The clock is ticking on the new accounting standard
Are private companies prepared?

The time to comply with the new revenue recognition standard is drawing near. Accounting Standard Codification (ASC) 606 goes into effect for private companies at the end of 2018. Replacing almost all current revenue guidance, the new standard is set to enhance quantitative and qualitative disclosure requirements.

But many companies are realizing implementation will be no easy feat. Between weeding through numerous pages of guidance, to making sure the right skillsets and staff are in place, applying the standard can be a massive undertaking with challenges and opportunities to consider. Given that public companies are nearly finished implementing the standard, private companies can take advantage of their public counterparts’ learnings as they gear up for the transformative changes.

Understanding the requirements
Companies need to understand the full impact of the standard. Just over 23 percent of respondents to a recent Deloitte poll are only in the preliminary stages of assessing the standards’ impact across their business functions, while 32 percent are unsure if the impact on business functions outside of accounting has even been considered.

Deloitte’s roadmap to applying the new standard, and the five-step model, can help companies understand how to tackle these changes.

**Step 1**
- Identify the contract with the customer, meeting all necessary criteria.

**Step 2**
- Identify the performance obligations.
  - This is a step that has proven to be difficult in practice. In fact, almost a quarter of respondents reported that ensuring appropriate judgment on when and how to recognize revenue is their biggest challenge in implementation.

**Step 3**
- Determine the transaction price, taking into account variable considerations, significant financing components, and noncash considerations.

**Step 4**
- Allocate the transaction price, using estimates if standalone prices are not observable.

**Step 5**
- Recognize revenue, as performance obligations are satisfied.

Five-step model for recognizing revenue

This revenue recognition model is based on a control approach, which differs from the risks and rewards approach applied under current accounting principles generally accepted in the United States of America (GAAP).
Jumpstarting the process
Given the complexity of the standard and the impact across business functions, the sooner private companies start designing their implementation process, the better. But approximately 17 percent of Deloitte’s poll respondents have not yet started the implementation process, and 29 percent are only in the early stages. In addition to implications for accounting and data-gathering, a successful implementation strategy may impact personnel outside of the finance function and technology aspects of the business.

Getting the right people on board from the start is important. Private companies would be wise to inform their board, audit committees, and key stakeholders of their plan. It is also important to consider whether they have the internal and external resources to be successful. While just under 29 percent of respondents believe they have sufficient resources in house, nearly 42 percent have not yet thought through their staffing needs. Hiring outside help may be in order. Furthermore, to keep their internal stakeholders informed, companies can benefit from developing training for all employees involved and anticipate changes to commission structures once the new standard is in effect. Collaboration between the sales, finance, legal, IT, and tax departments can help to streamline the transition.

The new accounting standard may render existing forecasting and revenue-tracking systems ineffective. The implementation process presents an opportunity for companies to upgrade data capturing systems and adopt innovative technologies. As companies embark on this process, they must evaluate existing contracts, test modifications to accounting systems, assess tax implications, and identify data gaps. To ensure proper compliance, companies should evaluate sustainability across accounting, controls, data systems, and disclosures. Organizations would also be wise to revisit the financial close process and develop more streamlined procedures.

The clock is ticking, and it’s important for private companies to get a head start on what can prove to be a massive undertaking. This is especially true for companies who must also comply with the new lease accounting standard.

Conclusion: No one gets a free pass

01 Assemble the internal resources you need to carry out the new standard
02 Engage outside help, as needed, to supplement their efforts
03 Don’t underestimate the amount of work that’s involved
04 Don’t delay—2019 is just around the corner

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