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## The New Revenue Standard & What Your Business Needs to Do

The FASB has made its final amendments and clarifications to the new revenue recognition standard Revenue from Contracts with Customers (Topic 606 of the Accounting Standards Codification). The standard's implementation date for public entities is for fiscal years beginning after December 15, 2017. The implementation date for nonpublic entities is a year later, fiscal years beginning after December 15, 2018. Nonpublic entities have the option to early adopt Topic 606 as of the public entity implementation date.

Topic 606 is a principle-based standard that replaces our current, complex industry-specific revenue recognition guidance. The new five-step revenue recognition model replaces the four criteria we currently use to determine how to account for revenue. Topic 606's impact will vary among industries, but most entities will see some level of change in how they evaluate contracts and recognize the related revenue.

What entities will be most impacted by the new standard? If your contracts or the products or services offered have one or more of the following characteristics or offerings, you will want to look closely at Topic 606 and soon:

- multiple elements (hardware, software, and/or services)
- licensing of intellectual property
- contract modifications are common
- variable consideration (volume discounts, rebates, refunds, incentives, price concessions, and royalties)
- offers to purchase additional goods or services
- right of return or warranties
- percentage of completion accounting or milestone payments
- cash method used to record revenue

The list above is not intended to be inclusive, so your operations may have specific characteristics that could result in significant changes to revenue under Topic 606. Topic 606 can also impact your operations beyond the technical accounting for revenue recognition. To implement the new standard, management will need to consider its impact on:

- standard contract terms
- customer communications
- go-to-market strategies
- compensation arrangements
- investor relations
- debt covenants
- income taxes

Accounting and financial personnel will definitely feel the full impact of implementing Topic 606; however, the standard will be felt throughout your organization, as management must reassess the entity's overall:

- business processes
- accounting systems
- departmental lines of communications
- internal controls over financial reporting
- capital and personnel budgets
- data retention capabilities to capture and process the accounting information needed

The new standard will apply to all existing contracts at the effective date and all future contracts. Topic 606 allows two methods to account for the standard's implementation:

- retroactive application (restating all periods being presented)
- cumulative effect (apply guidance at adoption date)

Regardless of the method selected, management will have to account for all revenue transactions twice for at least one year, to capture revenue under Topic 606 and under the entity's current accounting policies in order to present the significant disclosures required in the 2019 financial statements. This dual revenue reporting will far exceed the capabilities of less sophisticated accounting systems currently utilized by the more complex and fast growing entities.

January 1, 2019 may seem far away; however, a smooth transition to Topic 606 will require a detailed implementation plan and a significant investment of time and resources.

An entity positioning itself as an acquisition target should begin assessing the impact of Topic 606 on operations now. Understanding how Topic 606 will impact your future revenues is essential to help your stakeholders determine the true value of your entity and better negotiate a fair acquisition price. For an acquirer, that is a public entity, it will be important to understand how ready a target company is for the transition to Topic 606. By taking charge of assessing Topic 606's impact on your operations, your stakeholders can be in a much stronger negotiating position. Implementation planning should begin now!

### **How can we help?**

We can leverage our detailed knowledge of your business operations, products and services, contracts, accounting policies and procedures, personnel resources, and accounting system capabilities to:

- train management, personnel and stakeholders on Topic 606
- analyze existing revenue streams and contract terms to identify areas requiring management's immediate attention
- recommend improvements to contract terms, revenue policies and processes
- help form an internal implementation team consisting of key stakeholders
- assist in developing an implementation process, including timeline, budget and lines of communication
- provide ongoing support to the implementation team and management, as needed
- assess system capabilities and provide input as to potential system solutions

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