



The Road to Revenue Recognition

Navigating the Path to Implementation for Healthcare Entities

The effective date for the new revenue recognition standard, ASC 606, *Revenue from Contracts with Customers*, is fast approaching. For public companies, the new standard is required to be implemented in 2018, and 2019 for private companies. However, depending on the transition method selected and the number of years presented in financial reporting, its impact might already affect your financial statements.

Have you considered the following:

- ▶ Are you prepared and ready for implementation?
- ▶ Do you know how your entity's revenue recognition and disclosures will be impacted?
- ▶ Do you know how your entity's processes and controls will change?

How Can We Help?

Step 1:

Understand Your Products and Services

- ▶ General diagnostic discussion with management;
- ▶ Review a sample of your customer contracts for stated deliverables; and
- ▶ Assist you in identifying entity- and industry-specific implied deliverables.

Step 2:

Understand Your Current Policies and Processes

- ▶ Review current legacy GAAP policies and practices;
- ▶ Update our understanding of current processes and controls;
- ▶ Update our understanding of current IT systems;
- ▶ Understand reports and data that are currently available; and
- ▶ Review current financial reporting and disclosures.

Step 3:

Assist You in Analyzing Revenue Recognition Under ASC 606

- ▶ Provide and discuss authoritative guidance;
- ▶ Provide and discuss interpretive guidance including FASB and AICPA interpretations;
- ▶ Review public company filings for comparable companies in similar industries;
- ▶ Brainstorm with your company to assist you in identifying performance obligations, variable consideration, discounts, financing components, standalone selling prices, when control is transferred and measures of progress towards completion;
- ▶ Disaggregate into inventory of ASC 606 revenue streams; and
- ▶ Review your ASC 606 GAAP policies and practices.

Step 4:

Assist Management in Identifying Potential Needs

- ▶ Compare and contrast current accounting policies and practices under legacy GAAP to ASC 606;
- ▶ Assist in identifying changes to the amount and timing of revenue recognition;
- ▶ Assist in identifying additional disclosures;
- ▶ Assist in identifying additional reports and data needed; and
- ▶ Compare and contrast the ability of the entity's current processes and controls and IT system's to meet the needs of ASC 606.

Step 5:

Assist Management in Identifying Other Potential Impacts

- ▶ Analyze potential impact on debt covenants;
- ▶ Analyze potential impact on compensation agreements;
- ▶ Assist management in determining the most appropriate transition method;
- ▶ Identify those contracts which will be "open" upon transition; and
- ▶ Assess the potential tax impact.

Step 6:

Implementation

- ▶ Access to our referral network of professionals that can manage the implementation process.
- ▶ Access to our Firm's IT system partners (SAP, Oracle, Microsoft Dynamic, Deltek, etc.), if IT system changes are required.

Healthcare Entities

The new standard will affect how all industries evaluate and document revenue recognition, and depending on your company's industry, the new standard could have a material impact on the amount, timing and pattern of revenue.

Impact of New Standard

Impact	Description
Existence of an Enforceable Contract	Healthcare providers will need to determine whether and when an enforceable contract exists with a patient. Contracts can be written, oral or implied based on an entity's customary business practices. The contract creates legally enforceable rights and obligations, and revenue generally cannot be recognized until an enforceable contract exists. This is especially relevant when emergency services are required prior to obtaining any information from the patient.
Collectability	The new standard requires that collectability be 'probable' in order for a contract to exist. For healthcare providers, collectability should be assessed based on a patient's ability and intent to pay. If no past experience with a patient exists, a portfolio of historical data may be used. This could be a significant change for healthcare providers that recognize revenue and a related allowance for bad debt at the time of service.
Bad Debts	Bad debt expense will no longer be netted against gross revenue and instead will be presented as an operating expense like most other industries. In addition, due to the changes in the collectability criteria, bad debt expense is expected to decrease significantly because at contract inception amounts not expected to be collected are excluded from the transaction price.
Transaction Price	Healthcare providers will need to determine if they have implicitly provided a price concession, which should be accounted for as consideration. Variable consideration should be estimated using the expected value method (probability weighted average) or the most likely amount method. Healthcare providers may need to accumulate more detailed historical information to develop the appropriate portfolio of data to use when estimating variable consideration.
Performance Obligations	Healthcare providers need to consider whether they have a single, or multiple, performance obligations with a patient. Generally, healthcare services represent a bundle of goods/services, which should all be accounted for as a single performance obligation.
Timing of Revenue	Healthcare providers will have to assess when revenue from in-patient care should be recognized. This will likely be over the time of the in-patient stay. The healthcare provider will need to determine how to measure progress (i.e., input method of charges incurred as a percent of total expected charges).

Non-permissible consulting services for ALL current and prospective attestation clients:

- ▶ Making decisions on behalf of management.
- ▶ Managing or performing a new accounting standards adoption project.
- ▶ Selecting accounting policies or accounting positions.
- ▶ Drafting accounting policies and manuals.
- ▶ Calculating amounts and related journal entries.
- ▶ Designing and/or implementing manual or IT processes for the application of new or revised accounting literature.

What we CAN do for current or prospective attestation clients*:

- ▶ Hold general diagnostic discussion with management.
- ▶ Provide and discuss authoritative guidance.
- ▶ Provide and discuss interpretive guidance including FASB and AICPA interpretations.
- ▶ Review public company filings for comparable companies in similar industries.
- ▶ Assist in disaggregating revenue into revenue streams.
- ▶ Review a sample of customer contracts and assist management in identifying contractually stated performance obligations.
- ▶ Assist management in identifying entity- and industry-specific implied performance obligations.
- ▶ Hold brainstorming sessions with management to assist in identifying variable consideration, discounts, financing components, standalone selling prices, when control is transferred and measures of progress towards completion.
- ▶ Assist in identifying changes to the amount and timing of revenue recognition.
- ▶ Assist in identifying additional disclosures.
- ▶ Assist in identifying additional reports and data needed.
- ▶ Review management's ASC 606 GAAP policies and practices.
- ▶ Compare and contrast the ability of the entity's current processes and controls and IT system's to meet the needs of ASC 606.
- ▶ Analyze potential impact on debt covenants.
- ▶ Analyze potential impact on compensation agreements.
- ▶ Assist management in determining the most appropriate transition method.
- ▶ Identify those contracts which will be "open" upon transition.
- ▶ Our tax professionals can assist in assessing the tax impact.
- ▶ Provide access to our referral network of professionals that can manage and perform the implementation process.
- ▶ If IT system changes are necessary, provide access to our Firm's IT system partners.

**Permissible services require Management to agree to evaluate the adequacy of all services provided and accept responsibility for the results of these services.*

Next Steps

Cherry Bekaert's dedicated team of professionals can help you navigate how the new standard affects your company's processes, data, systems and controls.

Now is the time to plan and adequately prepare for changes that will affect your business.

Let us be your guide forward



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