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BLOGS

Practice of Franchise Law

Financial Accounting Standards Board Releases Guidance for Franchise Industry Implementation of Revenue Recognition Rules

On November 5, 2018, the Financial Accounting Standards Board (FASB) published a staff memo addressing franchise-specific questions surrounding the implementation of the revenue recognition accounting rules set to be applicable to private companies beginning in 2019. Under the previous accounting rules, franchisors recognized the entire initial fee as income when a franchised business opened. Under the new rules and FASB guidance, initial franchise fees must be amortized over the term of a franchise agreement. However, the FASB memo allows franchisors to accelerate their recognition of income when they demonstrate that the revenue is attributable to certain discrete goods or services provided to franchisees; the distinct goods and services need not be brand specific. The FASB memo provides examples for franchisors to consider when deciding how to implement the rules and guidance.

The process of determining whether pre-opening services are distinct goods or services is highly dependent on the business, and therefore should be carefully considered with your accountants. To learn more about how revenue recognition rules and guidance may impact your business, please contact us.

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