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# New Rules to Alter How Companies Book Revenue

Change Will Affect Firms Ranging From Software Makers to Auto Companies

*By Michael Rapoport*

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New rules released Wednesday will overhaul the way businesses record revenue on their books, capping a 12-year project that will affect companies ranging from software firms to auto makers to wireless providers.

The new standards, issued jointly by U.S. and global rule makers, will take effect in 2017, prompting a broad array of companies—from software giants like Microsoft Corp. and Oracle Corp. to major appliance makers—either to speed up or slow down the rate at which they book at least some of their revenue.

The rules aim to simplify and inject more uniformity into one of the most basic yardsticks of a company's performance—how well its products or services are selling.

"It's one of the most important metrics for investors in the capital markets," said Russell Golden, chairman of the Financial Accounting Standards Board, which sets accounting rules for U.S. companies and collaborated on the new rules with the global International Accounting Standards Board.

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Companies were cautious in assessing the potential impact of the overhaul, but some were optimistic. "We've been waiting for it for a long time," said Ken Goldman, chief financial officer of Black Duck Software Inc., a provider of software and consulting services. "This levels the playing field and takes a lot of the ambiguity out of what are overly restrictive rules."

The rules are designed to replace fragmented and inconsistent standards under which companies in different industries often record their revenue differently and sometimes book a portion of it well before or after the sales that generate it.

"We wanted to make sure there was a consistent method for companies to identify revenue," said the FASB's Mr. Golden.

But the new rules could make corporate earnings more volatile, accounting experts said, by changing the timing of when revenue is recorded. They also could lead to increased costs for companies as they seek to track their performance while providing the additional disclosure the new standards require.

"This has at least the potential to affect every company," said Joel Osnoss, a partner at accounting firm Deloitte & Touche LLP. They "really should look at the standard" and ask how the revenue-rule changes will affect them, he said.

Accounting rule makers have long focused on the question of when businesses should book revenue, because it touches every company and can be an area ripe for fraud. Allegations of improperly speeding up or deferring revenue have been at the heart of many accounting-fraud scandals.

In 2002, for example, Xerox Corp. paid a big settlement to the Securities and Exchange Commission to resolve allegations that it had improperly accelerated revenue. Xerox didn't admit or deny the SEC's allegations.

The new rule's impact will be most felt in a handful of industries in which goods and services are "bundled" together and parts of that package are provided long before or after customers pay for them. These include such benefits as maintenance that comes with the purchase of a new car, or software upgrades given to customers who bought the original program.

In such cases, the time at which companies recognize revenue is often out of sync by months or years with when customers get the goods and services associated with it. For instance, when auto and appliance makers sell their products, they typically book the purchase price immediately, but the transactions can also include free maintenance or repairs under warranty that the company might not provide for months or years.

Under the new rules, the manufacturer would book less revenue up front and more revenue later, because some of the revenue from the car or appliance would be assigned to cover future service costs. As a result, some of a company's revenue might be stretched over a longer period.

Conversely, software makers such as Microsoft and Oracle might be able to recognize some revenue more quickly. Software companies now often have to recognize their revenue over time, because they have to wait until all of the software upgrades and other pieces of a sale are delivered to the customer. The new rules will make it easier for companies to value upgrades separately and so recognize more of the software's overall revenue upfront, Mr. Golden said.

Microsoft and Oracle declined to comment.

Similarly, wireless phone companies like Verizon Communications Inc. and AT&T Inc. might book some revenue faster under the new rules. Currently, a wireless company books revenue each month, as customers receive wireless services—but none of that revenue is allocated to any phone that customers get free or for a low price.

That will change under the new rules; some of the monthly revenue will be applied to those phones. And since customers get the phone when they first sign up, at the beginning of their contracts, that will have the effect of pulling the revenue forward in time, allowing the company to book it earlier.

Verizon and AT&T didn't have any immediate comment.

Even companies that aren't affected so much by the timing changes will have to disclose more about the nature and certainty of their revenue—something Deloitte & Touche's Mr. Osnoss said will help investors. "I think investors are going to have much more of a view into the company."

But companies may find that providing that information complicates their lives and raises their costs. "For the majority of people, it's going to be difficult," said Peter Bible, chief risk officer for accounting firm EisnerAmper and a former chief accounting officer at General Motors Co.

The FASB and the IASB have been working together on revamping the revenue-recognition rules since 2006, and the project has been on the FASB's agenda since 2002.

It took so long, said FASB's Mr. Golden, because the subject is so broad and important. "The boards wanted to make sure we got it right."

— *Noelle Knox contributed to this article.*

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**Corrections & Amplifications**
Under current rules, wireless companies book revenue each month as customers receive wireless services. An earlier version of this article incorrectly reported that revenue can be booked as customers pay their wireless bills each month. A graphic that originally accompanied this article also contained the erroneous information.