

Implementing the New FASB Revenue Recognition Standard – ASC 606 for Nonpublic Entities



Complex Accounting
Disputes
Investigations
Regulatory Compliance

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 new standard is effective for publicly held companies for reporting periods beginning after December 15, 2017; it is effective for all other entities applying U.S. GAAP for annual reporting periods beginning after December 15, 2018 and for interim reporting periods beginning after December 15, 2019. Companies may choose a full or modified retrospective adoption method. Under a full retrospective method, each prior period must also be presented under the new standard. Depending on the chosen adoption method, companies are strongly encouraged to start the implementation process sooner rather than later.

The core principle of the new standard is that an entity shall recognize revenue in a pattern that depicts the transfer of promised good and services to customers in an amount which reflects the consideration the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity shall apply the five step model provided in the guidance to assess revenue on each contract:

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

Under the nonpublic entity requirements of ASC 606, there are no specific recognition or measurement differences for

nonpublic entities identified in the 5 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.

Implementing the New Standard

All companies will experience some level of change, including more judgment in determining the timing and amount of revenue recognized. For many entities, these new requirements will have a broader impact requiring significant system and process changes necessary to collect and analyze contract-related data. The new standard will require entities to re-evaluate their current accounting and contracting processes, which may reveal hidden resource needs and opportunities for improved financial reporting efficiency.

Chess Consulting (“Chess”) has 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 a work plan/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/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; and
- Testing and finalizing new financial reporting disclosures including developing templates needed to support financial statements.

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:

- *Multiple publicly traded, Fortune 500, engineering, technology, and management consulting firms.* The company provides numerous services and products contracted under multiple contract types. We began working with the company in the first quarter of 2015 on the initial evaluation of its contract population and the design of its overall implementation plan/strategy. To date, the company has completed several phases of the implementation plan and is well ahead of its competitors in the adoption of the new standard.
- *Multiple publicly traded aerospace and defense contractors.* The company has a diverse portfolio of complex, long-term development and production contracts. We began working with the company in the third quarter of 2015 by developing a tailored contract assessment and documentation tool that is currently

being 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.

Chess Consulting Differentiators

Deep industry knowledge and technical expertise which helps each client deal effectively with the complexities of the processes and issues facing its business.

Profitability focus concentrating on actions and solutions that create a competitive business advantage while fully complying with regulatory requirements.

Practical and creative solutions that effectively address difficult compliance and business issues.

Supportable positions that have been proven to withstand scrutiny from regulatory agencies such as the SEC, DCAA, DOJ, and GAO.