

CHESS

CONSULTING LLC

When the right move matters



ASC 606: Revenue Recognition for Public and Non-Public Entities

Complex Accounting and Risk Management

Overview of ASC 606

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, which created Accounting Standards Codification Topic 606 (“ASC 606”), Revenue from Contracts with Customers. The standard supersedes previous guidance and applies to all revenue from contracts with customers, with limited exceptions. The objectives of ASC 606 are to provide a single, comprehensive revenue recognition model for all contracts with customers; improve comparability within and across different entities, industries, and markets; and provide more useful and coherent reporting of revenue to users of financial statements.

The standard is now effective for all companies applying U.S. GAAP for annual and interim reporting. The core principle of the new standard is that an entity will recognize revenue in a pattern that depicts the transfer of promised goods and services to customers in an amount which reflects the consideration the entity expects to be entitled to in exchange for those goods and services. To achieve this, an entity will apply a five-step model provided in the guidance to assess and recognize the appropriate revenue on each performance obligation under the contract.

The five-step model provided in the guidance is as follows:

- (1) Identify the contract with a customer**
- (2) Identify the separate performance obligations in the contract**
- (3) Determine the transaction price**
- (4) Allocate the transaction price to the separate performance obligations**
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation**

There are no specific recognition or measurement differences for nonpublic entities identified in the five-step model. However, there are several practical expedients that nonpublic entities can elect to reduce the required annual disclosures, and many nonpublic entities are not subject to interim reporting requirements and therefore would not be required to provide interim disclosures for ASC 606.

Issues With the New Standard

The sweeping changes imposed by ASC 606 meant that all companies experienced some level of change while implementing the new standard, including more judgment in determining the timing and amount of revenue recognized. For many entities, the new requirements have a broader impact that required significant system and process changes to collect and analyze contract-related data. The new standard forced entities to re-evaluate their current accounting and contracting processes, which revealed hidden resource needs and opportunities for improved financial reporting efficiency.

In response to these difficulties, Chess Consulting (“Chess”) developed a project plan and approach tailored to nonpublic government contractors, which includes templates and other tools designed to support a company’s planning, assessment, and implementation of the new standard. Our approach includes, but is not limited to:

- Identifying policy and procedure gaps to assess implications and developing an approach to assess the contract population;
- Performing an initial risk-based stratification of the contract population to identify subsets of contracts requiring special review and sample testing/assessments;
- Providing customized, qualitative, and quantitative contract review assessment tools and templates tailored to an entity’s contract environment;
- Performing detailed contract reviews and documenting qualitative and quantitative impacts of the new standard;
- Determining the initial financial impact of the new standard on financial statements;
- Assessing additional data and system needs to accumulate, track, and report contract information required for the new standard and to accommodate disclosures;
- Working with auditors as appropriate to ensure a smooth and collaborative approach;
- Tracking, monitoring, and reporting progress against the established plan to management, as appropriate;
- Drafting and modifying accounting policies and procedures to conform to new standard requirements;
- Determining the impact of accounting and reporting changes on book/tax differences, book/CAS differences, compensation plans, FP&A requirements, and other relevant operational and performance metrics;
- Developing tools, templates, and workarounds to enable parallel financial reporting;
- Assessing and testing system-based solutions for parallel reporting periods and/or go forward accounting processes;
- Testing and finalizing new financial reporting disclosures including developing templates to support financial statements; and
- Reviewing post-implementation guidance to apply necessary updates to policies and procedures.

Post-Implementation Review

The FASB has been addressing post-implementation issues that many companies are facing, including the effect of new standards issued since ASC 606 went into effect. Further guidance has been issued on topics such as modifications to contracts, embedded leases, and credit risks, with additional guidance expected to be continually issued as part of the FASB’s post-implementation review. Companies are encouraged to remain up to date with new guidance on the ASC 606 standard, and periodically review their policies & procedures to address any changes that may affect the revenue recognition process. Chess offers a thorough review of an entity’s revenue recognition policies to recommend updates in response to these post-implementation issues.

THE CHESS CONSULTING ADVANTAGE

Chess's highly experienced team of government contract accounting and regulatory compliance experts have worked with contractors and their external auditors on a multitude of accounting and financial reporting matters over many years. Our clients include some of the largest government contractors in the country spanning a wide variety of industries, including aerospace and defense, healthcare, construction, technical services, biopharmaceutical, and higher education.

We have been assisting clients with ASC 606 since late 2014. Our work includes reviewing and evaluating current customer contracts, internal processes, and procedures, and then using the knowledge gained to form a comprehensive risk-based transition strategy. Notable client engagements include:

- Fortune 500, engineering, technology, and management consulting firms. These companies provide numerous services and products contracted under multiple contract types. We began working with these companies in the first quarter of 2015 on the initial evaluation of their contract population and helped with the design of their overall implementation plan/strategy. By utilizing Chess, these companies completed their implementation plans well ahead of their competitors.
- Publicly traded aerospace and defense contractors. These companies have a diverse portfolio of complex, long-term development, and production contracts. We began working with these companies in the third quarter of 2015 by developing a tailored contract assessment and documentation tool that was utilized to facilitate contract reviews. Upon completing our review of an initial sample of contracts, we identified key impacts of the new standard. A risk-based stratification of the remaining contract population was subsequently developed along with an implementation strategy and project plan.

In addition to the ASC 606 project implementation experience noted above, we also have significant experience evaluating and determining proper accounting treatment of complex revenue recognition transactions. Our experience includes providing expert consultation and testimony related to revenue recognition matters handled as part of SEC accounting investigations, purchase price disputes, and accounting restatements.

SERVICE LINE CONTACTS:

David Hess, *Managing Director*
Ed Tharp, *Director*

CHESS
CONSULTING LLC

11710 Plaza America Drive, Suite 820, Reston, Virginia 20190
(703) 796-2850 | www.ChessConsultingLLC.com

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