The New World of Revenue Recognition - Just 5 Steps Away

In 2014, the FASB issued its new revenue recognition standard, ***Revenue from Contracts with Customers***. The new standard, codified as **ASC 606**, was almost twelve years in the making. That's right, the FASB added revenue recognition to its agenda back in 2002. (See timeline on next page.) ASC 606 will replace nearly all existing revenue recognition guidance - more than 150 specific pronouncements and interpretations, including industry specific guidance. Our professionals at CrossCountry Consulting have been following the development of the standard since the first exposure draft was released in 2010. Through various twist and turns over the years, including a re-exposure in 2011, a delayed effective date, and a couple of amendments, we have been helping our clients understand the requirements of ASC 606 and plan for its implementation.

ASC 606 provides a single framework for revenue recognition for all contracts that transfer a good or service to a customer. That framework includes a 5 Step Process for revenue recognition (see box to the right). Every business, regardless of industry, will determine the amount and timing of revenue to be recognized under the same guiding principles. And since ASC 606 is (mostly) converged with IFRS (issued as IFRS 15), most industries across the globe will be recognizing revenue in the same manner, enhancing comparability of financial reporting across the capital markets.

ASC 606 is a big umbrella. Some businesses, such as a retailer, will find that the impact to their current revenue recognition models will be modest. Other businesses, particularly those providing complex services and government contractors, may experience significant changes in the amount and timing of revenue recognized and may need to expend significant effort in implementing ASC 606. What all companies have in common though is a need to revise their accounting policy documentation to rearticulate their revenue recognition policy under the new principles in ASC 606. In a post SOX world, knowing your accounting is correct isn't good enough – the need to document policies and controls is not optional for public entities and represents best practice for all others. Further, the new standard requires significantly more disclosure, which is likely to have a big impact on processes, systems and controls, even if the actual accounting does not change much.

"Even with the recently finalized one year deferral, the effective date of the standard will be upon us before you know it."

James Schnurr
Chief Accountant
Securities and Exchange Commission

Remarks before the UCI Audit Committee Summit
October 23, 2015

Transitioning to ASC 606

The effective date for the adoption of ASC 606 is the first quarter of 2018 for public entities reporting on a calendar year-end basis. ASC 606 provides a choice of transition methods between full retrospective adoption and modified retrospective adoption (see boxes to the right). We understand that many public entities want to apply full retrospective adoption for the comparability it affords…whether this is practical, given the need to recast prior periods, remains to be seen. We expect that some private entities will choose the modified retrospective approach to reduce the burden of implementation. Regardless of the approach selected, a period of "parallel reporting" will exist, in which the accounting records will need to be maintained under both the current and new revenue recognition rules. This is likely to crate data, process and system challenges

5 Steps to Revenue Recognition

Step 1
Identify the Contract with the Customer
Applies to contracts to provide a customer with goods or services

Step 2
Identify the Performance Obligations
A promised goods or service is accounted for as a separate performance obligation if it is distinct.

Step 3
Determine the Transaction Price
Requires estimates of variable consideration and estimates of the time value of money when a significant financing component exists.

Step 4
Allocate the Transaction Price to the Performance Obligations
Allocate based on the standalone selling price of each performance obligation. Discounts allocated based on the relative standalone selling prices of each performance obligation.

Step 5
Allocate the Transaction Price to the Performance Obligations
Revenue is recognized as control over the promised good or service is transferred to the customer, which could occur over time or a point in time.

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The SEC typically requires registrants to present all periods in the 5 year table of selected financial data on a basis consistent with the annual financial statements. However, the SEC staff has indicated that it will not object to registrants presenting only the most recent 3 years of revenue in accordance with ASC 606 (consistent with the financial statements) during the transition years. We suspect that nearly all registrants will choose to present only 3 years under ASC 606 given the effort that would be required to restate an additional 2 years of reported revenue. For a calendar year-end company filing its 2018 10-K, revenue reported in the selected financial data table for years 2016 – 2018 would be in accordance with ASC 606 and revenue for 2014 and 2015 would be reported in accordance with existing GAAP.

What's Your Plan?

While revenue recognition itself is a 5 Step Model, implementing ASC 606 is not. Implementation requires a complex interaction of various stakeholders (including accounting, business units, corporate communications, audit committees, and auditors), advanced planning, technical skills, key policy decisions, and expert project management. The effort for many companies will be significant. In many cases, thousands of contracts may need to be reviewed and reassessed for revenue recognition, and processes, systems and controls will need to be updated. For those entities adopting ASC 606 under the Full Retrospective Approach, this is a restatement process. Scared yet? Don't be. There's still time to implement ASC 606 in a thoughtful and programmatic manner…but time is running out.

About CrossCountry Consulting

CrossCountry Consulting is the trusted partner and expert advisor to leading organizations. We help our clients revolutionize their finance, accounting, risk, operations and technology in order to effectively prepare them for complex change, optimized performance and accelerated business growth. Our comprehensive range of business advisory services provides customized solutions to our clients' specific and ever-changing needs.

With practical experience managing large implementation projects, extensive knowledge of both the new and existing revenue recognition rules, competitive rates, and the ability to work seamlessly with the auditors and other service providers, CrossCountry Consulting can help you manage this critical project, achieve a successful and efficient implementation and lay the foundation for an effective revenue accounting function.

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Effective Dates

Public Entities

Annual reporting periods beginning after December 15, 2017

Non-Public Entities

Annual reporting periods beginning after December 15, 2018

Approaches

Modified Retrospective Approach
Apply ASC 606 only to the most current period presented with the cumulative effect of adopting the standard recorded to the opening balance of retained earnings. For the current period, disclose the impact of adopting the new standard to the financial statement line items.

Full Retrospective Approach
Requires presenting revenue in accordance with ASC 606 for each period presented. Financial statements previously reported must be restated. Certain transition reliefs are available to lighten the burden.

Timeline: From Start to Finish

2002 - Revenue recognition added to FASB agenda

2008 - Discussion paper

2010 - Initial exposure draft

2010 - CrossCountry Consulting Founded

2011 - Second exposure draft

2014 - Standard finalized as ASC 606

2015 - Effective dates deferred

2016 - Limited Scope Amendments (not yet final)

2018 - Effective for most public entities

2019 - Effective for most non-public entities