



Revenue Recognition (ASC 606/IFRS 15) Impact Assessment Guide: Your Roadmap to Compliance

Learn why proactive public companies are conducting ASC 606 Impact Assessments in 2016, and discover how SolomonEdwards can provide important insight on your accounting and reporting, internal controls, and business operations.

A Recap of ASC 606 / IFRS 15:

What: Impacts on revenue accounting from contracts with customers.

Who: This Standard will impact every business in some way. While the new guidance primarily affects the accounting and financial statement disclosures relating to revenue, complying with the Standard may also require companies to change operational processes, related internal controls and even business systems. Therefore, a comprehensive and proactive approach to evaluating the potential impact of the new revenue recognition Standard is essential.

When: Public organizations should apply the new revenue standard to annual reporting periods beginning after December 15, 2017. Nonpublic organizations should apply the standard to annual reporting periods beginning after December 15, 2018. Both US GAAP and IFRS set forth certain provisions for early adoption.

Why: The Standard requires either full or simplified retrospective transition, so at a minimum companies will need to be prepared to review the impact of the Standard on the fiscal year prior to formal adoption, and possibly two years prior if financial reports present three years of data (ex. public companies).

WHY CONDUCT A REVENUE RECOGNITION IMPACT ASSESSMENT?

In May 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) jointly issued a new accounting standard (ASC 606 or the Standard) governing revenue from contracts with customers. Our preceding whitepaper on [A Successful Transition to ASC 606 / IFRS 15: Revenue from Contracts with Customers](#) summarizes the way the new revenue recognition rules require change to current practice and the critical insights that will facilitate a successful transition to the new world of accounting and financial reporting for revenue.

Our Transaction & Regulatory Advisory Services (TRAS) practice provides ASC 606 Impact Assessment services, a best practice that proactive public companies are conducting to evaluate the potential impact of the Standard on accounting and reporting, internal controls and business operations. Such an assessment will enable a company to more effectively plan for ASC 606 compliance.

The Impact Assessment will also provide company management with important insight into potential changes to the internal control structure and business operations environment (revenue cycle processes and procedures) that may be required to support the company's ongoing compliance. Because the Standard requires a retrospective transition covering years prior to its effective date, 2016 is an ideal year to conduct an ASC 606 Impact Assessment Initiative.

ASC 606 IMPACT ASSESSMENT APPROACH & KEY PROJECT TASKS

SolomonEdwards' Impact Assessment is comprised of the following key tasks:

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| 1 | Plan | Conduct a thorough review of revenue stream data and other revenue cycle documentation |
| 2 | Interview & Analyze | Interview key revenue cycle process owners and stakeholders and analyze customer contracts |
| 3 | Prepare Assessment | Prepare preliminary Impact Assessment document |
| 4 | Review & Refine | Review preliminary Impact Assessment with company management and refine as appropriate |
| 5 | Finalize | Finalize Impact Assessment and review with company management, Board and Auditors |

1 PLANNING ACTIVITIES

Planning activities include an in-depth review of disaggregated data on the company's revenue streams, including an analysis of:

- Revenues broken down by product and service (more line item detail is better)
- Revenues by country / geographic breakdown (as appropriate)
- Revenues broken down by legal entity
- Revenues by customer
- Revenues by end market (as appropriate)

In addition, a review of existing process documentation for the company's revenue cycle focused on the following types of items:

- Public filing disclosures on revenue recognition policy
- Revenue recognition policy and procedures manuals
- Current SOX revenue cycle process and control documentation and testing work papers
- Internal Audit reports (if applicable) on revenue cycle (order to cash process)
- Any management letter comments issued by the external auditor relevant to revenue recognition, process or controls
- Sample standard customer contract terms and conditions

The SolomonEdwards team will conduct an in-depth review of the materials set forth above while also identifying the key process owners and stakeholders to be interviewed during the assessment project through collaboration with the company's management team. We will schedule interviews with the stakeholders and prepare questions for each based upon the review of the materials provided by management. We will also make a selection of specific customer contracts to review as part of the assessment activities.

At the conclusion of planning activities, SolomonEdwards will present company management with a project plan for next steps in ASC 606 Impact Assessment initiative including:

- In scope revenue streams
- Key process owners and stakeholders to be interviewed
- A sample selection for representative customer contracts to be reviewed
- Related time and fee projections associated with these activities

As part of this assessment SolomonEdwards will recommend a resource allocation plan for how the remaining assessment activities will be staffed with either company or SolomonEdwards resources, as appropriate.

At the conclusion of planning activities, our team will present company management with a project plan for next steps in ASC 606 Impact Assessment.

2 INTERVIEW KEY STAKEHOLDERS & ANALYZE CUSTOMER CONTRACTS

SolomonEdwards will interview key revenue cycle process owners and stakeholders and conduct a detailed review of a sample of material customer contracts underlying each of the revenue streams under review as part of the ASC 606 Impact Assessment. Typically, the key process owners and stakeholders to be interviewed will be selected from the functions that span the revenue cycle (order to cash) process and include, but not be limited to, corporate accounting, contract administration, legal, internal audit, sales, operations, and customer fulfillment.

With respect to the analysis of specific customer contracts, factors impacting the sample of customer contracts to be reviewed include:

- The extent to which contractual terms and conditions with customers are standardized
- The relative diversity and complexity of the revenue streams identified in the Planning activities as noted above
- The relative materiality of individual customer contracts

The objective of the customer contract analysis aspect of the ASC 606 Impact Assessment is to evaluate the provisions of the Standard on actual customer arrangements from which the Company derives its revenues. Therefore, the number of contracts sampled should enable management to conclude that it has considered all of its unique revenue streams, customer arrangement types and unique terms and conditions in evaluating the impact that ASC 606 may have on its business.

3 PREPARE PRELIMINARY IMPACT ASSESSMENT

Once a comprehensive understanding of the company's current state revenue cycle is obtained through the planning activities, key process owner and stakeholder interviews and customer contract analysis described above, SolomonEdwards will prepare a preliminary draft of the Impact Assessment document. The primary focus of this draft will be to develop the Revenue Standard Compliance Risk Matrix (as further described below). Our Microsoft Excel based matrix workbook sets forth all of the key provisions of ASC 606 and, by comparison to the company's current practice in each of these areas, is used to document a risk rating for the company's state of compliance readiness using a 3-level color coded key. The first draft of the document will also provide SolomonEdwards' observations regarding the steps that the company will need to take to achieve compliance readiness in any area rated as a moderate or high compliance risk.

Our Microsoft Excel based matrix sets forth all of the key provisions of ASC 606 and, by comparison to the company's current practice in each of these areas, is used to document a risk rating for the company's state of compliance readiness.

4 REVIEW PRELIMINARY IMPACT ASSESSMENT WITH COMPANY MANAGEMENT

SolomonEdwards will review the content of the preliminary Impact Assessment with company management in a working session. The objectives of this working session will be to share with management the observations SolomonEdwards has noted relative to the ASC 606 Compliance Risk Matrix and to collaborate on those issues considered to be of moderate or high compliance risk to determine what level of further investigation or analysis may be appropriate at the current time (if any) to further refine the compliance road map for those areas or set the scope of any separate engagements to assist the company with specific remediation efforts.

5 FINALIZE IMPACT ASSESSMENT & DISTRIBUTE

After SolomonEdwards meets with company management to discuss the preliminary Impact Assessment Matrix and incorporate the feedback from management into the Compliance Road Map, SolomonEdwards will finalize and deliver the Impact Assessment document to company management.

If requested to do so, SolomonEdwards will subsequently participate in meetings to present the results of the ASC 606 Impact Assessment and Compliance Road Map to the company's auditors and/or Board of Directors.

The objectives of the working session will be to share the ASC 606 Compliance Risk Matrix and to collaborate on those issues considered to be of moderate or high compliance risk.



WHAT DOES THE IMPACT ASSESSMENT INCLUDE?

Executive Summary

The Executive Summary provides an overview of the assessment procedures performed, an overall summary of the Revenue Standard Compliance Matrix, including the total number of key provisions rated at low, moderate and high levels of compliance risk, as well as a discussion of the key priorities identified in the Compliance Road Maps.

ASC 606 Compliance Risk Matrix

The Risk Matrix provides a comprehensive documentation of the key provisions of ASC 606, the company's current state policies, procedures and business practices impacted by the key provisions of ASC 606 and a risk rating for the company's current state of compliance readiness utilizing a color-coded assessment as set forth below:

LOW RISK (GREEN)

Key Provision of ASC 606 is either not applicable to the company or the company's current practice indicates that no material change in business practice, internal control, policy or procedure will be required to achieve compliance with the requirements of ASC 606

MEDIUM RISK (YELLOW)

Key Provision of ASC 606 is applicable to the company and the company's current practice indicates that a change in business practice, internal control, policy or procedure will be required to achieve compliance with the requirements of ASC 606

HIGH RISK (RED)

Key Provision of ASC 606 is applicable to the company and the company's current practice indicates that a significant change in business practice, internal control, policy or procedure will be required to achieve compliance with the requirements of ASC 606

By combining the risk rating with the key steps needed to achieve compliance and estimated time frame, management will have a critical starting point for developing a compliance plan.

Compliance Road Map

The Compliance Road Map will provide company management with a useful planning tool for achieving compliance with the provisions of ASC 606 through a discussion of the steps that may need to be taken to facilitate the changes in business practice, internal control, policy or procedure. The Compliance Road Map will focus on those areas of moderate (yellow) or high (red) risk for the company, including an estimated time frame and level of effort anticipated to achieve compliance. By combining the risk rating with the key steps needed to achieve compliance and estimated time frame, company management will have a critical starting point for developing a project plan for attaining full compliance with the provisions of ASC 606 by the effective date as appropriate. SolomonEdwards can then work with the company to set the scope of any separate engagements to assist with the implementation of the Compliance Road Map, project management and/or execution of the specific tasks in the project plan or remediation efforts that may be required to achieve compliance with ASC 606.

OUR EXPERIENCE – YOUR SUCCESS

SolomonEdwards' TRAS team brings deep expertise in US GAAP & IFRS accounting and reporting requirements for revenues. We are proud of the track record of success we have established in serving both privately owned and publicly traded clients with projects focused on revenue recognition, revenue cycle process improvement, internal controls, and financial reporting for revenues. Below is snapshot of our recently completed client projects that serve to demonstrate our qualifications in ASC 606 / IFRS 15 transition:

1. ASC 606 / IFRS 15 Impact Assessment
2. Revenue Policy Development Project
3. Customer Level Profitability Analysis
4. US GAAP Revenue Recognition Compliance Review for Digital Advertising Client
5. Revenue Recognition Policy & Disclosure Project for IPO Candidate Client
6. Recurring Monthly Revenue Analysis
7. Customer Contract Review Project
8. Conversion to US GAAP for Software Client
9. Restatement of Revenue (US GAAP) for Publicly Traded Business Services Client
10. Analysis of Deferred Revenues for Post M&A Working Capital True-Up
11. Revenue Analysis of Acquisition Target

ABOUT SOLOMONEDWARDS

SolomonEdwards is a national professional services firm focused on strategy execution. We create success for our clients by providing extensive experience, deep subject matter expertise and adaptability within ever-changing business dynamics. Through our business consulting division we execute custom solutions that solve clients' critical business issues related to business transformation, accounting and finance, governance and regulatory compliance and mergers and acquisitions.

The Transaction & Regulatory Advisory Services practice at SolomonEdwards works closely with private equity firms, portfolio company clients as well as corporate buyers and sellers executing mergers and acquisitions. We partner to meet their unique business objectives along the full cycle of a deal. Our experienced and knowledgeable consultants provide support with pre-deal evaluation, transaction reporting, post M&A integration and regulatory compliance to ensure clients are prepared to meet and overcome any challenges that emerge throughout the transaction. Our services include:

- SEC filing preparation & review
- Financial statement compilation
- Technical research & consultation
- US GAAP & IFRS conversions
- Audit readiness / IPO readiness
- Purchase accounting & reporting
- Operational / profit improvement
- Fresh-start accounting
- Technology assessment & implementation
- Accounting operations special projects
- Policy & procedure development
- Process documentation & integration
- Due diligence & quality of earnings
- Post-transaction integration & compliance
- Process improvement & software integration
- Sarbanes-Oxley readiness & compliance
- Executive search services
- Interim CFO / controller resources

**CONTACT US FOR MORE INFORMATION ON CONVERGED REGULATORY STANDARDS
THAT AFFECT TODAY'S COMPLEX FINANCE AND ACCOUNTING REQUIREMENTS:**

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