



# 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?

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## 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;
- ▶ Gain an understanding of current processes and controls;
- ▶ Gain an understanding of current IT systems;
- ▶ Gain an understanding of the reports and data that are currently available; and
- ▶ Review current financial reporting and disclosures.

## Step 3:

### Analyze 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 management in identifying performance obligations, variable consideration, discounts, financing components, standalone selling prices, when control is transferred and measures of progress towards completion;
- ▶ Disaggregate revenue into inventory of ASC 606 revenue streams; and
- ▶ Draft your ASC 606 GAAP policies and practices.

## Step 4:

### Identify Potential Needs

- ▶ Compare and contrast current accounting policies and practices under legacy GAAP to ASC 606;
- ▶ Identify changes to the amount and timing of revenue recognition;
- ▶ Identify additional disclosures;
- ▶ Identify 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:

### Identify Other Potential Impacts

- ▶ Analyze potential impact on debt covenants;
- ▶ Analyze potential impact on compensation agreements;
- ▶ Assist 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; and
- ▶ 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
<b>Existence of an Enforceable Contract</b>	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.
<b>Collectability</b>	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.
<b>Bad Debts</b>	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.
<b>Transaction Price</b>	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.
<b>Performance Obligations</b>	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.
<b>Timing of Revenue</b>	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).

## 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 impact your business.***

*Let us be your guide forward*



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