September 20, 2017

New Revenue Recognition Rules Slowly Merging with the Transportation Industry

AUDIT, TRANSPORTATION & LOGISTICS
BY SCHNEIDER DOWNS PROFESSIONAL

On May 28, 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued guidance merging U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards treatment of revenue recognition in contracts with customers. Accounting Standards Update (ASU) 2014-09 seeks to align revenue recognition rules globally for entities in all industries.

As the new standard begins its transit toward its required adoption date in 2018 for public entities, and 2019 for nonpublic entities, transportation companies are encouraged to begin to understand the changes and anticipate their impact on the companies' financial statements.

Under the new standard, entities in the transportation industry will follow these five steps:

1. Identify the contract with the customer.
2. Identify performance obligations in the contract, which may include services such as loading, storage, delivery, and/or other services as identified in the contract.
3. Determine the total contract price for the services to be rendered.
4. Allocate the total contract price among the individual performance obligations to be rendered.
5. As each performance obligation is met, recognize the portion of revenue associated with that performance obligation.

The most significant impact under the new standard is that freight hauling revenue and associated expenses must be cut off at period-end, including shipments in process. Presently, freight hauling revenue and associated expenses are recorded upon delivery; however, transportation entities will now be required to assess shipments in process at year-end and determine the appropriate amount of revenue and expense to recognize on those shipments in process.

As stated in the ASU, "An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if … the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs." Customers simultaneously receive and consume the benefits provided by freight hauling, as determined by the following scenario. If a carrier transports goods halfway to their destination, another carrier could transport the goods the remainder of their journey without having to re-perform the work completed by the first carrier.

For more information, visit the FASB webpage dedicated to the new revenue recognition standard. For more information on how the new rules will affect the transportation industry, contact us.

You've heard our thoughts… We'd like to hear yours

The Schneider Downs Our Thoughts On blog exists to create a dialogue on issues that are important to organizations and individuals. While we enjoy sharing our ideas and insights, we're especially interested in what you may have to say. If you have a question or a comment about this article – or any article from the Our Thoughts On blog – we hope you'll share it with us. After all, a dialogue is an exchange of ideas, and we'd like to hear from you. Email us at contactSD@schneiderdowns.com.