

ASC 606 compliant Revenue Recognition

Valueonshore **Advisors** helped optimize the revenue recognition process for a worldwide Augmented and Virtual Reality solutions provider.

ABOUT THE CLIENT



- US-based company incorporated in 2001 providing Augmented and Virtual Reality solutions.
- Pioneer in AI-driven Metaverse tech solutions, fostering global connections among students and educators in education and enterprise domains.

BUSINESS NEED



- Implement a precise revenue recognition framework adhering to ASC 606 standard, ensuring transparent and accurate reporting in the Financials and MIS for senior leadership.

BUSINESS REQUIREMENT



The client's objective was to go public. Hence, they needed to ensure accurate and fair reporting of key assertions in the Financial Statements in line with US GAAP, particularly for items such as Revenue. Additionally, they sought to be ready for a PCAOB-compliant audit.

From a business standpoint, senior management sought to analyze revenue based on specific parameters, such as Annual Recurring Revenue (ARR), churn rate, etc.



OUR SOLUTION



End to end services from an accounting and financial reporting perspective, with the following approach:



Understand the revenue model

1. Through in-depth conversations with the operational team and senior leadership we gained insights into the company's revenue structure.
2. Conducted a thorough examination of the numerous revenue agreements with the customers to comprehend the scope and nature of the services provided.
3. Identified the diverse terms & conditions from the contracts and assessed their implications on revenue recognition, especially clauses on renewals, warranties, terminations and contract modifications.



Develop the revenue recognition framework

1. For each customer contract, "5 step process for ASC 606" was applied:
 - Ascertained the existence of the contract & linked the contract to the customer.
 - Identified the performance obligations – especially the bundle obligations.
 - Determined the transaction price of the contract after adjustments.
 - Allocated transaction price to each performance obligation.
 - Understood the fulfillment of the performance obligation and Revenue recognition based on the fulfillment of performance obligation.
2. Created an extensive Excel workbook for revenue recognition, containing the computation of contract assets/ liabilities, and revenue for each individual contract.
3. Implemented the template to calculate Revenue and Contract Assets/ Liabilities related disclosure, to facilitate the reporting in the Financial Statements.
4. Compiled a comprehensive Technical Accounting memo on revenue recognition, adhering to the five-step model outlined in ASC 606.



Execution and Training

1. Prepared a comprehensive, step-by-step checklist for the accounting team to ensure accurate revenue recognition in accordance with US GAAP.
2. Imparted training to the accounting team on using the comprehensive checklist to populate the revenue schedule workbook for computation of various numbers.
3. Guided the team in preparing the Journals using the revenue recognition workbook for accounting and performing a final reconciliation between the two.



Management Reporting

1. Guided the accounting team compute key metrics such as ARR, churn rate, retention rate for reporting to senior management.
2. These metrics assisted the management in pinpointing the causes of customer churn and formulating strategies to enhance the renewal rate.
3. This reporting also helped the company to make more accurate revenue forecasts.

BUSINESS IMPACT DELIVERED



Our end-to-end approach resulted in significant value addition to the company:

- Professional expertise in fair financial reporting of revenue, contract assets/ liabilities as per US GAAP.
- Facilitated the company on readiness for public audit
- Value-added MIS helped the management to retain key customers & ascertain correct topline data.
- Management was able to focus on core revenue generating contracts & the respective revenue recognition.

ABOUT US



Headquartered in Gurgaon, Valueonshore Advisors is a specialized professional services firm managed by the Big 4 alumni and industry executives. Our portfolio includes multi-billion-dollar companies, mid-cap public, and pre-IPO companies that range from late stage to early stage. We are a trusted, preferred partner for various multinational and Indian clients who engage us for our functional expertise, industry knowledge and for our objective solutions for complex problems.

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