

Implementing the New Revenue Recognition Standard – What Private Companies Need to Do Now

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With the effective date for the new revenue standard fast approaching, many private companies have still not taken important steps towards implementation. Time is running out as the private company implementation date draws closer and some entities may be surprised to learn that the effort to implement the new model is more involved than they might have imagined.

In May 2014 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, codified as Accounting Standards Codification (ASC) 606. This sweeping new revenue standard changes the entire model for recognizing revenues from arrangements with customers, introducing a new five-step model. The effective date for non-public entities is any fiscal year beginning after December 15, 2018.

Companies must consider and resolve important questions: What systems are in place to capture the new accounting, reporting and disclosure requirements? Are there customer arrangements that have a variable consideration component? Which of the two acceptable methods for calculating transaction price will be most appropriate? How will assessments be made to determine whether to recognize performance obligations at a point in time versus over time? What adoption method will be most appropriate? These are just some of the questions that must be

considered by all entities as they implement the new revenue standard.

Auditors are also paying close attention to the implementation of ASC 606, and will themselves be focused on designing procedures to properly test the elements within the new revenue recognition model, in addition to implementation of the standard by their audit clients.

Companies will find that it is generally beneficial to have a preliminary discussion with their auditor regarding the approach in the first year of implementation and beyond. This will almost certainly eliminate certain potential surprises later on. Items that should be discussed include:

- The approach for documenting implementation of ASC 606, including the new five-step model
- The accuracy of any data used, and the approach for compiling that data to support first year reported amounts and disclosures
- The controls and process for ensuring that revenues are being properly captured and recognized under the new model
- Any assumptions by management and the supporting evidence or reasoning behind those assumptions
- Important management representations that are likely to be required

All entities within the scope of ASC 606 will need to develop a plan for implementation and document how they are applying the new standard, regardless of the level of impact. At a minimum, there are expanded disclosure requirements for all entities. Additionally, many entities that have already adopted ASC 606 found that changes to existing systems were necessary in many cases. An initial assessment of the impact of the new standard is critical to gain an understanding of what might be involved to implement.

So what should private companies who have not yet taken action

do? Here are some important steps to follow:

- Designate a Champion – Identify and assign an individual to lead the implementation project
- Develop an Implementation Plan – A solid implementation plan should cover several areas, including technical accounting impact, processes and internal controls, IT and data needs, and training, among other areas
- Document – Document the application of the standard to specific types of customer contracts
- Make Changes to Systems – Implement any necessary system changes to ensure information necessary for proper reporting is captured and tracked
- Capture Information Necessary for Implementation – Complete any analyses and calculations needed to properly support amounts and disclosures on the date of adoption

An important first step is to contact your accounting firm. Your audit partner is often management's best resource. An initial discussion about how the new ASC 606 model is likely to affect your business can be worth its weight in gold. While the clock continues to tick for many companies that have not yet begun the process of evaluating the impact of ASC 606, there is still time to avoid unwanted surprises. The key is to take that first step and reach out to your accounting firm or other advisor who has a solid understanding of the new standard and start the discussion about implementation.

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