The Road to Revenue Recognition

Navigating the Path to Implementation:

Financial Statement Disclosures

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.

Cherry Bekaert

Your Guide Forward

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;

▶ 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.

Revenue from Contracts with Customers

Financial Statement Disclosures

	Public Companies	Nonpublic Companies
Disaggregated Revenue	Categories disaggregated to show economic factors that affect nature, amount, timing and uncertainties of revenue and cash flows. Consider level of disaggregation used by decision makers and presented outside of financial statements (e.g., earnings release, annual reports, or investor presentations). An entity may need to use more than one type of category to disaggregate its revenue (e.g., by customer type, contract type, and product line).	May elect to forego disclosing quantitative disaggregation of factors; however, must disclose: ▶ Revenue disaggregated by timing of transfers of goods and services (e.g., at a point in time or over time); and ▶ Qualitative information of economic factors that affect nature, amount, timing, and uncertainties of revenue and cash flows.
	Disclose sufficient information showing relationship between disaggregated revenue and reportable segment revenue.	Recommended.
Reconciliation of Contract Balances	Opening and closing balances.	Required.
	Revenue recognized during the period that was included in the contract liability balance at the beginning of the period.	Recommended.
	Revenue recognized during the reporting period from performance obligations satisfied in the previous periods (e.g., to reflect changes in transaction price such as changes to variable consideration).	Recommended.
	Qualitative and quantitative information about significant changes in balances.	Recommended.
Performance Obligations	Information about the entity's performance obligations, including: ▶ Nature of the goods or services the entity has promised to transfer. ▶ When the entity typically satisfies its performance obligations. ▶ Significant payment terms including significant financing components and variable consideration. ▶ Any arrangements with another party to transfer goods or services. ▶ Obligations for returns, refunds, and other similar obligations. ▶ Types of warranties and related obligations.	Required. Required. Required. Required. Required. Required.
	Allocation of transaction price to remaining performance obligations.	Recommended.
	Timing of when remaining performance obligations will be recognized as revenue (can be quantitative or qualitative).	Recommended.

	Public Companies	Nonpublic Companies
Significant Judgments	Methods used to recognize revenue for performance obligations satisfied over a period of time.	Required.
	Why those methods are appropriate.	Recommended.
	Judgments related to transfer of control for performance obligations satisfied at a point in time.	Recommended.
	Methods, inputs and assumptions used to: ▶ determine and allocate transaction price; ▶ estimate variable consideration; ▶ assess whether any variable consideration is constrained; and ▶ measure returns and allowances.	Recommended. Recommended. Required. Recommended.
Costs to Obtain or Fulfill a Contract	Judgments made to determine costs to obtain or fulfill a contract.	Recommended.
	Judgments about determining method of amortization.	Recommended.
	Closing balances of assets and amount of amortization and any impairment.	Recommended.
Practical Expedients	Disclose if any practical expedients available under the standard have been used.	Required.

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

Roy Amler, CPA
Partner, Assurance Services
ramler@cbh.com

Chase Wright, CPA
Partner, Risk Accounting & Advisory Services
cwright@cbh.com

Michael Hoose, CPA
Director, Assurance Services
mhoose@cbh.com

cbh.com

About Cherry Bekaert

Cherry Bekaert
Your Guide Forward