



The Road to Revenue Recognition

Navigating the Path to Implementation:

Software & SaaS Companies

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.

Software & SaaS Companies

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
VSOE is No Longer Required	Software companies will no longer have to defer revenue because VSOE doesn't exist. Under the new standard, entities must use a method that best utilizes observable prices and inputs, including but not limited to the following methods: standalone selling price, adjusted market, cost plus a margin, or the residual approach.
Variable Consideration	Variable consideration must be recognized at the time of sale, subject to certain constraints.
Software vs. SaaS Determination Still Important	The new variable consideration guidance doesn't apply to sales- or usage-based fees from the licenses of IP (i.e., software licenses), so determining software vs. SaaS is still crucial.
Hybrid SaaS and Software	Revenue recognition will depend on whether the different elements provide substantial enhanced or synergistic functionality when combined (i.e., a combined SaaS performance obligation), or merely complement each other (i.e., two performance obligations for a software license and SaaS).
Estimating Variable Consideration is Not an Option; it's Required	Estimating variable consideration could prove to be difficult and costly. However, if certain criteria are met, the "right to invoice" practical expedient can be used.
Resellers? Use Sell-through?	Resellers using lag reporting under the "sell-through" method will no longer be able to use lag reporting and instead must estimate revenue with a true-up when actuals are received.
Significant Upfront Fees (e.g., implementation fees)	Revenue still must be deferred, but for how long might change depending on whether the contract provides renewal rights that constitute a "material right."
Significant Upfront or Extended Payment Terms	Under the new standard, entities are required to recognize a financing component if payment and delivery are separated by more than a year.
"Free" Upgrades	If upgrades are critical to the value of the license (e.g., virus protection) then revenue from the software license should be deferred.

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 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;
- ▶ Provide access to our Firm's IT system partners (if IT system changes are necessary).

**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 impact your business.

Let us be your guide forward



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