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revenue

Preparing Your Organization for the New Revenue Recognition Standard ASC 606 with JAMIS Prime

By Dave Sample of JAMIS Software Corporation
in collaboration with Cohn Reznick

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DOCUMENT PURPOSE:

The purpose of this document will be to provide JAMIS Prime users with an overview of the new revenue recognition requirements in ASC 606, the accounting treatment, how future contracts will be set up, and how clients will comply with the dual reporting requirements.

This document provides a high-level overview of the ASC 606 changes to contract setup for JAMIS Prime users. Organizations will be advised to consult with their accounting advisory professionals for comprehensive advice and guidance on determining how their contracts should be treated to properly comply with ASC 606 contract revenue recognition requirements.

DOCUMENT CONTENTS:

SECTION I:
ASC 606 Background:
This section provides a summary of ASC 606 contract revenue recognition requirements and their impacts on financial reporting including the reason for the changes, what is changing, who is impacted, and the timing of the change.

SECTION II:
Accounting Treatment Overview:
This section will provide an overview on the process to determine the correct revenue recognition treatment for contracts.

SECTION III:
Future Contract Setup:
This section will provide a summary on future contract revenue setup recommendations.

SECTION IV:
Dual Reporting Requirement:
This section will provide an overview on how JAMIS Prime clients can use the system to support the financial statement dual reporting requirements to show contract revenue results under both the new and originally applied revenue recognition methods.

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SECTION I: ASC 606 BACKGROUND

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 Revenue from Contracts with Customers (Topic ASC 606)

- The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

- It supersedes most current revenue recognition guidance, including industry-specific guidance.

- Affects all entities: public, private, and not-for profit that enter into contracts with customers to transfer goods or services.

BACKGROUND

The FASB provided this framework for businesses to recognize revenue more consistently. The standard's purpose is to eliminate variations in the way businesses across industries handle accounting for similar transactions. The lack of standardization in financial reporting has made it difficult for investors and other consumers of financial statements to compare results across industries, and even companies within the same industry.

The objective of the new standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the:

- Nature, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

To meet the objective, an entity shall recognize revenue to depict the:

- Transfer of promised goods or services to customers
- In the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The effective dates for the new standard is:

- December 15, 2017 for Public Companies
- December 15, 2018 for Nonpublic Companies

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SIGNIFICANT CHANGES
The following provides a summary overview of the changes:

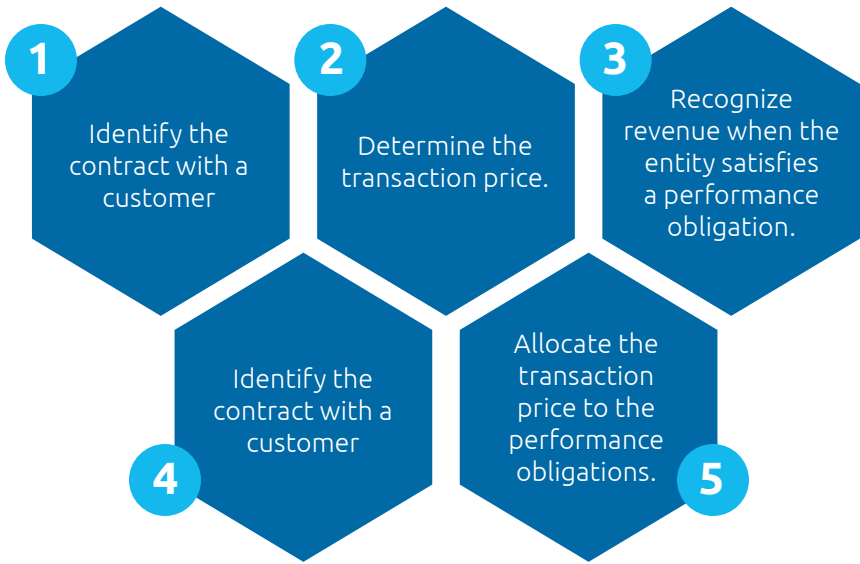| Current U.S. GAAP	New Guidance
Numerous requirements for recognizing revenue.	A consistent set of principles for recognizing revenue.
Other than disclosures in accounting policies and segment reporting, most entities provided limited information about revenue recognition for contracts.	Includes a cohesive set of disclosure requirements that will provide users of the financial statements with useful information about the entity's contracts with customers.
Many goods or services promised in a contract with customers are not considered to be distinct revenue transactions when in fact they may represent separate distinct obligations to the customers.	Reporting entities will identify each of the goods or services promised to the customer, determine if those goods or services represent a performance obligation, and recognize revenue when (or as) each performance obligation is satisfied.
In a multiple element contract arrangement, the amount of consideration allocated to a delivered element is limited to the amount that is not contingent on delivering future.	Companies will allocate the transaction price to each of the performance obligations based on the relative standalone selling price of the underlying goods or services, except when a discount or variable amount of consideration relates entirely to one or more of the performance obligations in the contract.
Accounting for variable consideration differs greatly across industries.	A single model to consider for variable consideration, which includes rebates, discounts, bonuses, or a right of return. Variable consideration will be included in the transaction price to the extent it is probable that a significant reversal in the cumulative amount of revenue recognized will not occur.

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SECTION II: ACCOUNTING TREATMENT OVERVIEW

5 STEP MODEL FOR RECOGNIZING REVENUE

This Five-Step Framework will be used to determine whether the core principle of Topic 606 has been achieved: Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to be entitled in exchange.

1 Identify the contract with a customer

2 Determine the transaction price.

3 Recognize revenue when the entity satisfies a performance obligation.

4 Identify the contract with a customer

5 Allocate the transaction price to the performance obligations.

GENERALITIES IMPACTING GOVERNMENT CONTRACTS

Cost-Plus-Fixed-Fee (CPFF) Contracts	Time & Materials (T&M) and Level of Effort (LOE) Contracts	Fixed Price (FP) Contratcts
• Revenue recognized over performance of the contract	• Customer obtains control of the good or service when transferred	• Contracts contain both types of elements within the same agreement
• Inputs method on basis of contractors efforts or satisfaction of performance obligation	• Transfer occurs at a point in time/over a period of time or the life of the agreement	• Revenue recognition may vary depending on the type of FP contract & the specific agreement facts and circumstances
• Percentage of completion method acceptable	• Customer receives and consumes the benefits of the contractors performance as its performed	• Percentage of completion method will mostly be used for timing of revenue recognized for these contracts
• No material changes in amount or timing of revenue is expected for CPFF	• Performance creates or enhances an asset that is controlled by the customer throughout the POP	• Inputs and outputs will need to be clearly defined in the contracts
• Most modifications are an extension of term or increases in funding amounts	• The Customer needs to have control over the asset to recognize revenue ratably over POP	• Distinct performance obligations may be clearer in a FP contract
	• Most modifications consist of extensions of term or increase in funding and would be considered a continuation of the existing contract	• Possible changes in recognition based upon determination of when customer has control of the asset; the level of customization of the asset and the right to payment

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KEY STEPS TO FACILITATE TRANSITION

Below are the key transition steps that are suggested to commence as soon as possible.

1 Meet with Accounting Staff which perform revenue recognition entries in Accounting system

2 Review narratives/policies & procedures around revenue recognition

3 Review DCAA submissions and contract briefs/documents and management inquiries

4 Complete list of active contracts / Identify types by: CPFF, CPAF, FP, FP/LOE, and T&M

5 Select a sample of contracts, apply standard, and conduct an impact assessment

6 Meet with your accountants to discuss contract types, risks, and documentation

7 Commence conversion
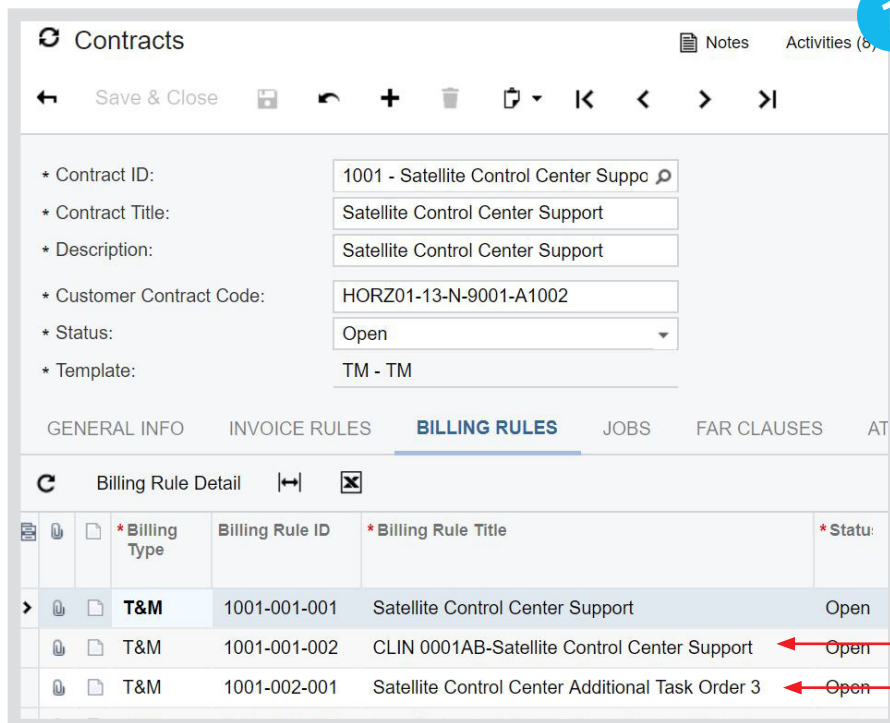
8 Implement and embed new processes to comply on an ongoing basis

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SECTION III: CONTRACT REVENUE RECOGNITION SETUP

ASC 606 requires your organization to align your contract revenue recognition to that of the performance obligations specified in your contract. In JAMIS, revenue recognition is controlled at the billing/revenue level of the Work Breakdown Structure (WBS). Depending on your contract you may decide that a single revenue recognition rule is appropriate, or you may decide that multiple revenue rules are required.

For contracts where multiple performance obligations exist, separate the revenue methods by creating additional Billing Rules as needed.
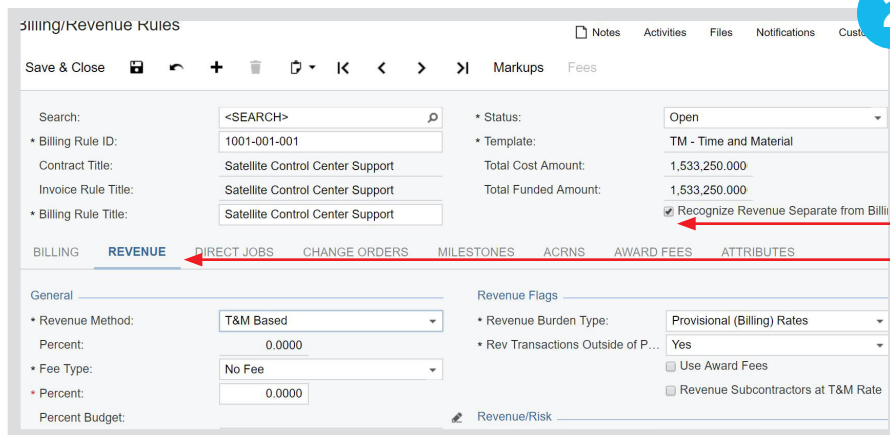
Create multiple revenue recognition methods to a contract by adding additional Billing Rules.

Within the Billing Rule, check the "Recognize Revenue Separate from Billing" box, which enables the Revenue tab. Complete the configuration for that project by selecting the revenue recognition that reflects your performance obligation.

Once configured, revenue can then be recognized independently from the billing method, and independently from other performance obligations on the contract.

CAPTURE SUPPORTING DOCUMENTATION

As you evaluate your contracts you may store your supporting documentation explaining how you arrived at your accounting treatment for each contact. This commonly includes a copy of the contract, the 20-point evaluation checklist, your internal analysis, and documentation from your accounting advisors. These documents can be saved at either the contract or specific revenue level of the project.
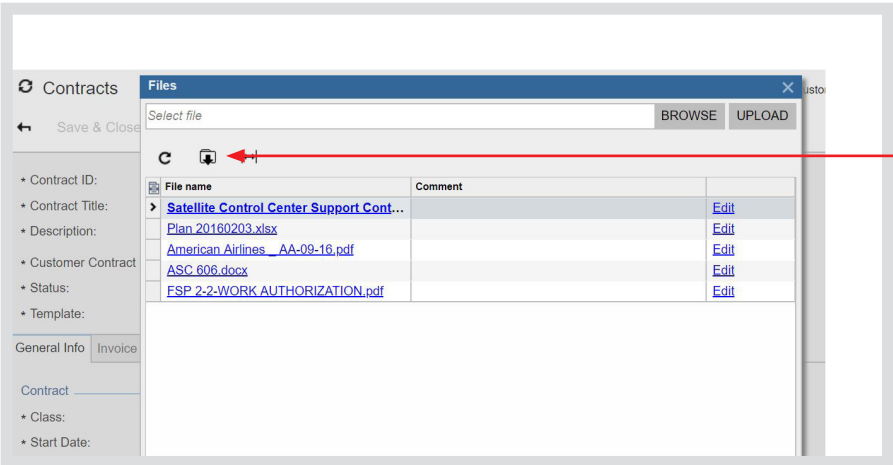
Attach and manage supporting revenue recognition treatment documentation for a contract and/or a particular revenue level of a contract.

MANAGE THE CONTRACT EVALUATION PROCESS

As a way to help ensure all contractual obligations are reviewed, you may wish to track your evaluation status so you keep apprised as to which contracts have been reviewed, as well as the disposition of each contract. JAMIS provides an Attribute function for each revenue level of the contract, allowing you to easily create a tracking field for each contact.
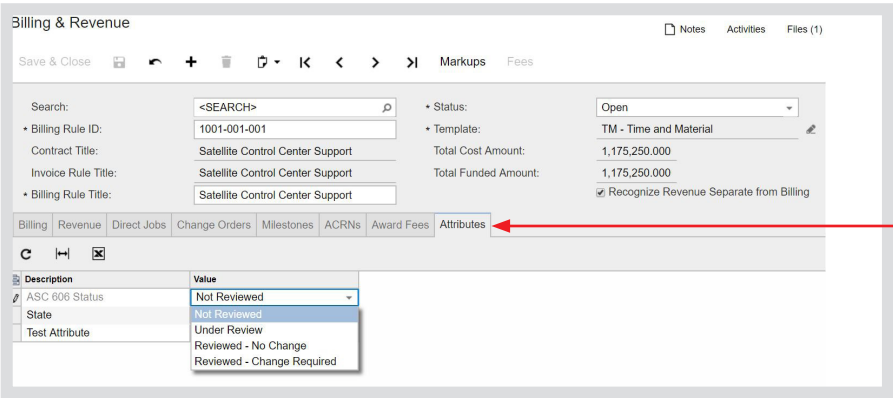
Document ASC 606 Status by adding a field in the Attribute for each contract. This can be done at the contract level, or for a particular revenue recognition level of the project.
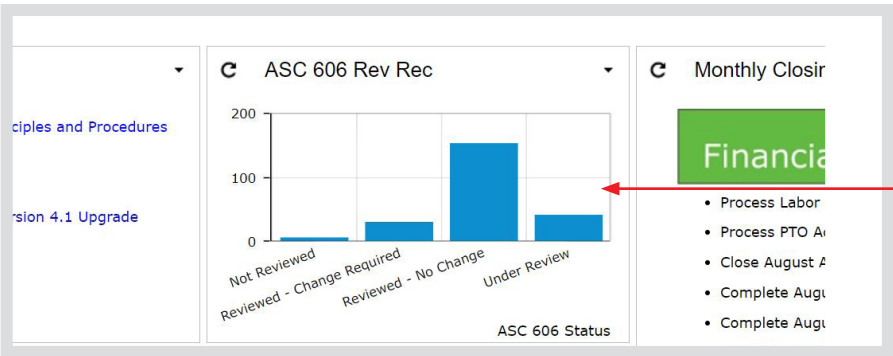
Manage ASC 606 project status by creating an interactive dashboard tile and displaying it on stakeholder dashboards.

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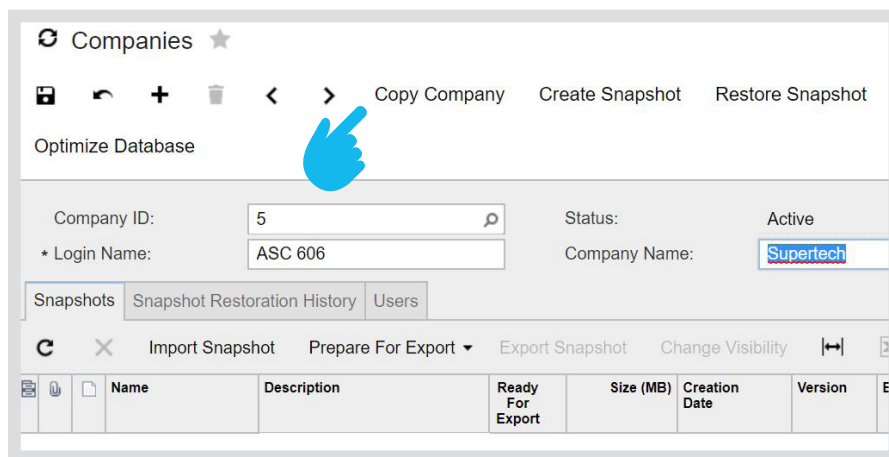
SECTION IV: DUAL REPORTING REQUIREMENT

An entity electing the cumulative-effect method is required to maintain dual reporting for the year of initial application of Topic 606 to disclose the effect of adoption on line items in the balance sheet, statement of comprehensive income and statement of cash flows. Effectively, an entity will need to run parallel financial reporting systems for one (1) year to report transaction under ASC 606 and legacy GAAP. Dual reporting may also require an entity to provide commentary on significant changes between the two methods.

As mentioned above, your organization may be required to provide comparative reporting under both the new and old revenue recognition methods. To comply with this provision, JAMIS provides an 8-step process to facilitate this dual reporting requirement.

1 **Step 1**:
CREATE A COPY OF YOUR DATABASE
Create a copy of your production database to enable you to make revenue adjustments for the prior periods (one or two years) based on your dual reporting requirements. The copy will be used to generate comparative reports.
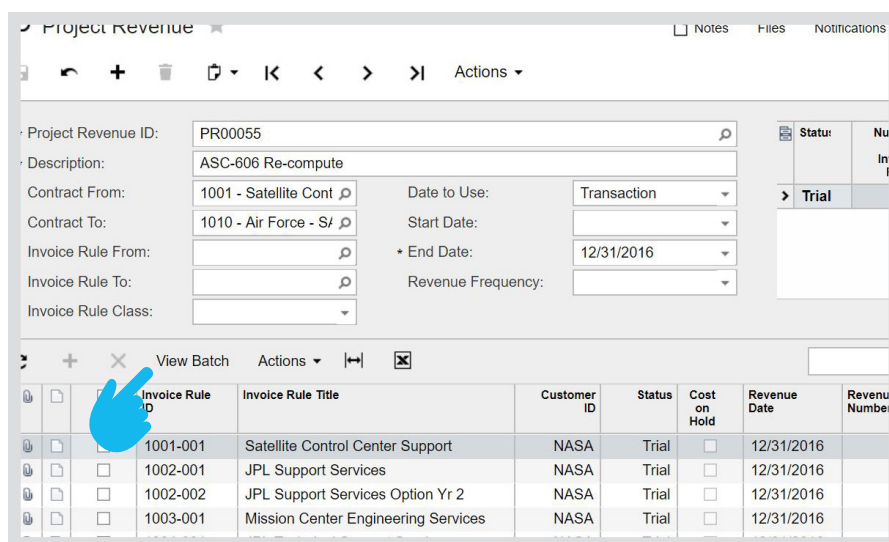
Using the Copy Company function in JAMIS, make a copy of your production database to be used for dual-reporting adjusting revenue entries

2a **Step 2**:
REVERSE IMPACTED CONTRACT REVENUE
Reverse prior revenue entries, or make new ones depending on how they would have been treated under the new revenue recognition rules.

In Project Revenue, access previous revenue postings and click View Batch. This will be done for each period that you posted revenue.

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SECTION IV: DUAL REPORTING REQUIREMENT

2b **Step 2**: (cont.)
REVERSE IMPACTED CONTRACT REVENUE
Reverse prior revenue entries, or make new ones depending on how they would have been treated under the new revenue recognition rules.

View Batch will take you to the revenue posting journal entry. Under Actions, click Reverse Batch which will essentially void out previous revenue postings. Repeat this process for all revenue transactions that require restatement.

3 **Step 3**:
MOVE COSTS
If required, move costs to another project. This will depend on whether or not you need to set up a new billing/revenue rule for a project. For ASC 606 purposes, a journal entry is fine because only financial statements are being restated, not project status reports. For large cost transfers, an Excel upload may be preferred.

Use the standard Excel Import feature of JAMIS Prime to import large journal entries and other data.

SECTION IV: DUAL REPORTING REQUIREMENT

4 **Step 4**:
UPDATE CONTRACT BUDGETS
This step is required if your revenue recognition method was based on an EAC calculation.

Companies using the JAMIS Budgeting & Planning module can opt to automatically calculate EAC revenue based on hours or dollars.

5 **Step 5**:
RE-COMPUTE REVENUE
Revenue can be re-computed on whatever basis is desired... monthly, quarterly, annually, or the entire reporting timeframe.
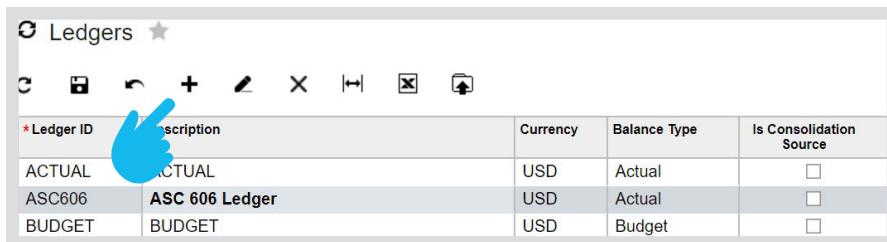
Re-calculate revenue on the projects using the system's standard revenue recognition procedure.

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SECTION IV: DUAL REPORTING REQUIREMENT

6 **Step 6**:
CREATE AN ASC LEDGER
Create a temporary ASC ledger in your production database. This ledger will be used to house the restated revenue data so it can be compared to the previously calculated revenue.
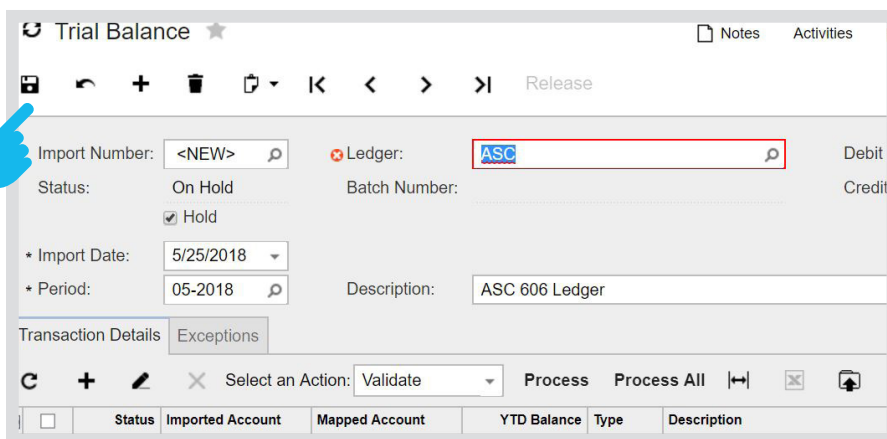

Click the + sign to add a new ledger in the production database.

7 **Step 7**:
CREATE A REVISED TRIAL BALANCE
Run the Trial Balance in the copied database and download it to Excel. Save and upload the file into the ASC ledger in the production database.
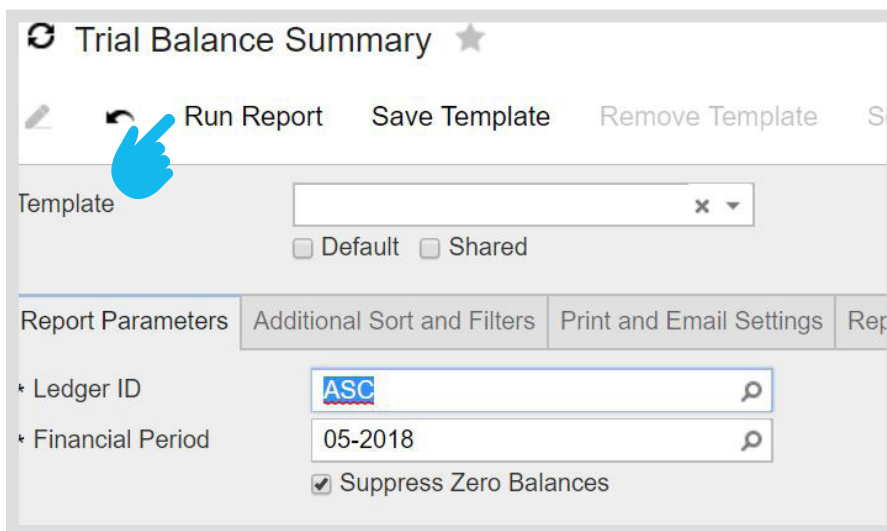

Upload the revised trial balance from the copied database into the production database

8 **Step 8**:
REVIEW REVISED RESULTS
At this point both the actual and restated revenue can be shown in their respective ledgers of the production database. Simply run financial reports under both ledgers to view the original and restated revenue, including the variance.

Upload the revised trial balance from the copied database into the production database

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