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ASC 606 Services

The New
Revenue
Recognition
Standard is
Here.

Does Your Company Need Help Implementing ASC 606?

The upcoming changes with the revenue recognition standard will have an impact on your financial statements. Whether those changes occur in the amounts presented or enhanced disclosure, companies need to focus on implementing how they process contracts with customers.

ASC 606 is here. Use the guide below to prepare for the new accounting standard.





Guide to Implementation

1. List your Revenue Sources

The best place to start assessing the impact that ASC 606 will have on your organization is simple. Where do you earn your revenues? Create a complete list of revenue streams using your general ledger revenue accounts. Because of the complexity of ASC 606, you can't stop there. In addition to reviewing your revenue streams, your company must identify revenue impacting promises to provide future products and services to customers that may include loyalty, rebate and discount programs, warranties, coupons and gift cards.

2. Review your Contracts

Customer contracts for each revenue source must be reviewed. These contracts can have many forms; some may be implicit only providing an invoice, sales order, or receipt on completion of performed services while others could be explicit like supply or construction agreements. A business needs to consider the performance obligations used to deliver products or services to customers.

These obligations could include the delivery of a product or service at a specific time or a group of products or services provided over a specified period. Revenue is then recognized based on the timing delivery of the performance obligation. Your company should review and evaluate whether the service terms sufficiently address the delivery of products or services or if changes are needed to best define these terms.

3. Evaluate how you Gather Information and Software Applications

Because of signification changes to revenue recognition, companies may need to modify current software and information tracking to properly record revenues. As changes to how information is collected are considered, additional insight from other teams- marketing and sales- will be needed to weigh in on how promotions, coupons and loyalty programs are tracked. These future services need to be considered at the outset of the contract to accurately account for revenue recognition.

4. Decide how to Implement and Review Financial Statement Disclosures

ASC 606 has two methods for implementation- retrospective to all comparative periods presented or retrospective to the current period with a cumulative adjustment at the date of adoption. Once your organization has determined an adoption method, there are optional practical measures to ease the transition by not applying the new standard to contracts completed prior to the date of adoption. The adoption method determines the necessary disclosures during the adoption period, however there will be ongoing disclosure enhancements that will require new information to be released in the financial statements with regard to how your company recognizes revenue. Outlining an assessment of the legacy guidance from ASC 605 versus the new guidance of ASC 606 will help with the transition and enhanced disclosure requirements, so be sure to understand and document these details accordingly.

5. Inform Key Stakeholders on the Standard Changes

There is a considerable amount of work that must go into implementing ASC 606. And that work continues past the adoption period. Your company's key stakeholders need to understand the impact of ASC 606 to not just financial statements, but also how bankers and investors use your financial statements to understand your business and how contracts with customers impact it.

6. Contact Centri to Help

There is a lot of work that goes into implementing the new revenue recognition standard. If you're not sure where to begin or you need help with the implementation, Centri can help. Contact us. For more information on how we can support, email us at info@centriconsulting.com