



# Applying the **New Revenue** Recognition Rules

The next chapter of full employment for CPAs has hit bookstores and is creating a stir everywhere from your local CPA to the automation vendors. *But what does this really mean to the insurance distribution system?*

# First, some background...



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**Revenue recognition is the first step toward EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization) and measuring the performance of a business.** However, Generally Accepted Accounting Principles (“GAAP”) in the U.S., differed from International Financial Reporting Standards (“IFRS”) for the rest of the world. The new standard appears to be an attempt by these governing bodies to improve the consistency across industries and around the globe. The rules are effective for public companies for periods beginning after December 15, 2017 and non-public entities for periods beginning after December 15, 2018.



## What **changes**?

- Revenue for financial reporting purposes

## What **does not** change?

- Revenue for income tax purposes; and
- Commission accounting by the agency management system

### *As a result:*

- It is expected that agencies will likely handle this via a journal entry to the agency's books at year-end. For those non-public entities issuing interim financial statements, it must be included in the interim statements for periods after 12/15/2019.

## What is the **impact**?

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

### *There are five steps in the process:*

- 1 Identify the Contract with a Customer**
- 2 Identify the Performance Obligations in the Contract**
- 3 Determine the Transaction Price**
- 4 Allocate the Transaction to the Performance Obligations in the Contract**
- 5 Recognize Revenue as the Organization Satisfies the Performance Obligations**

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**Source:** Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, and MarshBerry opinion and experience Marsh, Berry & Company, Inc. and MarshBerry Capital are not rendering legal, accounting or other professional advice. Information contained in this publication is considered accurate as of the date of publishing. Any action taken based on information in this publication should be taken only after a detailed review of the specific facts, circumstances and current law.

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