

Six Critical ASC 606 Misconceptions

Unravel Revenue Recognition Complexities and
Reduce Risk



COMPLEXITY *RISK*

The intricacies of revenue recognition can be complex and confusing.

One of the biggest challenges is understanding ASC 606. Not knowing the details can negatively impact financial reporting and day-to-day operations.

Let's examine common misconceptions about revenue recognition, as well as the realities and strategies to mitigate potential issues.

1. Misconception: ASC 606 Only Applies to Large or Complex Companies

Reality: ASC 606 applies to all entities that contract with customers, regardless of size or complexity. It spans industries and contract types, including simple service agreements.

Action: Create a policy that evaluates contracts based on ASC 606 requirements, regardless of their complexity or size. Train sales, legal, business ops, finance, and accounting on the policy, and ensure that appropriate contract approval controls are in place.

2. Misconception: Performance Obligations Are the Same as Contractual Deliverables

Reality: Performance obligations are specific commitments to provide goods or services within a contract. These obligations don't always correspond with contractual deliverables.

A single deliverable might encompass multiple performance obligations, or several deliverables could represent just one obligation. Identifying these obligations accurately requires careful analysis and judgment.

Action: Establish a process for analyzing contracts to identify performance obligations. Include training your accounting and other relevant teams on determining whether promised goods/services are capable of being distinct within the context of the contract, as outlined in ASC 606.

3. Misconception: Timing of Revenue Recognition Mirrors Cash Collection

Reality: Revenue is recognized when control of goods/services is transferred, or as a performance obligation is satisfied, not when cash is received. Depending on the nature of the performance obligation, revenue should be recognized over time or at a specific time.

Action: Develop controls and processes to track and recognize revenue independently of cash collection timing. Regularly reconciling cash collection schedules with revenue recognition waterfalls will facilitate a smooth close process.

4. Misconception: Variable Consideration Does Not Need to Be Estimated

Reality: Variable consideration (e.g., tiered pricing, volume-based discounts, rebates, bonuses, concessions) must be estimated at contract inception using methods prescribed by ASC 606. These estimates can create significant operational complications and require complex judgments.

Action: Develop models and processes for estimating variable consideration as part of the contract review process. Document assumptions as part of the process. Review outcomes against estimates to refine methodologies and avoid overstating or understating revenue. Update estimates each reporting period and update revenue recognized accordingly.

5. Misconception: Disclosure Requirements Are Simplistic

Reality: ASC 606 requires detailed disclosures regarding revenue streams, decisions made, and contract balances. These disclosures should allow stakeholders to gain a reasonable understanding of how the entity applies the five-step framework.

Action: Perform a gap assessment of current revenue disclosures against ASC 606 requirements. Establish a cross-functional team to ensure disclosure processes include all necessary information, such as qualitative descriptions of revenue streams, performance obligation timing, contract balances, and estimation techniques.

6. Misconception: Revenue Practices Are Already Compliant

Reality: Organizational changes to sales processes or systems may unintentionally lead to non-compliance. Finance may be unaware of changes that require adjustments to previous ASC 606 conclusions, data gathering, reporting, or systems including CRM or ERP.

Action: Schedule regular compliance audits to identify gaps between existing practices and ASC 606. Update CRM and ERP systems to better capture key data points for revenue recognition compliance. Train cross-functional teams to stay informed about, and communicate, all operational changes that impact revenue processes.

If you have any questions about these misconceptions and recommended actions or would like to discuss any challenging revenue recognition areas, we're here to help.

Let's work together to get ahead of these complexities and streamline your revenue recognition practices.



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