

E-book

6 Rules for ASC 606 readiness

Regulation Roulette: Part II

Software and SaaS

Sage



The new ASC 606 revenue recognition standard goes into effect at the start of 2018 for public companies and the start of 2019 for private companies. The rule has far-reaching consequences, particularly for companies that have revenue tied to contracts, and it will likely require significant upgrades or updates to your accounting technology.

To help you transition and plan for the extensive changes, we have identified six critical capabilities accounting software must now be equipped to handle. Continue reading to discover how to evaluate your current software. You'll also learn why your business people and processes are certain to get overwhelmed with spreadsheets and longer audits if your technology isn't ready for ASC 606.



The accounting system must:



1

Be able to automate revenue allocation.



4

Sync with upstream CRM and contract processes



2

Connect billing and revenue recognition.



5

Provide visibility for all key stakeholders.



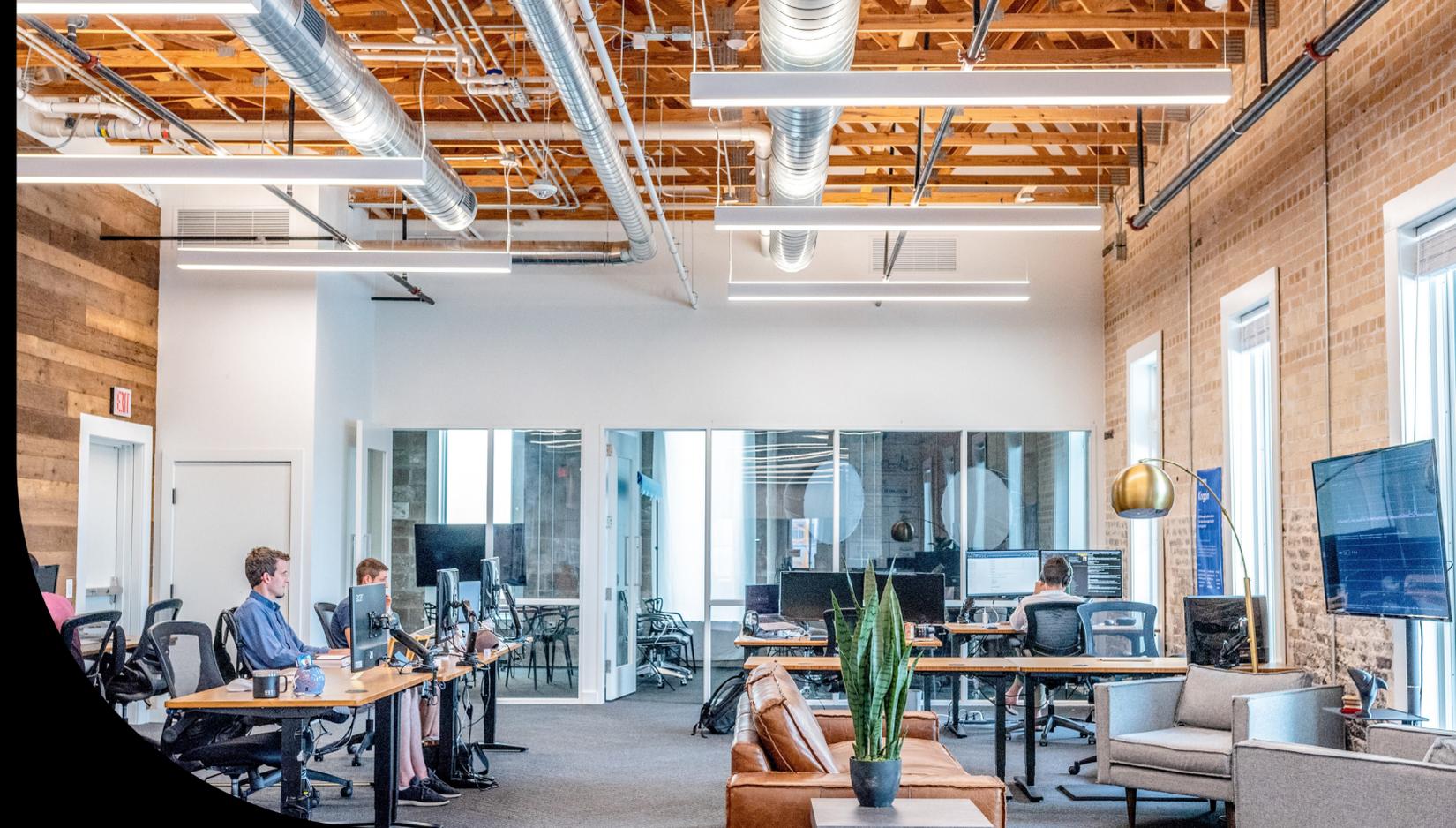
3

Connect billing and revenue recognition.



6

Speed adoption with true multi-tenant cloud architecture.



“ For those firms that elect to defer a software upgrade, they might confront 1-2 ugly alternatives . . . develop a custom application to support the new requirements . . . [or] create some makeshift functionality via a combination of CRM, financial package software and spreadsheet tools. Those firms that choose this path might find their RevRec ‘solution’ to be a jumble of potentially risky or temperamental spreadsheets.”

~ Brian Sommer, Diginomica On why companies can't delay on ASC 606 compliance

Does your software automate revenue allocation?

Under the new ASC 606 standard, contracts are the basis for how organizations must recognize revenue. This places significant pressure on your accounting system. In addition to handling contract-related data, it must support revenue recognition and allocation, revenue reallocation, and expense amortization.

To determine whether your current software fits these requirements or if gaps exist, ensure it can:

- Handle revenue allocation, revenue reallocation and expense amortization through configurable templates, not custom scripting.
- Provide flexibility to select the allocation method based on the type of performance obligation specified in a contract.
- Easily allow you to configure new types of allocation as your business, its contracts and accounting regulations evolve.

Given the pressure of the new rules, it may be tempting to use spreadsheets or write custom code. However, both approaches come with costly consequences, not the least of which is burying your accounting or IT resources with unplanned work.

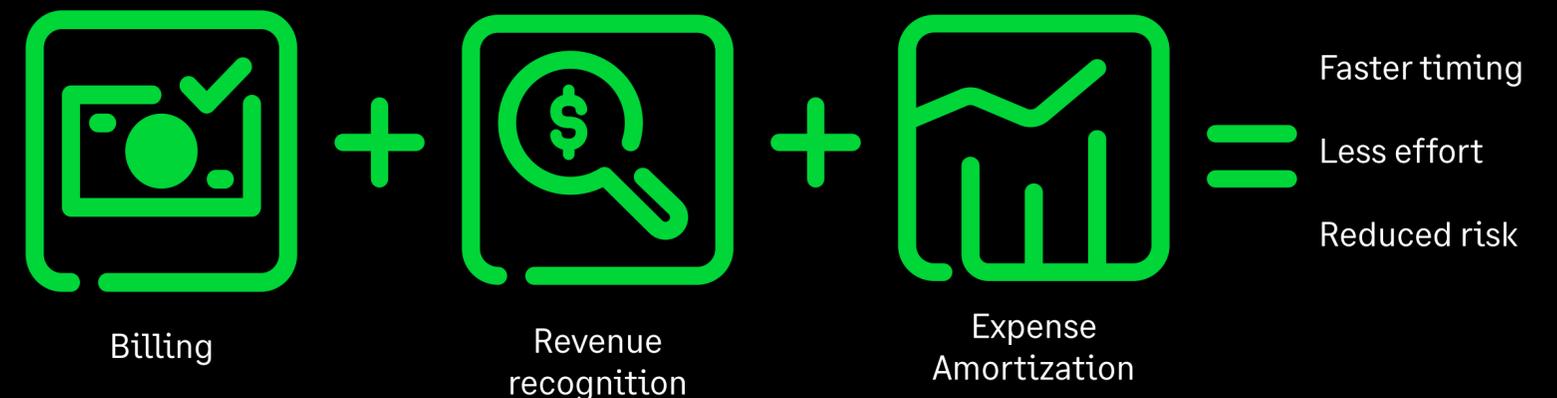


Does your software connect billing revenue recognition?



The new standards mandate that your business recognize revenue and amortize contract-related expenses as you fulfill corresponding performance obligations. With complex subscription billing—especially usage-based billing—having an accounting system that supports full order-to-cash data integration will save loads of time. Confirm integration across billing, revenue recognition and expense amortization.

Link billing, revenue and expenses to streamline and reduce risk.



Use dual reporting for preparation and compliance

Ensure your accounting software can support dual reporting so you are able to easily compare how your financials look today versus how they will look under the new rules. It's important and valuable to understand exactly how the new rules affect your financials. This will allow ample time to adjust payment terms, rethink performance obligations and prevent surprises (such as revenue disappearing into a "black hole" after adoption).

Dual reporting is also critical for current contracts that extend beyond the 2018 or 2019 effective date. These contracts require retroactive adoption of rules so you'll want to eliminate uncertainty and have clear visibility into the areas that require fine tuning.

Dual reporting is key for everyone from auditors and accounting to FP&A and the board.

▼ Gross Margin - Detail
05/05/2016 10:00

	Month Ending 12/31/2015	
	Legacy	ASC 606
Gross Profit		
Revenue		
Setup		
Sales Revenue - Setup Fee - Unbilled	204.41	267.31
Sales Revenue - Setup Fee - Billed	409.85	535.97
Sales Revenue - Setup Fee - Paid	821.78	1,074.64
Total Setup	1,436.04	1,877.92
License		
Sales Revenue - License - Unbilled	490.58	641.54
Sales Revenue - License - Billed	983.64	1,286.33
Sales Revenue - License - Paid	1,972.27	2,579.14
Total License	3,446.49	4,507.01
Service		
Sales Revenue - Support - Unbilled	289.44	378.51
Sales Revenue - Support - Billed	580.35	758.93
Sales Revenue - Support - Paid	1,163.64	1,521.69
Total Service	2,033.43	2,659.13
Downloads		
Sales Revenue - Downloads - Unbilled	694.66	908.42
Sales Revenue - Downloads - Billed	1,392.84	1,821.43
Sales Revenue - Downloads - Paid	2,792.74	3,652.06
Total Downloads	4,880.24	6,381.91
Total Revenue	11,796.20	15,425.97
COGS		
Commissions	761.78	227.06
Royalties	554.86	404.88
Total COGS	1,316.64	631.94
Total Gross Profit	10,479.56	14,794.03

Sync with CRM and contract processes

The majority of subscription-based companies create and update contracts in a CRM solution, such as Salesforce. Under the current financial guidance, keeping contracts and accounting separate was acceptable. With the new rules, contract details need to make their way into your accounting software.

Ensure your accounting software supports native connectivity to your CRM. That way you can create and update contracts in the CRM solution and those changes will automatically flow into your accounting software for allocation or reallocation.

A process involving manually entering or reconciling contracts between solutions won't scale. Especially if you're handling hundreds or thousands of new and existing contracts. Also avoid third-party integrations that require maintenance, and put you at risk for interruptions.

“A process involving manually entering or reconciling contracts between solutions won't scale.”



Provide visibility for all key stakeholders

As you evaluate your current accounting software, processes and policies, make certain that all stakeholders have visibility into how their actions impact revenue recognition under ASC 606. Some of these stakeholders include:

- **CFO and Controller**, who must see the impact and potential risk of the new rules based on current standards compared to ASC 606.
- **VP of Sales**, whose current sales and delivery strategies may have an unforeseen bearing on revenue.
- **Finance and Accounting**, who must have a firm handle on cash receipts with billing forecast reports that detail billed and unbilled revenue, and their associated revenue treatment.
- **Executives and board members**, who need to connect the dots to assess whether the new revenue recognition standards will require the business to adjust its operating model in any way.



Speed adoption with multi-tenant cloud architecture

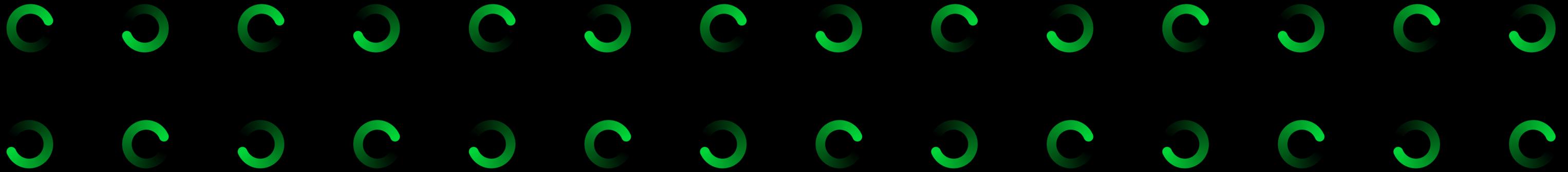
For software vendors, the ASC 606 standards necessitate complex changes in how the software automates allocations. You can expect ongoing, iterative updates as your provider gets a handle on how to support full compliance with this new rule.

Given this complexity, a cloud-based solution provides the advantage of automatic updates and new functionality is added in the background with little or no interruption to your business. Conversely, on-premises accounting systems will require you or a consultant to apply the updates manually.

Lastly, cloud accounting software typically syncs with other cloud systems more efficiently, seamlessly and elegantly. This is critical since your accounting software must support native connectivity to CRM in order to activate the flow of contracts.

“... your accounting software must support native connectivity to CRM in order to activate the flow of contracts.”





Your path to compliance start here

For all organizations, the impact of the new ASC 606 standard extends well beyond basic accounting policy. To prepare for what is considered the largest accounting shift since Sarbanes-Oxley, you will need to scrutinize many aspects of your business and its accounting technology. There is significant risk in delaying implementation.

How we can help.

Sage Intacct natively supports ASC 605 and the new ASC 606 rules, lightening the burden on your finance staff with automated revenue recognition built in. Learn more about how we can help you plan and facilitate a smooth transition to ASC 606 compliance.

For information, visit the Sage Intacct [ASC 606 resource center](#).



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