

## What Public Companies Are Saying About ASC 606

### Disclosures on the New Revenue Recognition Standard

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Although With time quickly ticking-down for implementing [Revenue from Contracts with Customers \(ASC 606\)](#), all public companies are either providing quarterly updates on their status of this new accounting pronouncement or have already implemented it. As a result, there are plenty of public disclosures now available as we draw closer to the public entity effective date of annual periods beginning after December 15, 2017 (effective one year later for other entities). In this article, we identify some of these disclosures and offer comments for readers to better understand impacts and considerations of this important new standard.

#### Preparation

Form 10-Q, Note 2. *New Accounting Pronouncements*, page 8: Spirit AeroSystems Holdings, Inc. – SPR, Filed: August 04, 2017 (period: June 29, 2017):

*In 2016, the Company established a cross-functional team to assess and prepare for implementation of the new standard. While the Company continues to assess some elements of ASU 2014-09, the Company has reviewed substantially all of our contracts with customers and has determined the business process and technology requirements. This includes documenting process changes, determining data requirements, and identifying changes in system mapping and configuration. The Company has substantially completed designing our processes, including internal controls, and related systems solutions and is currently implementing the required changes.*

**Comments:** This disclosure draws reference to some important preparation steps:

- 🕒 Establishing a cross-functional team to assess and prepare for implementation
- 🕒 Conducting a comprehensive contract review
- 🕒 Documenting process changes, including internal controls and related systems solutions
- 🕒 Determining data requirements: While the disclosures do not specify the data required, many companies are finding the data required to develop additional disclosure requirements burdensome.
- 🕒 Identifying changes in system mapping and configuration

#### Internal Controls

Form 10-Q, Note M - *NEW ACCOUNTING PRONOUNCEMENTS*, page 32: BOSTON SCIENTIFIC CORP – BSX, Filed August 03, 2017 (period: June 30, 2017):

*In 2017, we are implementing new internal controls as part of our efforts to adopt the new revenue recognition standard. These internal controls include providing global training to our finance team and holding regular meetings with management and the Audit Committee to review*



*and approve key decisions. Upon adoption, we expect to implement new internal controls related to our accounting policies and procedures. We will require new internal controls to address risks associated with applying the five-step model, specifically related to judgments made in connection to variable consideration and applying the constraint. Additionally, we will establish monitoring controls to identify new sales arrangements and changes in our business environment that could impact our current accounting assessment. During the second half of 2017, we expect to finalize our impact assessment and redesign impacted processes, policies and controls.*

**Comments:** Implementing ASC 606 will likely have a significant impact on internal controls even if there is not a material impact to revenues and associated costs. The new process, necessary data elements and additional judgments will likely require significant changes to policies and procedures in determining revenue, associated costs, and footnote disclosures. Boston Scientific's disclosure touches upon all five components (control environment, risk assessment, control activities, information and communication, and monitoring activities) of the *Internal Control – Integrated Framework* of the Committee of Sponsoring Organizations of the Treadway Commission ([COSO](#)). The COSO Framework defines five components and 17 supporting principles. Refer to the COSO Framework's [Executive Summary](#) for an abstract of the framework, including the 5 components.

In addition, all public companies should be prepared to disclose material changes in their internal control over financial reporting (ICFR) in compliance with Item 308(c) of SEC Regulation S-K. This is a quarterly disclosure requirement that SEC staff will likely be looking at more closely in their future reviews. These disclosures are made in Part-I, Item 4 in Form 10-Q and Item 9A in Form 10-K.

### **More Extensive Footnote Disclosures**

Some public companies have already adopted the new revenue recognition standard, and with it comes voluminous disclosures to explain:

- 🕒 The new recognition methodology
- 🕒 Qualitative and quantitative information about revenue contracts, significant judgments and assets recognized from the costs to obtain or fulfill a contract
- 🕒 Disaggregation of revenue streams
- 🕒 Financial statement impact of adopting ASC 606
- 🕒 Impact of new revenue guidance on financial statement line items

One example is EnerNOC, Incorporated (ENOC). Refer to Note 2. *Revenue from Contracts with Customers*, pages 9-17 of their Form 10-Q as filed with the SEC on August 09, 2017 for their quarter ended June 30, 2017. Some other public companies that have already adopted ASC 606 and have subsequently filed Form 10-Qs include; Alphabet, CBOE Holdings., First Solar., Ford Motor, General Dynamics, Raytheon and Workday.

**Comments:** Do not underestimate the effort and data ASC-606 takes from a footnote disclosure standpoint. Even if a company does not expect the new revenue recognition standard to have a material impact to the financial statement numbers, it will likely have a significant impact to the footnote disclosures.

### **Oversight of Adoption of New Revenue Recognition Standard**

FORM DEF 14A, *Governance Insights*, page 58: KORN FERRY INTERNATIONAL - KFY Filed: August 18, 2017 (period: August 18, 2017):



*Question: What role is the Audit Committee playing in Company's implementation of the new revenue recognition standard?*

*The Audit Committee is playing an active role in overseeing the Company's implementation of the new revenue recognition standard. Under the oversight of the Audit Committee, Company management has developed a project plan that includes working sessions to review, evaluate and document the arrangements with customers under its various reporting units to identify potential differences that would result from applying the requirements of the new standard. The Audit Committee meets regularly with management to discuss the outcome of such working sessions and the Company's progress toward implementing the new standard.*

*The Audit Committee is also very much focused on how the new standard will affect the Company's businesses, processes and financial reporting and how the Company's accounting processes and controls will be affected or will need to be changed. Company management is in the process of developing an updated accounting policy (which has been discussed with the Audit Committee). The Company is utilizing a bottoms-up approach by reviewing its current contracts with customers by various revenue streams, evaluating new disclosure requirements and identifying and implementing appropriate changes to business processes, systems and controls to support revenue recognition and disclosure under the new standard. The Company is still evaluating the impact of ASU No. 2014-09 on its financial statements. Based upon its evaluation to date, capitalization of costs associated with obtaining contracts will have an impact upon adoption of the new standard. The Company expects to finalize the evaluation in upcoming quarters and will provide updates on its progress in future filings.*

**Comments:** While not an explicit SEC disclosure requirement, this is a fine example of disclosing the audit committee's involvement with the new revenue recognition standard. The take-away here is to involve your audit committee early and often, whether it is publicly disclosed or not. Audit committees should be educated on ASC 606, oversee management's implementation plan, and monitor impacts to the business, associated processes and internal controls.

### **Simply Recognizing Topic 606 as a Recent Accounting Pronouncement is Not Enough**

Form 10-K, *NOTE 2: Recent Accounting Pronouncements*, page F-10, VERMILLION, INC. – VRML, Filed: March 31, 2017 (period: December 31, 2016):

*In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU No. 2014-09"). ASU 2014-09 removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, provides more useful information to users of financial statements through improved disclosure requirements and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. This guidance requires that an entity depict the consideration by applying a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. On April 1, 2015, the FASB voted for a one-year deferral of the effective date of the new revenue recognition standard, ASU No. 2014-09. On July 15, 2015, the FASB affirmed these changes, which requires public entities to apply the amendments in ASU 2014-09 for annual reporting beginning after December 15, 2017. Early adoption is permitted beginning after December 31, 2016, the original effective date in ASU 2014-*



09. *The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures.*

SEC Staff responded to the above disclosure with the following comment in a letter dated June 29, 2017 (refer to Form CORRESP, VERMILLION, INC. – VRML, Filed: July 25, 2017, which is correspondence from the Filer to the SEC):

*You state that you are in the process of evaluating the impact that the amended revenue recognition guidance in Topic 606 will have on your consolidated financial statements. Please revise future filings to provide qualitative financial statement disclosures of the potential impact that this standard will have on your financial statements when adopted, and provide us with a sense of the disclosures that you intend to include in future filings. In this regard, include a description of the effects of the accounting policies that you expect to apply, if determined, and a comparison to your current revenue recognition policies. Describe the status of your process to implement the new standard and the significant implementation matters yet to be addressed. In addition, to the extent that you determine the quantitative impact that adoption of Topic 606 is expected to have on your financial statements, please also disclose such amounts. Please refer to ASC 250-10-S99-6 and SAB Topic 11.M.*

**Comments:** Generic disclosures can trigger regulatory scrutiny through an SEC Staff comment letter. Understand US GAAP and SEC guidance, including ASC 250-10-S99-6 and SAB Topic 11.M respectively, and have robust disclosure controls to help ensure adequate disclosures.

## **Conclusions**

Take disclosures on the new revenue recognition standard seriously. Success rests on the pillars of education, a sound project plan, a multi-disciplined implementation team, a thorough review of contracts, identifying necessary data elements for proper judgment and disclosures, and strong controls throughout all applicable processes.

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