



CFO Working Group

Revenue Recognition Sub-Group

November 7, 2018

ASC 606 Core Principle: The Five Steps

An entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Step 1: Identify the contract

Step 2: Identify the performance obligations

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue

Tackling Revenue Recognition in your Agency

What kind of approach should you consider?

- A) Understand the subject matter: ASC 606, ASC 340, and IRC 451
- B) Gather the relevant information
- C) Evaluate how the changes will affect your agency
- D) Decide which method you will use to apply the new standards
- E) Build your model – internal or outsourced
- F) Put your model to work, verify the results, and maintain it

Scoping Your Situation – How you are impacted?

Are there other operational/contractual items to consider?

- Materiality
- Financial statement users & frequency of accounting for this pronouncement
- Employment Agreements

Looking at the Revenue Streams

- Revenue streams identified (P&C, Employee Benefits, Personal Lines, Profit Sharing and Other Consulting)
- Performance Obligations – When are they met? How do you determine?
- Receivable for Profit Sharing Agreements?

Looking at the Cost Streams – ASC 340

- **Costs To Obtain**: Capitalize incremental costs of obtaining a contract if you expect to recover those costs - either directly reimbursable under the contract or reimbursable through the expected margin.
 - **Costs to Fulfill**: Recognize and amortize an asset for contract fulfillment costs if they meet **all** of the following conditions:
 - Relate directly to a contract or to an anticipated contract.
 - Generate or enhance resources used in satisfying performance obligations in the future.
 - Are expected to be recovered.
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- What kinds of costs are agencies considering – pre and post?
 - Thoughts on how you might measure these costs?

Taxation Concerns – IRS Section 451

- IRS Section 451 – “All-events test” versus amendment with the Tax Cuts and Jobs Act.
- Retrospective adjustment – no guidance on whether this is considered an automatic Change in Accounting Method.
- Cash flow planning for tax needs with acceleration of revenue recognition.
- Tax planning strategies being considered?

- What else are agencies doing about Rev Rec?
- Sharing Lessons Learned
- Next Steps for the Group