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The New Revenue Recognition Standard – *Where do we begin?*

Executive Summary

- The new revenue standard creates a uniform model for most companies reporting under US GAAP
- The new standard is effective in 2017 for public companies and 2018 for private companies; early adoption is not permitted
- Companies may elect either a full retrospective or modified retrospective adoption approach
- Some industries will be more impacted than others, however, most companies will be affected
- Management teams should assess the impact and develop an implementation plan in advance of the effective date

The New Revenue Recognition Standard - *An Overview*

The new revenue standard, ASC 606, released May 28, 2014, eliminates industry specific guidance and creates a new single revenue recognition model for most companies reporting under US GAAP. Companies following industry-specific guidance, such as telecommunications and software companies, are likely to be more impacted by this new standard, however, most companies will be affected.

The new revenue model is principles-based rather than rules-based and is expected to introduce a higher degree of subjectivity as compared to existing US GAAP. Although companies may initially conclude that the timing of revenue recognition won't change under the new standard, a thorough assessment may be necessary to ensure all relevant aspects of the guidance have been evaluated. For example, the enhanced disclosure requirements may create some challenges for companies required to report new information not historically captured by existing systems.

The new standard is effective for most public companies beginning January 1, 2017. Early adoption is not permitted, however, companies may elect either a full retrospective adoption or a modified retrospective adoption approach. Companies anticipating changes resulting from the new standard should consider assessing the impact on their people, processes, systems and financial statements well in advance of the effective date. Establishing a detailed, cross functional implementation-plan will ensure a smooth and efficient implementation process.

Identify the Impacts → **Determine Adoption Method** → **Assess Systems** → **Assess Internal Controls** → **Develop Work Plan**

What to do now

- Assess existing revenue policy and disclosures and identify impacts
- Draft revenue policy and procedures under the new standard
- Determine adoption method
- Assess adequacy of existing systems
- Identify business process changes and consider impact on internal controls
- Develop implementation plan

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Identify the Impacts

One of the first steps in evaluating the impact of the new standard is a thorough comparison of the company's existing revenue recognition policy and disclosures to the requirements in the new standard. After this initial analysis is complete, management should discuss the findings with internal and external auditors, tax, financial planning and analysis, information technology and other stakeholders to identify other areas for consideration. Once the entity-wide impacts are identified, a new revenue recognition policy should be drafted to serve as the basis for the implementation planning process.

Determine the Adoption Method

Companies may apply either a full or modified retrospective adoption approach. Management should consider the advantages and disadvantages of each method such as the level of effort and resulting transparency for investors. Under the full retrospective approach, companies will determine the cumulative effect of applying the new standard as of the beginning of the first historical period presented, in addition to recasting revenue and expenses for all periods presented in the year of adoption. Under the modified retrospective approach, companies need only apply the new standard to existing contracts for which the Company has remaining obligations as of the effective date and new contracts entered into subsequent to the effective date. The adoption method should be evaluated as early as possible.

Assess Systems

While major IT system providers have been preparing for the new standard, systems that are outdated or highly customized may require updating or supplemental manual processes to meet the new requirements. Identifying these new requirements and aligning them to the capabilities of existing systems is a key step in the planning process.

Assess Internal Controls

Application of the new standard may significantly change some companies' systems, processes and internal controls. Public companies in particular should consider and plan for the impact on processes and controls for Sarbanes-Oxley compliance.

Develop Implementation Plan

Once the steps outlined above are completed, companies can develop a detailed and achievable implementation plan with a cross functional focus to ensure that the company has identified all relevant impacts and achieved buy-in throughout the organization.

How we can help

- Actionable insights into the latest financial reporting and regulatory developments

To have an in-depth discussion on how the new revenue recognition standard may impact your company and how to begin preparing for it, please contact us:

WilliamsMarston LLC
800 Boylston Street
16th Floor
Boston, MA 02199
www.williamsmarston.com

Landen C. Williams
Partner
Phone: (617) 306-0951
landen@williamsmarston.com

Jonathan T. Marston
Partner
Phone: (617) 851-0891
jon@williamsmarston.com

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