Public companies with fiscal years ending December 31st have now adopted the new revenue recognition standard (ASC 606) and applied it for the first time to their quarterly reports. However, there is still important work to do.

As a principles-based framework, ASC 606 relies heavily on judgment. To help ensure your organization is on the right track, it makes sense to look at disclosure examples from other companies to see how they handled accounting for revenue recognition and related disclosure in their most recent quarterly reports, and then evaluate your own revenue recognition practices accordingly.

**Seeing how you stack up**

When benchmarking your company's accounting and disclosure practices for revenue recognition against those used by other companies within and beyond your industry, you may find:

- **Alignment.** Your practices generally align with what other companies are doing, which suggests your actions and overall approach likely don't warrant adjustments at the present time.

- **Misalignment and risk.** Your practices vary from what other companies are doing in ways that might be exposing your organization to risk due to lack of detail or less common interpretations about how to apply the new standard.

- **Misalignment and opportunity.** Your practices vary from what other companies are doing in ways that might be overly conservative or detailed, which suggests there may be opportunities to streamline your processes and workflow while still achieving full compliance.

**Taking action**

If your company's revenue recognition practices are out of line with what others are doing, you should consider carefully analyzing the differences and evaluate the possible need to take action. Some key questions to ask include:

- Did your company's initial judgment about applying the new revenue recognition principles lead to accounting practices outside of the mainstream?
- Did your company choose to disclose too little (or too much) detail about revenue-related issues?
- Are there opportunities to make the process of revenue reporting and disclosure more streamlined, effective, and sustainable?

If your initial analysis and benchmarking effort reveals significant variation from others, consider consulting with your auditor and advisors—as well as other companies in your industry—to get an outside perspective on choosing a preferred course of action.
Comments from the SEC

The SEC is reviewing company filings and providing comments about changes companies need to consider related to revenue recognition and disclosures. However, it is not expected that the SEC will comprehensively review all filings in the near term for companies having adopted the new standard, so lack of contact from the SEC does not necessarily mean there are no issues to address. Ultimately, it is each company’s responsibility to understand what is appropriate and achieve the required compliance.

It should be noted that there is often a lag in the public availability of SEC comments. This could complicate your benchmarking effort by making it hard to know if other companies’ current practices have been subject to SEC review, or are in the process of being changed (whether driven by the companies’ own internal benchmarking efforts, or in response to SEC comments).

At the moment, it is too early to draw general conclusions about the SEC’s position on compliance with the new revenue recognition standard. The SEC Staff has said that they’re focusing first on whether there are accounting issues and therefore may not comment on disclosures until a later review. However, our initial observations from discussions with SEC Staff—as well as our own reviews of numerous quarterly filings—suggest that improvement of disclosures may be needed by some companies. In particular, the explanation of significant judgments may need to be more robust; examples include the description of performance obligations (what are they, how are they determined, when is revenue recognized) and key factors a company considered in a principal vs. agent analysis.

Next steps

If your company finds itself at either end of the compliance spectrum, it may have cause for concern—especially in these early days of the new standard when there is still uncertainty and greater scrutiny over reporting practices.

Being an outlier at this stage may warrant attention and further evaluation. In areas where your company varies significantly from the norm, you may benefit from asking if there are different facts and circumstances that drove the variation, different judgments that are both reasonable and acceptable, or other reasons for taking a different approach.

Given the ongoing uncertainty, this is a critical time to assess your accounting and disclosure practices related to revenue recognition, and to evaluate if adjustments are warranted to bring those practices more in line with what others are doing.

Let’s Talk:

For additional information regarding the above and other interpretative guidance related to the new revenue standard, contact:

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