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Changes to Revenue Recognition: ASC 606

Key Challenges of the new Revenue Recognition Standard

- ✓ Companies must identify and analyze all the various types of company revenue and ask the question "What is the agreement or contract with the customer?" whether written, verbal or implied.
  - Each type of revenue may have multiple elements that require revenue to be allocated to the various components and recognized differently and in different periods than current GAAP.
  - Some elements may not be readily apparent and/or implied.
  - The analysis is generally performed from the viewpoint of the customer, not the company.
- ✓ For some companies, top line revenue may be unchanged, but changes to processes and *Internal Control over Financial Reporting* (ICFR) may be significant.
  - Revenue needs to be assessed using a 5-step process with many judgement points.
  - Changes to processes require ICFR documentation and testing BEFORE implementation.
- ✓ Significantly expanded revenue related disclosures (applicable to ALL companies on US GAAP):
  - Annual disclosures start at the date of adoption: For most public companies, this will be in the first quarter of 2018, or March 31, 2018. Note: The reduced interim disclosure requirements are not applicable to the initial adoption period.
  - Company data may not be available: For example, revenue may be required to be disclosed by revenue stream (geographic region, product lines, contract duration, sales channel, type of customer or some other criteria).
  - Disclosures are subject to ICFR requirements (documentation of processes, testing of process, etc.) and cannot be prepared on an ad hoc basis. This may require trial runs of disclosures in Q3 or Q4 of 2017.
- ✓ Collectability is required to be assessed at contract inception. This differs from an allowance for doubtful accounts assessment, which is still required. Does your company have processes in place to make this initial assessment?
- ✓ Should revenue be allocated to unpriced or implied deliverables?
  - For example, a discount on future purchases may be considered a separate revenue component under the new standard and triggering a liability. Similarly, implied warranties, extended return periods, and purchase quantity discounts all require careful review and analysis under the new standard.
- ✓ Assessing and estimating "variable consideration" at contract inception and every quarter based thereafter on the best information available at the time the financial statements are filed with the SEC:
  - Variable consideration includes such things as discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. Variable consideration is estimated using one of two methods and recorded, unless it hits a technical constraint. Do you need assistance in assessing variable consideration?

- There are many circumstances that can trigger additional calculations and judgements, including:
  - Contract modification – Should it be considered one contract or a separate contract?
  - Significant financing component – Does one exist and how do we calculate it?
  - Noncash consideration – When and how do we measure it (at fair value at contract inception)?
  - If a good or service is not sold separately, how do we estimate the relative standalone selling price?
- Incremental costs of obtaining a contract (e.g., sales commissions) and costs to fulfill a contract can be capitalized when certain criteria are met. Do we understand these criteria and are policies and procedures in place to properly account for this activity? This can impact the bottom line.
- Companies have a choice of adoption methods and there are several "practical expedients" that may be elected by a company. Do you need assistance in analyzing the adoption method and practical expedients to determine which best suits the needs of your company?
- The adoption of the new revenue recognition standard will require some companies to maintain two different revenue recognition systems and controls during the adoption period. Does your system have the capability to handle the overlapping workload, or is it already over taxed?

How Can We Help?

1. High level or detailed analysis of the potential impact
2. Project management (change management)
3. Design ICFR and documentation of the 5-step process, including critical judgements
4. Assistance in analyzing adoption methods (cost, benefits, intangibles, etc.)
5. Identification of revenue streams requiring special attention
6. Independent testing of ICFR design and operating effectiveness
7. Board, management and staff presentations and/or training programs.
8. Complete solutions for adoption or selected assistance as necessary
9. Technical resources for challenging areas
10. Support to help you through the initial 5-step process

Why Use Us?

1. Independent of your external auditor thus protecting their independence
2. Dedicated staff trained for 'cradle-to-grave' planning and implementation support
3. Deep understanding of the new standard as our leaders have lectured and written commentary on the new standard since the project was started by the FASB
4. Internal auditing, which can be potentially leveraged by your external auditor
5. Ability to turn on or off services to best fit your needs
6. Support to help peak period demands
7. Flexible engagement terms to ensure a collaborative approach