# The CFO Network Difference

**ASC 606: Revenue Recognition Accounting Changing – Why Care Now?**
**Effective 2018 or is it really 1/1/16!**

CFO Network engagements are staffed by top notch personnel with hands-on, on-site involvement from our CFOs. All of our consultants are either Big 4 CPAs, top-school MBAs, prior CFOs or Corporate Controllers of public companies and have extensive experience beyond just public accounting. All of our consultants have sat in our clients' chair. One of our core strengths is revenue recognition accounting. We can drive or assist with the analysis and preparation needed to optimize the revenue recognition process.

***Convergence:*** On May 28, 2014, the FASB issued ASC 606 - Revenue from Contracts with Customers. Revenue is often the most critical measure for entities and their stakeholders, and for many growth companies, more important than the bottom line, which could also be significantly impacted by changes in revenue. Implementation, while effective in 2018 (2019 for private companies), will include restatement of 2016+ as part of the transition, and will impact long term agreements. Change orders to contracts written under current rules but active before and after these cutoff dates may require recalculation. Loan covenants, IT systems, HR/sales plans, Legal/D&O are also considerations. It involves many with a company NOT just accounting.

ASC 606 establishes a principles-based (rather than a rules-based) approach for accounting for revenue using a "five-step" approach. Notions such as VSOE for software are gone. Expect revenues to increase under the new rules; deferred revenue to shrink. There will also be an expanded and standardized set of footnote disclosures.

***ASC 606 has several immediate effects on companies, including:***

- **Companies must consider their existing contracts and identify any features or terms that may require additional analysis under the "five-step" approach**. For instance, a contract with variable consideration requires more analysis to determine the transaction price than a contract with fixed consideration. As another example, contracts that provide customers with both a good and a service must be assessed to identify the separate performance obligations.
- **Companies must work through multiple interpretations about gross vs. net revenue classification.** There are a series of indicators provided now. For example, are you a principal or an agent? A principal typically records its revenue as gross revenue. How does a transaction price split if some deliverables are as a principal; others as an agent? Are costs billed considered revenue or a reduction in cost? It depends…
- **IT: Companies must evaluate their ability to collect and maintain the data necessary to comply with the standard given their processes and systems**. For example, companies may track information at the contract level. Under the new standard, a company may have to either aggregate contracts or separate a contract into parts in order to account for revenue. And, with retrospective application, companies will have to gather information about past and outstanding contracts. Change orders from previously benign accounting treatment may now create new performance obligations.
- **Companies must determine where the standard requires management to make additional judgments, including estimates**. In general, the standard requires more judgment from management than under prior guidance because it represents a shift from a detailed rules-based approach to a principles-based approach. In the U.S., an entity's estimates may be scrutinized by the SEC or other regulators.
- **Companies must review the nature and amount of disclosures required under the new standard to evaluate whether they collect the required information**. There will be significantly greater disclosures required under ASC 606.
- **Companies may also wish to prepare an analysis of how the new standard will affect the company's trends in revenue and the bottom line.** We are already seeing analysts looking for insight; companies should be preparing to communicate with stakeholders regarding the potential effects of the standard on its results. Recent accounting changes impact on a company is required footnote disclosure under SAB 74 and the 'we are currently evaluating the impact' answer is good for only a short period of time.

***In summary*** – We get involved with and are at the forefront of new accounting changes, in areas such as the recent focus on revenue recognition. We welcome the opportunity to meet with you to discuss in greater detail how we can help your company anticipate these challenges – which impact well beyond the accounting side of a business.

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