3 New Accounting Standards That Could Dramatically Change Your Business

You may have heard the Financial Accounting Standards Board (FASB) recently released new accounting standards that amend generally accepted accounting principles (GAAP).

Is this big news? Absolutely.

These new standards—specifically Accounting Standard Update (ASU) 2014-09, 2016-01, and 2016-02—could potentially impact your business in big ways starting as early as next year, which is a mere 5 months away. Now is the time to make sure you're aware of how they may affect you. To help you get started, here's a quick look at each.

ASU 2014-09 – Revenue from Contracts with Customers

This standard will change certain aspects of the recognition, management, presentation, and disclosure of revenue. One of the most notable changes is the elimination of industry-specific guidance (e.g., construction, software, etc.) that existed under previous GAAP in favor of a single, comprehensive revenue recognition framework. Additionally, revenue will be recognized based on performance obligations and will also be subject to enhanced overall disclosure requirements. Effective dates are below; however, FASB permits early application.

When does ASU 2014-09 take effect?

- **Publicly owned entities:** Fiscal years beginning after Dec. 15, 2017 (2018 calendar year reporting)
- **Privately owned and nonprofit entities:** Fiscal years beginning after Dec. 15, 2018 (2019 calendar year reporting)

ASU 2016-01 – Financial Instruments

This standard will change certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. Key changes you can expect to see range from the measurement of equity investments to the presentation of financial assets and liabilities on your balance sheet. Generally, FASB does not allow early application.

When does ASU 2016-01 take effect?

- **Publicly owned entities:** Fiscal years beginning after Dec. 15, 2017 (2018 calendar year reporting)
- **Privately owned and nonprofit entities:** Fiscal years beginning after Dec. 15, 2018 (2019 calendar year reporting)

ASU 2016-02 – Leases

This standard introduces a new lease accounting model for both lessees and lessors. In doing so, it will change the way leases are accounted for, which means it will impact nearly every type of business. Generally speaking, all new and existing leases, with the exception of short-term leases that are 12 months or less, will be recognized as a capital lease—i.e., debt—on an organization's balance sheet. Because of this, your financial positions, operating results, financial ratios, and even your debt covenants could be affected.

When does ASU 2016-02 take effect?

- **Publicly owned entities:** Fiscal years beginning after Dec. 15, 2018 (2019 calendar year reporting)
- **Privately owned and nonprofit entities:** Fiscal years beginning after Dec. 15, 2019 (2020 calendar year reporting)

What to do next

Because of the nature of these new standards, they could impact everything from your financial statements to your bank covenants and purchasing decisions—all of which are a big deal! The information we've included here is very brief; there are many other changes that will be ushered in when each standard takes effect. We've assembled a task force charged with reviewing each standard and providing guidance for our clients, so please don't hesitate to call if you have questions. We can also help you prepare for whatever transitions need to happen within your business. When it comes to changes of this magnitude, it's never too early to plan ahead.