

2018 IFA

LEGAL SYMPOSIUM

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The New Revenue Recognition Rules: What is the Impact for Franchisors?

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Discussion Topics

- Why the New Rules are Getting so much Attention
- Overview of the New Rules – 5 Step Analysis
- Recent FASB Comments
- Approach of the Big 4 and Publicly-Traded Franchisors
- Role of Franchise Attorneys

Why the New Rules are Getting so much Attention

- Reduced Income and Net Worth on Financials
 - Emerging Franchisors / Deferral of Initial Fees
- Complexity of New Rules
 - Need to Restate Prior Financials
 - Difficult Judgment Calls for Franchisors

Overview of the New Rules

- Step 1 - Identify the Contract with a Customer
 - Typically an Easy Analysis – a Signed Franchise Agreement

Overview of the New Rules

- Step 2 - Identify the Performance Obligations in the Contract
 - What is Distinct?
 - Good or Service has Value on its own
 - Separately Identifiable in Contract
 - Single Performance Obligation (Bundle) → Defer

Overview of the New Rules

- Step 3 – Determining the Transaction Price
 - Initial Fees
 - Royalties
 - Ad Fund Contributions
 - Renewal/Transfer and Other Fees

Overview of the New Rules

- Step 4 – Allocating the Price to the Performance Obligations
 - Royalties → Franchise Right
 - Initial Fees → Apply to Distinct Obligations Identified
 - If Single → Franchise Right; If Multiple → Allocate

Overview of the New Rules

- Step 5 – Recognize Revenue
 - When Good/Service Transferred to Customer
 - Point in Time or Over Time
 - Royalties → When Sales Occur (Exception)
 - Ad Fund → Generally like Royalties, but with Exceptions

Overview of the New Rules

- Effective date and adoption
 - Public Companies:
 - January 1, 2018 (assuming calendar year fiscal year)
 - Private Companies:
 - January 1, 2019 (assuming calendar year fiscal year)
- Full Retrospective or Modified Approach

Recent FASB Comments

- FASB Board Meeting Handout of November 29, 2017
 - FASB Staff Comments / Non-Decision Making Meeting
 - Pre-Opening Activities of Franchisors was Focus
 - No Presumption of Single Performance Obligation
 - Look at Facts and Circumstances in Each Case
 - If Pre-Opening Service is Distinct, Recognize as Performed

Approach of the Big 4 and Publicly-Traded Franchisors

- EY / McDonald's
- KPMG / RBI
- EY / Dine Brands
- PwC / Dominos

Role of Franchise Attorneys

- Review Findings of Client and Auditor
- Review FDD and Franchise Agreement Form
- Describe Distinct Services Identified by Auditor
- Balance Need to Protect Proprietary Items