ACCOUNTING

2019 Effective Date Reminder

Our annual Effective Date Reminder lists those pronouncements issued as of November 1, 2019, which became effective on or after January 1, 2019 for most entities or have not yet become effective for all entities as of November 1, 2019. Although written as of November 1, 2019, our Effective Date Reminder assumes the final Financial Accounting Standards Board (FASB) Accounting Standards Update related to the deferral of various effective dates will be issued as discussed at the October 16, 2019 FASB meeting.

Updated white paper: Changes to revenue recognition for franchisors

We have issued an updated version of our white paper, Changes to revenue recognition for franchisors, to further assist franchisors in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board's Accounting Standards Codification (ASC). The white paper has been updated for recent activities, including new guidance issued by the American Institute of Certified Public Accountants Hospitality Entities Revenue Recognition Task Force.

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.

Recognizing costs in construction and production-type contracts

As nonpublic entities continue to work through their implementation of the new revenue recognition and related cost guidance (FASB ASC Topic 606 and Subtopic 340-40), the impact of the new guidance on costs for construction-type and production-type contracts is becoming an area of focus. The revenue recognition guidance in legacy GAAP for these contracts (ASC 605-35) also provided guidance on how entities within its scope should account for contract costs, which is different from the guidance in ASC Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. When an entity within the scope of ASC 605-35 used the percentage-of-completion method to recognize revenue, it could apply one of two approaches for recognizing costs:

- Alternative A stated that costs of earned revenue should be computed by multiplying total estimated contract cost by the percentage of completion on the contract. The result was that costs could be recognized before or after being incurred. The difference between total cost incurred to date and cost of earned revenue was reported on the balance sheet.
• Alternative B stated that cost of earned revenue recognized should be the cost incurred during the period.

Alternative A could have resulted in the deferral or acceleration of recognition of certain incurred contract costs, which is not appropriate under ASC 340-40. Contract costs are only capitalized under ASC 340-40 if certain criteria are met. If those criteria are not met, costs are expensed as incurred. For these reasons and others, entities that previously applied Alternative A under ASC 605-35, which is no longer an option upon the adoption of ASC 606, could experience potentially significant changes in how they recognize contract costs under the new guidance.