

4 COMMON THEMES OF SUCCESSFUL ASC 606 ADOPTION

When it comes to revenue recognition, time is not on your side. The effective date for Accounting Standards Codification (ASC) Topic 606, *Revenue From Contracts With Customers*, has passed for most organizations.

Our team has assisted and continues to assist organizations of varying sizes and industry sectors sort through the complexities to ensure compliance with the standard. As this process continues to repeat itself, several lessons learned clearly emerged. These themes were relatively consistent among the majority of the implementations despite entity size and industry.

① IT ALL STARTS WITH TAKING A STEP BACK TO *look at the BIG picture.*

What does your organization really do? How does your organization generate revenue and make money? From the customer's perspective, what does your organization have to offer? Keep the following points in mind:

- It's not *just* a report listing out the contracts and/or customers.
- It's not *just* about the contract type.
- It's knowing the underlying structure of the deal, including both explicit and implicit terms or practices.
- It's knowing what goods or services are being provided to the customer and when.

"An organization needs to have a deeper understanding of what the customer believes they are buying. For instance, are there multiple goods and/or services that, individually, provide distinct value to the customer? Or should any/all be combined? When is the customer receiving the value of those goods and/or services?"

② ... BUT DON'T STOP THERE BECAUSE *the devil is in [ignoring] the details.*

The contract documents themselves don't always account for all the details. Can you answer the following questions:

- What is expected or implied based on past practices?
- Are there options to purchase additional goods or services, mid-contract add-ons, or related/dependent contracts, orders, or similar, that must be combined?
- Do pricing practices and discounted elements impact the allocation of the consideration?
- Are there customer incentives and implicit terms that should be considered?
- What pricing adjustments are anticipated in the future?

"There is going to be an obvious impact since revenue recognition and contract cost recognition policies and related disclosures will change. However, what is less obvious, is if there is an impact on the timing of when revenue and/or contract costs are recognized. If the underlying details and expected practices are ignored, there is a greater chance that an organization will make the mistake of concluding that there is no impact on the timing of recognition."

③ TO GET ALL THE DETAILS IRONED OUT, *it takes a village.*

Contracts don't tell the whole story... the people do. Keep the following points in mind:

- Accounting and Finance are the central hub.
- Project Managers, Contracts Personnel, Business Development, Sales, Legal, Human Resources, and Internal/External Auditors play a critical role in the community.
- They all need to come together to provide the details necessary to complete the narrative.

"The accounting team was not aware of pricing strategies and sales offers until there were further discussions with sales personnel. These discussions resulted in potential timing differences for both revenue recognition and the related commissions accrued."

④ AND FINALLY KEEP IN MIND, *every good village has a chief.*

Adoption is NOT an option; the new revenue recognition standard is effective NOW.

Someone has to lead the charge to implement the new revenue and contract cost recognition policies now and continue to assess their impacts into the future. The leader is responsible for the following tasks:

- Determining what changes need to be made on both the adoption date and going forward.
- Determining what impacts there may be on revenue and contract cost recognition policies and related disclosures, internal processes and controls, incentive compensation, debt covenant compliance, budgets and forecasts, valuation calculations, accounting systems, etc.
- Setting realistic timelines, overseeing elements, and managing deliverables.
- Coordinating with external auditors early and often.
- Recognizing when help is needed and bringing in the Aronson experts.

"Having a point person ensures that the organization is meeting timelines and accomplishing major deliverables. Implementing the new standard is not just about if the timing of the revenue or costs have changed. If the timing does not change, you must explain why."

Lets Connect on Next Steps to Successful Adoption

Revenue recognition has been one of the most time-consuming accounting projects in recent history. Many have been caught off guard by its complex and far-reaching impacts. Learn from those who went before you to avoid common missteps and follow the most efficient path to successful adoption.

For more information on how Aronson LLC can help your organization implement the revenue recognition standard, contact our lead revenue recognition partner David Semendinger, CPA, La-Tasha Patel, CPA, or Mary Beth Troy, CPA today at 301.231.6200.