



The Complexity of Revenue Recognition in China Just Got Worse

[www.lehmanbrown.com](http://www.lehmanbrown.com)

**LEHMANBROWN**  
雷博國際會計  
International Accountants



## The Complexity of Revenue Recognition in China Just Got Worse

---

*The Impact of the Coming Rule Changes under IFRS and US GAAP adds to the Already Complex Environment for a Foreign Firm doing Business in China*  
*Part II of a Two Part Series*

Jean Kester, Partner, LehmanBrown International Accountants, April 2015

As noted in Part I of this Two Part Series, on May 28, 2014, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed and issued a new revenue recognition standard that will supersede most current revenue recognition rules under both IFRS and US GAAP. This standard is – Revenue From Contracts with Customers Topic 606 under US GAAP and IFRS 15 under IFRS standards.

The effect of these changes on entities operating both in China and abroad will vary, and some may find the new standard brings benefits to financial reporting as well as significant changes in the way the entities recognize revenue. As the upcoming changes in revenue recognition and the changes many entities will need to make to comply with the new standard are expected to impact many areas of an entity, including financial reporting, business operations, IT and controls systems development and have potential tax implications as well, companies are beginning their implementation plans, which begins with an analysis of how the standard will affect them. An implementation will vary from entity to entity, depending on the breadth and depth of impact expected.

In Part II of our two part series on the change in the revenue recognition standard, we will examine suggestions for how to transition to compliance with the new accounting standard.

### **Set up a project team and conduct an impact analysis**

Assign a team leader or team the responsibility to evaluate how the changes to the new revenue recognition standard will impact on how your company accounts for existing revenue and the results of operations, including evaluating how the new guidance affects your systems, processes, and internal controls. Project scoping may include or necessitate involvement from personnel involved in operations, internal controls, information technology, finance and tax.

The company should consider compensation plans, debt agreements, tax matters and other areas in addition to company revenue contracts and business models.

In addition to the above, companies need to analyze where any changes will need to be made to IT system, software applications or processes in order to implement the new revenue recognition standard, including the retrospective adoption of the guidance. A full project plan including implementation of the standard and training of staff will need to be developed to manage the process, including plans for educating stakeholders such as the board of directors and investors. The team will need to determine the nature, timing and extent of work involved over the implementation transition timeline.

It is well advised to communicate frequently with your external auditor to ensure that your scoping is complete, and your implementation approach and the changes in accounting for revenue recognition are appropriate, and documented completely and accurately.

### Determine transition method

As noted in Part I of our series on Revenue Recognition - there are two options under the guidance for retrospectively adopting the new revenue recognition standard:

Full retrospective	2016		2017
	New Standard		New Standard
	Cumulative effect at January 1 2016		
Prospective	2016		2017
	Old Standard		New Standard
	Cumulative effect at January 1 2017		
	Disclose Old Standard in 2017 for comparability to 2016		

Companies will need to determine which method is more appropriate and how to determine the accounting differences for the periods that require restatement.

### Determine disclosures

Interim disclosures will need to be made including additional qualitative and quantitative disclosures over the impact of the retrospective adoption on the company's financial statements, operations, how the company is doing the implementation and what, if any, significant changes to the internal control structure and reporting processes need to be made in order to implement the standard.

### Implementation and Education

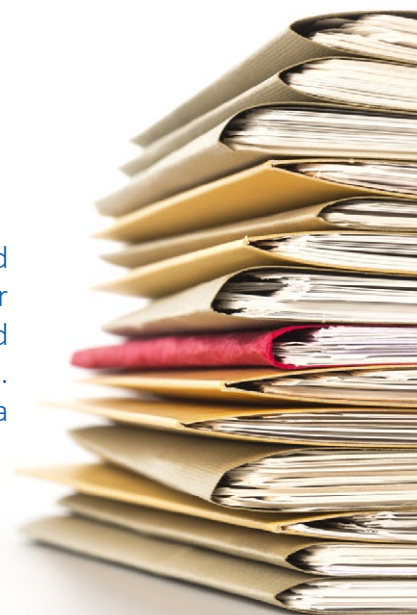
Initiate a performance monitoring scheme to collect the information needed to measure progress of implementation against the plan which was set. Training, education and follow up of implementation changes relating to the new revenue recognition standard will be key activities to ensure the adoption of the standard is successful. The project team should report to management, the audit committee and the board of directors periodically on progress to plan, issues encountered and solutions provided. The key stakeholders will need to understand what changes have been made in the timing of revenue recognition, the systems and processes surrounding revenue recognition and other changes resulting from the implementation of the new standard.

Management should ensure open communication and information flow with the project team, management, key takeholders, internal auditors, and external auditors in order to ensure a successful transition to the new revenue recognition standard.

LehmanBrown can assist your company in the project management of implementing the new revenue recognition standard, whether it is under US GAAP or IFRS. Our team members have professional expertise in US GAAP, IFRS and PRC GAAP Accounting, as well as extensive experience in project management and compliance implementation projects.

This article was prepared by LehmanBrown International Accountants.

This article is intended for general information purposes only and is not intended to provide, and should not be used in lieu of professional advice. The publisher LehmanBrown assumes no liability for readers' use of the information herein and readers are encouraged to seek professional assistance with regard to specific matters. Any conclusions or opinions are based on the specific facts and circumstances of a particular matter and therefore may not apply in all instances.





## Contact Us 联系我们

For further information about how we can add value and support your individual or business needs, please contact us.

如您希望获得更多信息或者得到我们的支持，请联系我们：

### Beijing 北京

6/F, Dongwai Diplomatic Building, 23 Dongzhimenwai Dajie, Beijing 100600, China  
中国北京市朝阳区东直门外大街 23 号，东外外交办公大楼 602  
Tel: +86 10 8532 1720  
Fax: +86 10 6532 3270  
E-mail: [beijing@lehmanbrown.com](mailto:beijing@lehmanbrown.com)

### Tianjin 天津

Unit 2901-04, The Exchange Tower 2 189 Nanjing Road, Heping District Tianjin 300051, China  
中国天津市和平区南京路 189 号 津汇广场 2 座 29 层 2901-104 室  
Tel: +86 22 2318 5056  
Fax: +86 22 2318 5001  
E-mail: [tianjin@lehmanbrown.com](mailto:tianjin@lehmanbrown.com)

### Shanghai 上海

Room 1501 & 1504, WanTai International Building, No. 480 North Urumqi Road, Shanghai 200040, China  
中国上海市静安区乌鲁木齐北路（华山路）480 号 1501 & 1504  
Tel: +86 21 6249 0055  
Fax: +86 21 6288 1636  
E-mail: [shanghai@lehmanbrown.com](mailto:shanghai@lehmanbrown.com)

### Hong Kong 香港

Unit 1902, 19/F, Asia Orient Tower, 33 Lockhart Road, Wanchai, HongKong  
中国香港湾仔骆克道 33 号中央广场汇汉大厦 19 楼 1902 室  
Tel: +852 2426 6426  
Fax: +852 2426 6427  
E-mail: [hongkong@lehmanbrown.com](mailto:hongkong@lehmanbrown.com)

### Guangzhou 广州

Room 3317, China Shine Plaza, 9 Lin He Xi Road, Guangzhou 510610, China  
中国广州市林和西路 9 号耀中广场 3317 室  
Tel: +86 20 2205 7883  
Fax: +86 20 2205 7880  
E-mail: [guangzhou@lehmanbrown.com](mailto:guangzhou@lehmanbrown.com)

### Macau 澳门

No. 367, Avenida da Praia Grande, "Keng Ou" Commercial Building #16, A & B, Macau  
中国澳门南湾大马路 367 号京澳商业大厦 16 楼 AB 座  
Tel: +853 2835 5015  
Fax: +853 2837 1884  
E-mail: [macau@lehmanbrown.com](mailto:macau@lehmanbrown.com)

### Shenzhen 深圳

Room 3206, News Building 2, Shennan Middle Road, Shenzhen 518027, China  
中国深圳市深南中路 2 号新闻大厦 3206  
Tel: +86 755 8209 1244  
Fax: +86 755 8209 0672  
E-mail: [shenzhen@lehmanbrown.com](mailto:shenzhen@lehmanbrown.com)



[www.lehmanbrown.com](http://www.lehmanbrown.com)