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ASC 606 is the new revenue recognition standard that affects all businesses that enter into contracts with customers to transfer goods or services – public, private and non-profit entities.

Both public and privately held companies need to be ASC 606 compliant now based on the 2017 and 2018 deadlines. Companies not only have to modify how they recognize revenue; they must now include certain costs related to capturing that recognized revenue. For many businesses, those costs include:

**Key Takeaway**

Additional Costs to Revenue Recognition

- Sales commissions
- Capitalize certain commission costs
- Amortize the costs to match the timing of the revenue recognized

For some companies (like Saas companies), the accounting changes for sales commissions are a bigger impact than the changes for revenue.

ASC 606 provides a framework for businesses to recognize revenue more consistently. The standard’s purpose is to eliminate variations in the way businesses across industries handle accounting for similar transactions.

This lack of standardization in financial reporting has made it difficult for investors and other consumers of financial statements to compare results across industries, and even companies within the same industry.
What is different this time around?

THE NEW GUIDANCE

• Removes inconsistencies and weaknesses in existing revenue requirements
  
• Provides a more robust framework for addressing revenue issues
  
• Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets
  
• Provides more useful information to users of financial statements through improved disclosure requirements
  
• Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

KEY TAKEAWAY

Deadlines for Adopting ASC 606 Guidelines

• US Public Companies must adopt these rules for fiscal years starting after 12/16/2017
• US private companies for fiscal years starting after 12/15/2021
The impact might not be as significant for companies, such as retailers, that sell products and receive revenue at one time. For companies that sell ongoing services like subscriptions or licenses, the rule may improve more than one factor within.

Under the previous law, if a company sold a 12-month software product license, it could apply only six months of revenue to its books and not apply the next six months until the following year. ASC 606 will now allow the revenue to be counted all at once.

In order to meet the new ASC 606 requirements and amortize commissions, companies will be forced to separate much of their data. The explosive growth in data volume will make manual management of commissions extremely challenging.

This may require breaking down commission calculations to the contract or product level, or a reasonable estimation method to separate the commission amounts. ASC 606 will now allow the revenue to be counted all at once.

For subscription-based companies, the new standards could impact growth by hindering sales and marketing efforts. In order to achieve compliance, businesses may feel forced to adjust their contract designs, pricing models, and practices for modifying and managing contracts.

**KEY TAKEAWAY**

**Deadlines for Adopting ASC 606 Guidelines**

Companies selling ongoing services, subscriptions, and licenses will be more affected by ASC 606 standards and may even see company improvements as a result.
ASC 606
5 Step Model

When developing ASC 606, FASB and IASB wanted to provide a framework to drive consistency in financial reporting, improve comparative analysis and reporting, and simplify the preparation of financial statements with a 5 Step Model for Revenue Recognition.

1. IDENTIFY THE CONTRACT WITH A CUSTOMER
   This step outlines the criteria that must be met when establishing a contract with a customer to supply goods or services.

2. IDENTIFY THE PERFORMANCE OBLIGATIONS IN THE CONTRACT
   This step describes how distinct performance obligations in the contract must be handled manual management of commissions extremely challenging. This may require breaking down commission calculations to the contract or product level, or a reasonable estimation method to separate the commission amounts.

3. DETERMINE THE TRANSACTION PRICE
   This step outlines what must be considered when establishing the transaction price, which is the amount the business expects to receive for transferring the goods and services to the customer.

4. ALLOCATE THE TRANSACTION PRICE
   This step outlines guidelines for allocating the transaction price across the contract’s separate performance obligations, and is what the customer agrees to pay for the goods and services.

5. RECOGNIZE REVENUE WHEN A PERFORMANCE OBLIGATION IS SATISFIED
   Revenue can be recognized as the business meets each performance obligation. This step specifies how that should happen.
How can NOW CFO help

Organizations large and small will find the transition provides an opportunity to transform their businesses for the better and Now CFO can help guide you through this process.

In preparation for the impending deadlines at the end of 2021, many subscription billing vendors have launched internal basic revenue recognition reporting—with emphasis on the word basic—that still require time-intensive, headache-inducing spreadsheets.

Meeting the new compliance standards will take time and careful planning but it shouldn’t be a dreaded process.

WE HAVE A BETTER SOLUTION.

Reach out to us and let us show you how we can save you stress and costs with our outsourced experts.