

# 5 Steps for Revenue Recognition Under ASC 606

The new revenue recognition standard could change the way your company records revenue and structures deals and contracts. It will impact everything from your accounting processes and customer contracts to your technology systems and financial statements. Private companies need to join public companies in adopting the new revenue recognition rules (ASC 606) for 2019.

See below for a high-level overview of the five steps for revenue recognition under ASC 606, and some important points to consider at each stage.



## STEP 1

### *Identify the Contract*

The first step is to identify the contract, which establishes enforceable rights and obligations with the customer. All parties must have approved the agreement and be committed to fulfilling their performance obligations. Each party's rights and payment terms must be identifiable, the agreement must have commercial substance, and collection must be probable. Some things to consider:

- Contract may be informal or formal
- Can combine similar contracts if certain criteria are met



## STEP 2

### *Identify Performance Obligations*

Next, you need to identify all performance obligations (i.e., promises to transfer distinct goods or services to a customer) in the contract. In addition to obligations that are defined in the contract, you should consider any obligations the customer may reasonably expect based on past experiences with your organization. Some things to consider:

- Focus on material rights (e.g. loyalty program that gives customer options to acquire additional goods or services free or at a discount under contract)
- Look out for performance obligations such as warranties, installation, training and maintenance



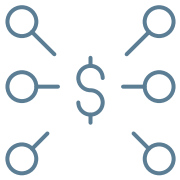
### STEP 3

## ***Determine the Transaction Price***

How much do you expect to be entitled to for transferring promised goods or services?

The transaction price can be fixed, variable or both. Some things to consider:

- Fair value of non-cash consideration included in transaction price
- Estimate variable consideration for items subject to change (e.g., discounts, incentives, penalties, rebates, refunds, sales to distributors, etc.)



### STEP 4

## ***Allocate the Transaction Price***

You then need to allocate the transaction price to the performance obligations in the contract based on the stand-alone selling price of each performance obligation. Some things to consider:

- Estimate standalone selling price if it is not observable
- Various methods for estimating standalone selling price are allowed under ASC 606



### STEP 5

## ***Recognize Revenue***

Finally, the allocated amounts mentioned above are recognized as revenue when or as the performance obligations are satisfied. Revenue is recognized over time if certain criteria are met. If not, revenue is recognized at a point in time. Some things to consider:

- Timing of transfer of control impacts revenue recognition
- Revenue recognized over time is measured using an input or output method

While having a single standard for revenue recognition is beneficial in many ways, accounting for revenue has now become much more complex and time-consuming for many companies. The considerations outlined above are only a few of the items you will need to address in implementing the new standard. Contact Kaufman Rossin to learn more about the new standard and what your company needs to do to comply.