the above
- Principal/agent considerations in POP and POL arrangements
- Contributions in aid of construction (CIAC)

# Interaction between leases and revenue

## Lessor accounting model

Sale treatment linked to lessee control of underlying asset

Lease modifications accounted for in a manner similar to the modification guidance in ASC 606

Sale recognition depends on whether collectability of the lease payments plus the residual value guarantee is probable

Must consider guidance in ASC 606 when determining how to allocate payments between lease and non lease components

Determination of initial direct costs linked to incremental costs of obtaining a contract in ASC 606

New lessor guidance aligned with the FASB's new revenue standard in many respects

**Preparing for the changes**

# Preparing for the changes

The following summarizes some important near-term actions and decisions that companies will likely need to undertake, given the timeline:

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## Near-term actions

- Analyze impact of standards on business units and revenue streams
- Develop project plan and roadmap
- Analyze pro forma effect on financial statements
- Determine and resolve specific accounting and tax issues
- Design system solutions, where needed
- Evaluate impact on periodic financial processes

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## Important decisions

- Transition method
- Contract vs. portfolio approach
- System solutions
- Accounting policy choices

# Common implementation steps

Companies implementing new revenue standard focusing on:

Step	Description
Assessment	<ul style="list-style-type: none"><li>• Identify and pinpoint key issues to business groups/units</li><li>• Assessment of process and system implications</li><li>• Development of project roadmap and business group/unit analysis efforts</li></ul>
Scenario development	<ul style="list-style-type: none"><li>• Analysis of key contract types, in areas where revenue accounting will likely change</li><li>• Analyze the impact for originating transactions and modifications</li></ul>
Business requirements development	<ul style="list-style-type: none"><li>• Presentation and documentation of key requirements for any system changes required</li><li>• Identification of affected billing or ledger systems, and data requirements</li></ul>
Functional requirements development	<ul style="list-style-type: none"><li>• Development of granular accounting calculation rules (where required)</li><li>• Development of precise data field definitions</li></ul>
Design, development and testing of needed systems adjustments	<ul style="list-style-type: none"><li>• Focused design and coding development, to automate any key calculation differences required by the new revenue rules</li><li>• Acceptance testing to help support consistency with accounting requirements</li><li>• Design of a process to identify and analyze new sales offerings/contract types for consideration under the new revenue accounting rules</li></ul>

# Illustrative revenue recognition roadmap

New standard may require broad project plans covering the following:

	Activity	
Technical accounting	<ul style="list-style-type: none"> <li>• Assessment ("sprint") effort</li> <li>• Scenario documentation</li> <li>• Business requirements</li> <li>• Accounting policy documentation</li> <li>• Finalize transition plan</li> </ul>	<ul style="list-style-type: none"> <li>• Auditor concurrence on accounting policies and scenarios</li> <li>• User acceptance testing</li> <li>• Prepare draft disclosures</li> <li>• Draft financial statements</li> </ul>
Data and systems development	<ul style="list-style-type: none"> <li>• Systems design and architecture</li> <li>• Systems solution development</li> <li>• Systems testing</li> </ul>	<ul style="list-style-type: none"> <li>• Development and stabilization</li> <li>• Post-implementation review</li> </ul>
Process/close and report	<ul style="list-style-type: none"> <li>• Reporting controls/reconciliation</li> <li>• Monthly close process</li> </ul>	<ul style="list-style-type: none"> <li>• Controls implementation review</li> <li>• Draft reporting process development</li> </ul>
Readiness and training	<ul style="list-style-type: none"> <li>• Design and develop training program</li> </ul>	<ul style="list-style-type: none"> <li>• Roll out training</li> </ul>
Tax	<ul style="list-style-type: none"> <li>• Evaluate tax reporting requirements</li> <li>• Tax reporting implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Tax planning/reporting process enhancements</li> </ul>
Program management	<ul style="list-style-type: none"> <li>• Form implementation team</li> <li>• Communicate to audit committee</li> </ul>	<ul style="list-style-type: none"> <li>• Update stakeholders/audit committee</li> </ul>

**Question and answer**

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