



Practical Considerations for Private Companies on the Timing of Evaluating and Implementing ASC 606

Taylor Longacre, Senior Manager | DHG Assurance

In today's fast-paced and rapidly changing business environment, management teams are faced with challenging decisions on where to deploy limited resources. As the effective date of the new revenue standard is approaching for private companies, many management teams are considering whether they can wait until the standard is effective and their financial statements drafted to understand its impact on their companies. The new revenue recognition standard is the most significant accounting change in a generation. Although this "wait and see" approach may have been sufficient for implementation of past standard updates, it may pose significant risks to your organization for a variety of reasons.

Challenges and Complexities

As the new standard is principles-based and focuses on the substance of the contract, significant judgment will be needed in order to determine the appropriate accounting treatment. Depending on the complexity and variation of an entity's contracts, substantial effort and resources will likely be required to identify, scope, analyze, and document all in-scope revenue streams. These efforts will be necessary regardless of whether there is a material change in the timing of revenue recognition.

In addition, unlike current requirements, the new revenue standard requires robust disclosure of the nature, amount, timing, and uncertainty of revenue recognized. Companies will likely need to capture and track new data to satisfy these requirements. Consequently, new processes and controls will likely be necessary to effectively accumulate and analyze the data and ensure its completeness and accuracy. The implementation of new processes and controls will require a thorough understanding of the accounting treatment of revenue streams as well as the data necessary to meet the relevant disclosure requirements.

Risks

Given the challenges and complexities associated with implementing the new revenue standard, delaying the implementation process until the financial statements are drafted could pose significant risks. Experience has proven the process of implementation often uncovers complex issues that require significant additional time and resources, even if the ultimate impact on recognition of revenue is not material. As a result, companies may find that delaying the implementation process until drafting the financial statements may leave them unprepared and without sufficient time or resources to complete the implementation process. This could lead companies to incur significant additional costs to obtain necessary resources, or worse, miss filing deadlines.

Further, it is not uncommon for companies to identify additional data or information necessary to comply with the requirements of the new revenue standard. This data may not be captured by the Company's current processes. Waiting until the financial statements are drafted to start the process of accumulating this information could pose significant operational challenges as time runs out, implementation costs increase, and resources become scarce. Such risk could be mitigated with sufficient up-front planning.

Best Practices

Although all companies are different, the nature, complexity, and risks associated with implementation of the new revenue standard warrant significant attention from management and those charged with governance. In an effort to reduce cost and mitigate risk, at a minimum, management should ensure they have a strong understanding of the standard, their revenue streams, the accounting treatment of those revenue streams, and the data and process requirements prior to the start of 2019. This will better position management to identify the next steps, minimize operational risks, and reduce the overall cost of implementation. Advanced preparation and planning is critical to effective and efficient implementation of the new revenue recognition standard.

DHG Contacts

Taylor Longacre

Senior Manager, DHG Assurance
assurance@dhg.com

Liz Gantnier

Partner, DHG Assurance
assurance@dhg.com