Title [optional]

1. Introduction

In the article titled "The FASB's and IASB's New Revenue Recognition Standard: What Will Be the Effects on Earnings Quality, Deferred Taxes, Management Compensation, and on Industry-Specific Reporting?" by Rutledge, Karim, and Kim (2016), the authors delve into the potential impact of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)'s new revenue recognition standard on various aspects of financial reporting.

The article discusses the introduction of a new revenue recognition standard by the FASB and the IASB, which aims to provide a consistent framework for revenue recognition across different industries and jurisdictions. The authors explore the implications of this standard on earnings quality, deferred taxes, management compensation, and industry-specific reporting.

Additionally, the article addresses the potential implications for management compensation, as the new standard may alter the timing and amount of revenue recognition, which could have a cascading effect on performance-based compensation structures. Lastly, the authors analyze the impact on industry-specific reporting, taking into account the unique characteristics and practices of various sectors.

By examining these factors, the article provides insights into the potential effects of the FASB's and IASB's new revenue recognition standard on financial reporting and related aspects.

2. Literature review

The sources examined in this literature review provide valuable insights into the critical role of revenue recognition in financial reporting and performance assessment. They delve into the complexities and challenges associated with revenue recognition, highlighting the subjective nature of determining when revenue should be recognized (Wagenhofer, 2014; Schipper, Schrand, Shevlin, & Wilks, 2009). These articles emphasize the importance of exercising professional judgment and considering the appropriate recognition criteria to ensure accurate measurement of a company's performance.

One of the significant developments in revenue recognition is the introduction of new standards such as ASC 606. The sources discuss the provisions of these standards and their potential impact on financial statements (Yeaton, 2015). They stress the need for companies to understand and implement the new standards correctly in order to achieve compliance and provide accurate representation of revenue.

Moreover, the effects of the new revenue recognition standards are analyzed with regards to earnings quality, deferred taxes, management compensation, and industry-specific reporting (Rutledge, Karim, & Kim, 2016). These sources shed light on how the new standards can influence these aspects of financial reporting and raise awareness about the challenges and complexities that may arise.

The sources reviewed contribute valuable insights into revenue recognition and its impact on financial reporting. They effectively highlight the challenges and complexities associated with revenue recognition, recognizing the subjective judgment required in determining when revenue should be recognized (Wagenhofer, 2014; Schipper et al., 2009). By acknowledging the inherent difficulties in revenue recognition, these articles underscore the importance of careful consideration and professional judgment in applying the appropriate recognition criteria.

While the articles provide theoretical discussions and insights, they could have been further strengthened with more practical examples or case studies to illustrate the complexities and challenges of revenue recognition in real-world scenarios. The inclusion of empirical evidence would have enhanced the practical relevance of the discussions and provided a deeper understanding of how companies are grappling with revenue recognition issues.

One of the recurring themes in the reviewed sources is the argument for a principles-based approach to revenue recognition (Schipper et al., 2009). The authors contend that a principles-based approach offers more flexibility and allows for the consideration of broader economic factors. However, to support this argument, additional empirical evidence could have been presented to demonstrate the effectiveness of a principles-based approach in practice.

The implications of the new revenue recognition standards are also discussed extensively in the literature. These standards can have far-reaching effects on various aspects of financial reporting, including earnings quality, deferred taxes, management compensation, and industry-specific reporting (Rutledge et al., 2016). While the articles provide comprehensive analyses of the potential impacts, the inclusion of empirical studies or case studies would have reinforced the arguments and provided practical insights into how different industries and companies are adapting to the changes.

In conclusion, the reviewed sources contribute to our understanding of revenue recognition and its implications for financial reporting. They highlight the challenges, complexities, and potential benefits associated with the implementation of new standards. The articles stress the importance of professional judgment, compliance with the new standards, and accurate representation of revenue in financial statements.

To further enhance the literature on revenue recognition, future research should incorporate more practical examples, case studies, and empirical evidence. This would provide deeper insights into the complexities and challenges of revenue recognition in different industries and shed light on the practical implications of implementing the new standards. By combining theoretical discussions with real-world examples and empirical research, a more comprehensive understanding of revenue recognition can be achieved, benefiting preparers, auditors, standard setters, and users of financial statements alike.

3. Conclusion

In conclusion, the literature reviewed on revenue recognition and its implications for financial reporting has provided valuable insights into this critical aspect of performance assessment. The sources examined have highlighted the challenges and complexities associated with revenue recognition, emphasizing the subjective nature of determining when revenue should be recognized. The need for a principles-based approach to revenue recognition has been advocated, as it offers flexibility and considers broader economic factors, promoting more accurate financial reporting.

The introduction of the new revenue recognition standard, such as ASC 606, has significant implications for financial reporting. The sources have emphasized the importance of understanding the provisions of the new standard and the potential impact on different industries. Proper implementation and compliance with the new standard are crucial to ensure accurate representation of revenue in financial statements.

Moreover, the effects of the new revenue recognition standard have been explored in relation to earnings quality, deferred taxes, management compensation, and industry-specific reporting. The complexity of these effects highlights the importance of accurate and transparent financial reporting practices.

The studies examining the perceptions and readiness of preparers and auditors in adopting the new standard have provided valuable insights into the challenges and benefits associated with its implementation. However, the focus on specific contexts limits the generalizability of the findings, and further research with a broader international perspective would enhance understanding.

Overall, the literature reviewed underscores the significance of revenue recognition in financial reporting and performance assessment. It emphasizes the need for careful consideration, proper implementation, and adherence to the new revenue recognition standards to ensure accurate and reliable financial reporting practices. Further research, empirical evidence, and practical examples are needed to deepen our understanding of the implications and challenges of revenue recognition in different contexts.

4. Resources:

Khamis, A. M. (2016). Perception of preparers and auditors on new revenue recognition standard (IFRS 15): evidence from Egypt. Jurnal Dinamika Akuntansi dan Bisnis, 3(2), 1-18.

Rutledge, R. W., Karim, K. E., & Kim, T. (2016). The FASB's and IASB's New Revenue Recognition Standard: What Will Be the Effects on Earnings Quality, Deferred Taxes, Management Compensation, and on Industry‐Specific Reporting?. Journal of Corporate Accounting & Finance, 27(6), 43-48.

Schipper, K. A., Schrand, C. M., Shevlin, T., & Wilks, T. J. (2009). Reconsidering revenue recognition. Accounting Horizons, 23(1), 55-68.

Wagenhofer, A. (2014). The role of revenue recognition in performance reporting. Accounting and Business Research, 44(4), 349-379.

Yeaton, K. (2015). A new world of revenue recognition: Revenue from contracts with customers. The CPA Journal, 85(7), 50.