December 28, 2018

Where are your trucks at December 31, 2018?

TRANSPORTATION & LOGISTICS
BY DANIELLE MICELI

For many nonpublic transportation companies, the question of where your trucks are at December 31, 2018 is an important question to prepare yourself for the upcoming revenue recognition changes. Beginning January 1, 2019, nonpublic companies are required to adopt the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which changes the core principles of revenue recognition. Companies have the option to elect the full retrospective or modified retrospective transition method while transitioning to the new standard. Under the full retrospective transition method, companies will present the provisions of ASU No. 2014-09 to the year-end December 31, 2018 and any other prior periods presented. Under the modified retrospective transition method, companies will present the provisions of ASU No. 2014-09 retrospectively, with the cumulative effect of initially applying the adoption recognized at the date of initial application, January 1, 2019.

Since companies need to understand the impacts of implementation, it is important to consider revenue recognition principles at December 31, 2018, particularly as they relate to open contracts at that date. Currently, many transportation companies recognize revenue when freight is delivered. Under the new revenue recognition standard, transportation companies will have to assess whether to recognize revenue over time or at a point in time. As stated in the ASU No. 2014-09, "Revenue is recognized over time only when an entity transfers control of a good or service. The performance obligation is considered satisfied over time if one of the following criteria is met to indicate transfer of control:

a. The customer receives and consumes the benefits provided by the entity's performance as the entity performs,

b. The entity's performance creates or enhances an asset (for example, building an addition to an existing home) that the customer controls as the asset is created or enhanced, or

c. 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."

Many transportation companies will meet the revenue recognition over time based on the fact that the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. Customers receive benefit from a carrier transporting the goods halfway, as another company could pick up the goods and complete the delivery without having to reperform the services provided to date. For many companies that have historically recognized revenue at a point in time, they will need to consider the criteria creating "over time" revenue recognition. Companies should evaluate how to measure the performance obligations by distance shipped, days traveled or cost incurred to transport.

In conclusion, transportation companies may have deliveries in transit at year-end and knowing the shipment status at December 31, 2018 will help nonpublic companies implement the new revenue recognition standard.

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.

Material discussed is meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary. Therefore, this information should be relied upon when coordinated with individual professional advice.