

The Opportunity for Private Companies Implementing ASC 606

Accounting Standards Codification (ASC) Topic 606 created a five-step process that companies must use when recognizing revenue. The Financial Accounting and Standards Board (FASB) issued the new guidance to provide more transparency through extended definitions and disclosure requirements about revenue recognition.

Companies must implement ASC 606 for reporting periods beginning in 2021. Publicly-traded companies have mostly adopted the new standard and now private companies must do the same. Implementation involves a detailed look at a company's contracts which requires additional resources with technical accounting expertise – something smaller, private companies don't have. This article covers the revenue recognition steps in detail plus the new opportunities for companies as they implement ASC 606.



What is revenue recognition?

Revenue recognition is the process of accounting for the consideration a company expects to receive in exchange for goods and/or services provided to customers. Simply put, it's how businesses record sales and cash from customers.

Previous accounting standards required companies to recognize revenue as it is earned regardless of when cash is received. This is the basis of accrual accounting. Revenue recognition under ASC 606 delves deeper into contract terms with customers - this includes evaluating the type of services provided (nature), how long services will be provided (timing), and for what amount. Specifying the type of services provided is important to identifying the performance obligations of the contract. If there are multiple obligations, each must be evaluated separately.

The timing of services tells the number of periods (i.e. months or years) you will recognize revenue.

The amount to be recorded in the financial statements represents the price of all performance obligations specified in your contract with your customer.

Implementing ASC-606 for private companies.

Small businesses usually have simple revenue cycles which makes identifying contract components, price, and performance obligations easier. The implementation creates challenges because most small businesses lack the in-house expertise in technical accounting to interpret standards such as ASC 606.

Other issues include communicating cross-functionally, establishing repeatable processes for contract reviews, and improving processes and systems to accommodate revenue recognition requirements. Here's a detailed look at what companies need to consider as they move forward with ASC 606 implementation.

The first step in revenue recognition is to identify the [contract](#). Contracts can exist in written or oral form and creates enforceable rights and obligations under common law. Common law elements address the contract's existence, consideration, capacity, and legality. In identifying contracts with customers, companies must consider the following [criteria](#): rights and...

[If you need technical writing services, get in touch here.](#)