

How Private Companies Should Implement 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 disclosure requirements about revenue recognition.

All companies must implement ASC 606 for reporting periods beginning in 2021. Publicly traded companies have mostly adopted the new revenue recognition standard; private companies must do the same. Implementation involves a detailed look at a company's contracts which requires technical accounting expertise – something smaller, private companies don't have. This article covers the [5-step](#) revenue recognition process in detail.

ASC 606 Revenue Recognition Requirements

Revenue recognition is the process of accounting for the payment a company expects to receive for goods and services provided to customers. Simply put, it's how businesses record sales transactions from customers.

Previous accounting standards required companies to recognize revenue as it was earned regardless of when cash is received. This is the definition of accrual accounting. Revenue recognition under ASC 606 goes deeper into contracts 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.

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

The amount to record 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 terms, prices, and performance obligations easier. The implementation creates challenges because most small businesses don't have the internal expertise in technical accounting to successfully implement standards like ASC 606.

Other issues include creating repeatable processes for contract reviews while improving systems to accommodate revenue recognition standards. Here's a detailed look at what companies need to consider as they move forward with ASC 606 implementation.

1. Identify the contract(s) with a customer.

[Contracts](#) exist in written or oral form with enforceable rights and obligations. In identifying contracts with customers, companies must consider the following [criteria](#): rights of the parties, payment terms, collectability, the commercial substance of the transaction.