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Revenue under ASC 606 - Part 1

ASC 606 is the new revenue recognition guidance that is scheduled to go into effect at various points depending on the entity. Many companies are focusing significant attention on the adoption process.

Apr. 06, 2018

Gross Margin - Detail
05/06/2018 10:00

Month Ending
3/31/2016

	Legacy	ASC 606
Gross Profit		
Revenue		
Setup		
Sales Revenue - Setup - Unbilled		267.31
Sales Revenue - Setup - Billed		535.97
Sales Revenue - Setup - Paid		1,074.64
Total Setup	1,436.04	1,877.92
License		
Sales Revenue - License - Unbilled		641.54
Sales Revenue - License - Billed		1,286.33
Sales Revenue - License - Paid	1,912.27	2,579.14
Total License	3,446.49	4,507.01
Service		
Sales Revenue - Support - Unbilled	289.44	378.51
Sales Revenue - Support - Billed	580.35	758.93
Sales Revenue - Support - Paid	1,163.64	1,521.69
Total Service	2,033.43	2,659.13
Downloads		
Sales Revenue - Downloads - Unbilled	694.65	908.42
Sales Revenue - Downloads - Billed	1,162.81	1,521.43

ASC 606 and IFRS 15
Are you ready?

This is Part 1 of a 4-part series.

[Read Part 2.](#) | [Read Part 3.](#) | [Read Part 4.](#)

ASC 606 refers to the new revenue recognition guidance issued jointly by FASB and IASB. The effective date of ASC 606 is rapidly approaching and many, if not most,

companies are focusing significant attention on the adoption process. ASC 606 must

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recognition. Reflecting on our ASC 606 clients, largely all companies have plans to invest resources on technology to support the adoption and more specifically to automate revenue.

Technology offers enormous benefits in terms of efficiency, controls, and reporting. However, as revenue is inherently complex, to succeed in automating you will need a mix of both “science and art”. Some of the practical lessons we have learned are:

- The standard is new – everyone is learning
- The importance of data
- Understand the timelines
- It's a journey

In this 4-part series, we will take an in depth look into each of these lessons.

For those who have yet to start or are at the earlier stages, below is a recommended phased approach to adoption:

- **Phase 1:** Scope and plan
- **Phase 2:** Technical accounting assessment (revenue and costs)
- **Phase 3:** Operational assessment (policies, processes, systems, contracts, etc.)
- **Phase 4:** Detailed implementation planning
- **Phase 5:** Implement and adopt.

The ASC 606 standard is new, everyone is learning.

It's not a surprise, revenue and particularly revenue automation, is complex. Overlaying the fact that the standard is very new serves to compound this challenge. Recognizing the complexity of automating revenue should not deter you, in fact, the

timing could be perfect. Consider these advantageous byproducts of implementing

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Change management: Adoption will already give rise to changes in processes, policies, controls, systems, etc. Automating now avoids the need for another large and potentially disruptive change or the risk of making changes now, that limit automation later. Remember, this is more than just an accounting change, it could impact many functions including sales, operations, product management, deal-desk, IT, internal audit, etc.

The key is to expect and plan for changes. Know your areas of risk, the most acute of which is having accounting positions that are not “locked- in”. Simple steps can limit these risks:

- . **Define your use- cases:** Clearly define your revenue scenarios or use-cases and the proposed accounting treatment to create clarity on fact patterns and accounting. These will also be foundational for later automation. Apply a practical lens to use-case development, that reflect operational practices which may differ from theoretical simulations. This helps to reduce rework and inform automation requirements.
- . **Auditor buy in:** Don't “go it alone “. The standard is complex and interpretations continue to evolve. Make sure you engage your auditors early and get their buy-in and “sign- off” as you document your policies.
- . **Plan for changes:** Capture open items and uncertainties. Changing an accounting position during the implementation of revenue software can be very disruptive and cause delays and rework. Therefore, knowing your areas of uncertainty can help determine project scoping and timelines.

The standard is new, the systems are new and evolving, and there are limited publicly available examples to reference. Waiting, unfortunately, is not an option, you must plan for these potential challenges, whether this means adjusting project scope,

timelines or budgets. Given these circumstances, there is no perfect prescription to

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Jason Pikoos is a Partner at Connor Group and leads the Financial Operations practice. Jason brings over 15 years of accounting and operational experience, working with high-growth and technology companies. As the Financial Operations leader at Connor Group, Jason has helped and guide over 30 companies in preparing for being public, planning and managing their IPO plan and/or improving operations and controls shortly after the IPO. Jason is an expert in helping clients drive business transformation through improved processes, systems, controls and organizational changes. Jason works across all finance and accounting functions, helping clients define their business strategy/goals and aligning resources and stakeholders to achieve desired business objectives. Jason's focus is on high-growth and technology companies.

Connor Group has assisted 30+ companies with adoption of the ASC 606 standard and delivered 20,000+ hours on ASC 606 projects. Connor Group has helped 100's of companies navigate the complexities of revenue recognition. We are in the forefront of ASC 606 guidance and adoption, participating in the drafting process of the standard through comment letters, roundtables and direct FASB discussions.

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