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## New Revenue Recognition Guidelines: Who is Affected?

The new revenue recognition guidelines redefine “revenue” for every US GAAP and IFRS company. Its impact is most significant for companies who offer discounted goods and services alongside fully-priced goods or services, and for those who deliver to customers over extended time periods, or both simultaneously.

There are exceptions; the guidelines do not apply to organizations covered by other standards (e.g., insurance or leasing contracts).



All companies need to review their revenue for hidden bundling and implicit performance obligations. These guidelines are likely to impact pharmaceutical companies, telecoms, construction contractors, real estate developers, auto companies, and other firms with multiple sources of revenue.

### Organizations - Examples

1. A software company ships a new game, but some missions or episodes are missing:

- Under today’s GAAP, they would defer all the revenue until the missing episodes were published.
- Under the new guidelines, they recognize revenue that relates to the delivery they performed, and postpone recognizing the remainder of the revenue until the delayed missions are delivered. A key question is how to identify and value a performance obligation of this nature, especially since this company doesn’t sell missions separately.

2. a. A cellular telephone sold under contract that includes automatic software upgrades for one year is considered a single performance obligation.

b. A phone with a list price of \$600 is sold to a customer under a service contract for \$200. The cell bandwidth revenue for that client must be recognized to include a "claw back" of the difference of the list and selling price of the device.

3. An auto dealer that includes maintenance services with the sale of a car can only recognize the service revenue once the owner of the car brings it in for maintenance.

4. Similarly, high-tech companies that include software licenses, consulting, and support services on sales contracts determined to be related will recognize service revenue once the services are delivered.

How will the new revenue recognition guidelines affect your organization?

Would you like to learn more about how your organization will be affected? [Contact GBI for a free Consultation.](#)

Or, contact us directly at the number below.

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