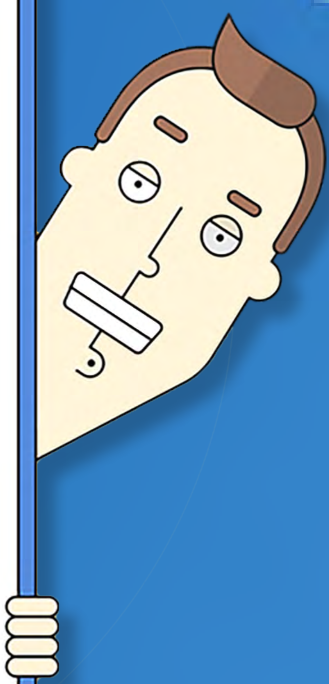
Factors to Consider When Choosing A Transition Method for

ASC 606

RevStream's Point of View on ASC 606 Transition Methods

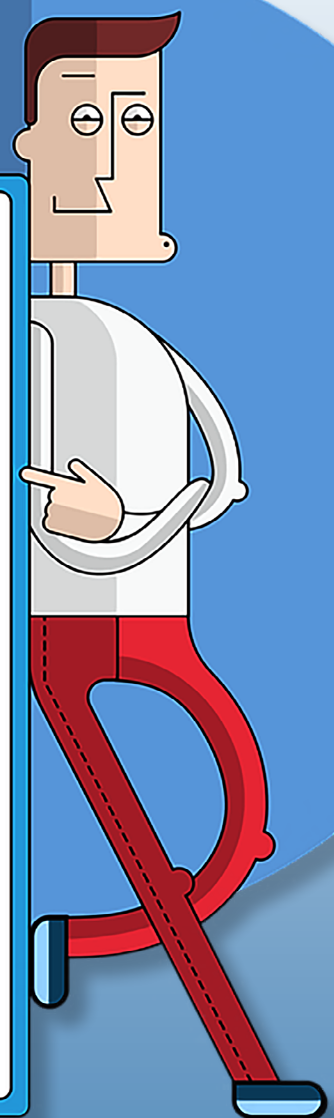


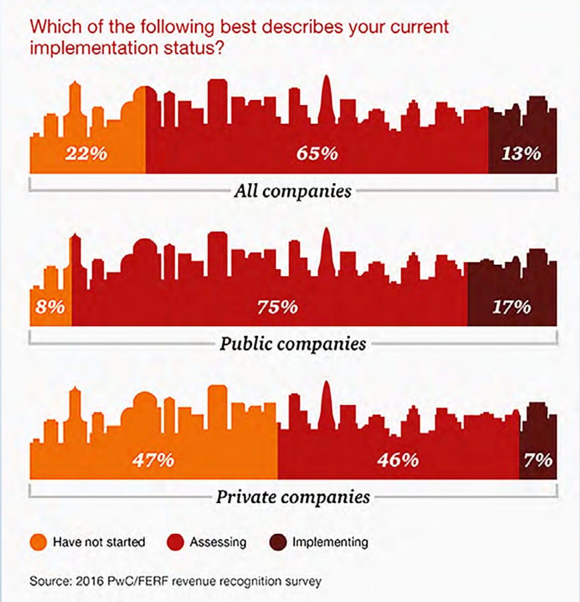
JUNE 2017

The deadline to comply with the new revenue recognition standards, ASC 606, is quickly approaching.

If you haven't started implementing a transition method, act now!

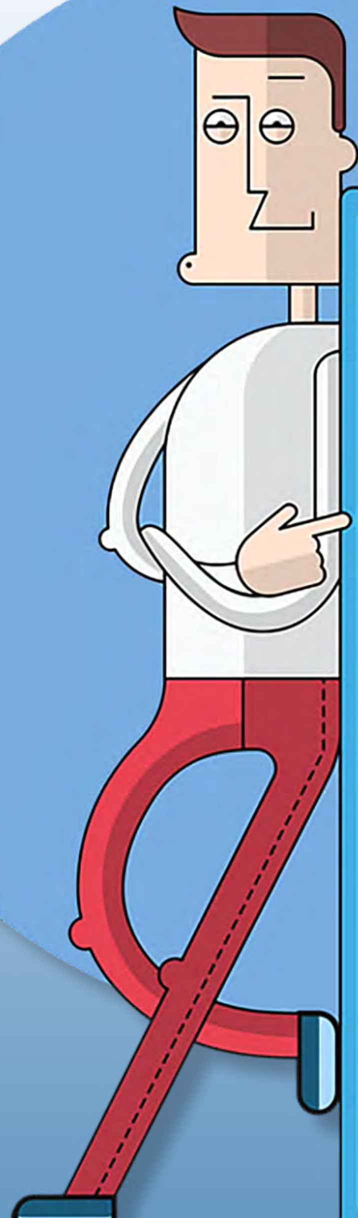
Don't underestimate the effort it will take. Noncompliance is not an option.





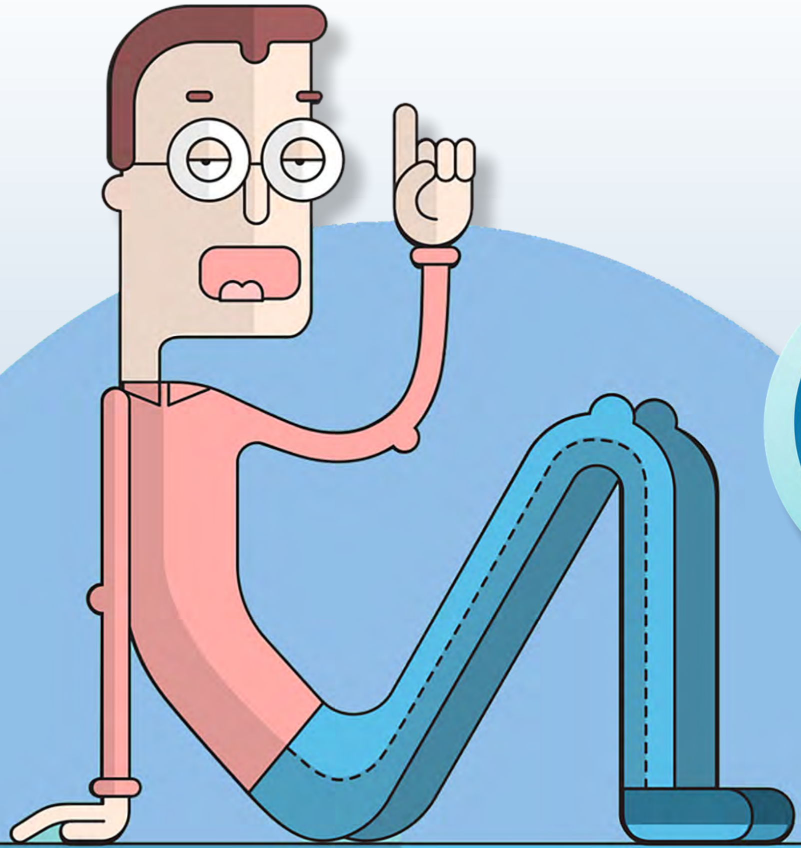
Survey by PwC

The FASB and IASB issued a new guidance that will take effect as of 2018 for all public companies and 2019 for private companies.



The following factors should be considered by entities when selecting a transition method under the new revenue recognition standard.

This should not be viewed as a comprehensive checklist, but factors to be analyzed among others that are entity specific that will aid companies in their transition method selection analysis.



Let’s start with the two transition methods for ASC 606

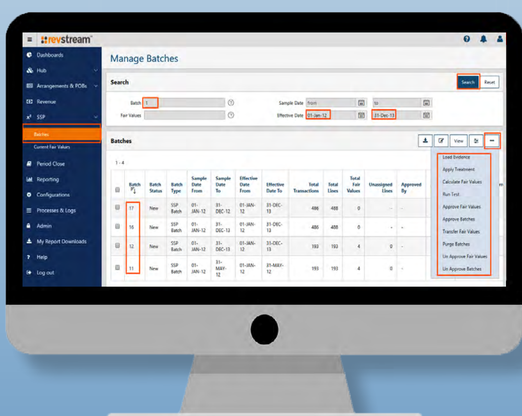
Two transition methods that are acceptable to implement the new revenue standard:

1. Full Retrospective: Applying the new guidance to each period presented in the financial statements (2016, 2017, and 2018).

2. Modified Retrospective: Applying the new guidance only to the current period presented in its financial statements (2018).

For purposes of applying the transition requirements, the date of initial application is the start of the reporting period in which the entity first applies the guidance.

Factors to Consider



1. Comparing Financial Statements

- Comparative years (2016 and 2017) presented on the same basis as the adoption year (2018) under ASC 606 for the full retrospective method

2. Investor Information

- Allows investors to compare prior period trend information more easily from SEC filings under the full retrospective method
- How comfortable is the CFO at explaining the differences introduced by applying the modified retrospective method?

3. SEC Registrants

- Companies will not restate prior periods for the modified retrospective method
- It may be challenging for SEC registrants to compare results from operations for periods immediately before and after adoption of the new standard in Management's Discussion and Analysis (MD&A) in their SEC filings

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4. Work/Risk in Year of Adoption

- The modified retrospective method will require more work, therefore, pose more risk in the year of adoption due to the dual reporting requirement, for the year of adoption, under the modified retrospective method

5. Volume of Data

- More data to look at due to restating the two comparative years (2016 and 2017) under the full retrospective method

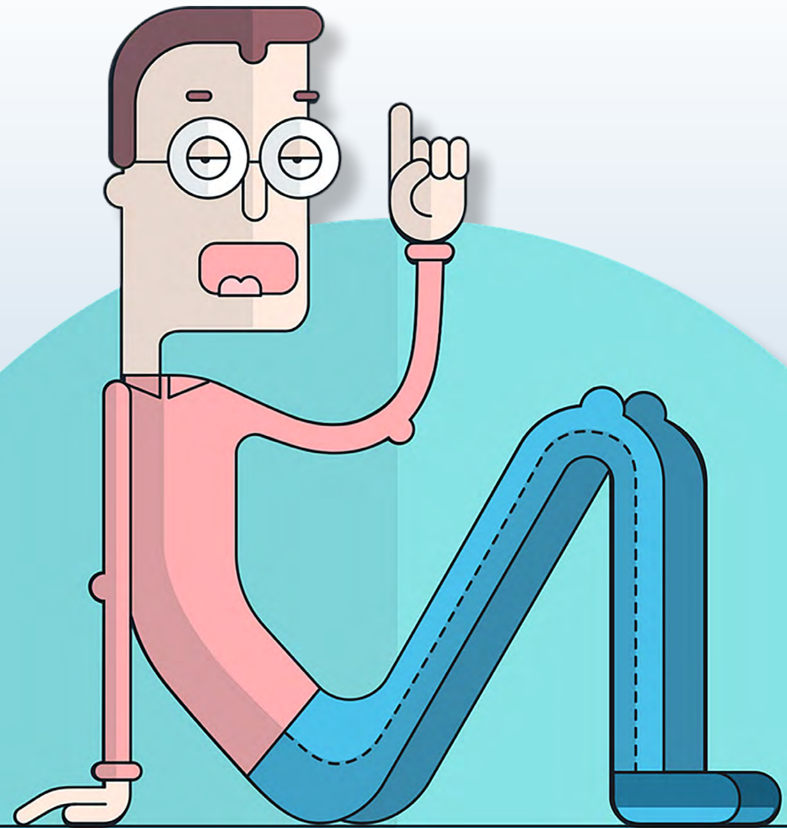
6. Available Historical Data

- Data may not be readily available for the full retrospective method

- Longer contracts and contract modifications may be challenging

7. Time to Complete Analysis

- Not enough time to complete the work required to use the full retrospective method

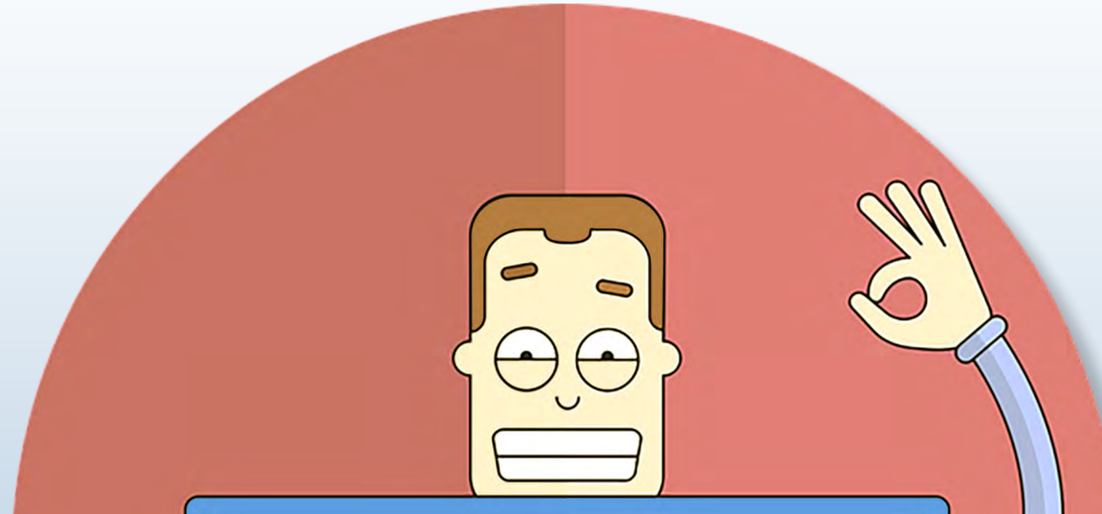


8. Material Adoption Impacts

- Immaterial adoption impact may mitigate the risk of 2016 and 2017 not being comparable to the adoption year (2018) under the modified retrospective method

9. Peer Companies

- Reach out to your peers and get feedback on the transition method they are going to use
- Companies will want to use the same transition method as their peers so that the company's results are comparable to its peers.



10. Data Needed for Other Processes (e.g., internal analysis, tax)

- Full retrospective information required for other purposes: internal reporting for executive management, FP&A, tax, etc.
- Impacts to other calculations: stock compensation, bonuses, debt covenant calculations, etc.

11. Impact to Planned Revenue

- Existing deferred revenue may never be recognized as revenue
- Can occur under both transition methods
- Likely more visible under the modified retrospective approach

Modified Retrospective Example Entry

The table below shows the adjustment commonly referred to as "disappearing revenue", as the revenue amount gets recognized through equity instead of revenue.

Performance Obligations	Transaction Price Allocated
License	$1,000,000
PCS	$500,000
Total	$1,500,000

The following example illustrates this point. On December 31, 2017 Software Co. sells a software license to a customer that also includes 3 years of Post-Contract Support ("PCS") for a total of $1.5 million. Under existing standards these are considered separate elements and the transaction price is allocated as follows: 1.) $1 million to software license and 2.) $500,000 to PCS.

Normally, the software license would be recognized upon delivery and the PCS over the 3-year maintenance period. However, the company does not have VSOE for PCS. As such, the entire $1.5 million price will be recognized over the 3-year PCS term (that is, $500,000 per year). Under the new revenue recognition standard, the license would be recognized upon delivery of $1,000,000 in 2017 and the amount allocated to the PCS of $500,000 would continue to be recognized over the 3-year PCS period. If Software Co. used the modified retrospective transition approach, the amount allocated to the software license of $1 million is not recognized as revenue in its financial statements because prior periods (2017) are not restated under the modified retrospective method. Instead, the $1 million for the software license would have been recognized as part of Software Co.'s cumulative effect adjustment of adopting the new revenue standard recorded in opening retained earnings on January 1, 2018. This is because the software license revenue would not be reported in 2018 as they were recognized in 2017 under the new guidance and as stated above, prior periods are not restated under the modified retrospective transition method.

Using the full retrospective transition method would likely result in deferred revenue being recognized in the income statement for the comparative years presented. However, it should be noted that a similar circumstance could arise under the full retrospective method, but only for the earliest comparative year presented.

This entry is adjusting deferred revenue to the opening balance as of the adoption date. Because the $1 million should have been recognized in 2017 and under the modified retrospective approach this period is not restated, the impact is recording the adjustment to beginning equity on January 1, 2018.

Current Guidance	2017	2018	2019	2020	Total
Revenue	-------	$ 500,000	$ 500,000	$ 500,000	$ 1,500,000
Deferred Revenue	$ 1,500,000	$ 1,000,000	$ 500,000	-------	-------
New Guidance	**2017**	**2018**	**2019**	**2020**	**Total**
Revenue	$ 1,000,000	$ 166,667	$ 166,667	$ 166,667	$ 1,500,000
Deferred Revenue (Contract Liability)	$ 500,000	$ (333,333)	$ 166,667	$ 0	-------
Revenue Difference	$ 1,000,000	$ (333,333)	$ (333,333)	$ (333,333)	$ 0
Modified Retrospective Transition Entry - 1/1/18	**Debit**	**Credit**			
Deferred Revenue	$ 1,000,000				
Retained Earnings		$ 1,000,000			
Post ASC 606 Adoption Financial Statements	**2017**	**2018**	**2019**	**2020**	**Total**
Revenue	-------	$ 166,667	$ 166,667	$ 166,667	$ 500,000
Deferred Revenue	$ 500,000	$ 333,333	$ 166,667	$ 0	-------
Retained Earnings Impact	$ 1,000,000	-------	-------	-------	$ 1,000,000

*Transition Graphic as of March 27, 2017

Identify Next Steps:

1. Identify your business scenario and define the scope of your revenue lifecycle
2. Schedule a call with our sales team to evaluate your amount of data and contracts
3. Request a product demonstration of RevStream 5X
4. Define implementation plan and review timeline
5. Select software based on method
6. Launch into full revenue automation management

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Read the full version of this e-book online at: www.revstreamone.com/blog/revstreams-point-of-view-on-asc-606-transition-methods

RevStream is the pioneer of revenue recognition management and lifecycle intelligence. RevStream provides companies across a wide range of industries with a powerful cloud-based software for managing and automating revenue recognition and reporting and delivering revenue insights that empower more effective forecasting, compliance planning, and decision-making.

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