



## **Restaurant Industry ASC 606- The Initial Results are Here!**

ASC 606, the long awaited and much debated new accounting standard for revenue recognition in the United States has now become reality for most public companies. Adoption of this new standard was required for calendar year public companies effective January 1, 2018, and the results of adoption have now become public with the earnings releases and 10-Q filings for the first quarter ending March 31, 2018.

Based on a survey of most publicly traded restaurant companies reporting 1Q results over the past month, it is clear that ASC 606 impacted every one of them. Also, as predicted, the two key issues were the required deferral of initial franchise fees over the life of franchise agreements, and the required gross-up of advertising fund collections as revenues, rather than treating them as an offset to the related marketing spend. Some details from the survey:

- Every single company in the survey reported a change upon adoption related to deferred initial franchise fees, which historically had been recognized at the time of store opening.
- 59% of companies in the survey reported higher revenues as a result of now including advertising and marketing fund collections as a revenue source. These revenues had historically been either recorded as an offset to advertising/marketing expense, or the costs and revenues had not been recorded at all in the books of the franchisor.
- Adoption method was generally mixed. Many companies utilized the full retrospective method and restated previous year results as if the new method had been adopted as of the beginning of the previous year, and many others simply used the modified retrospective method and did not restate the previous year.

“The results we are seeing are in line with what we expected, although there may still be some headlines associated with the results of the SEC’s initial reviews of companies’ adoption impacts and disclosures. It is really important to keep in perspective the fact that over time, the actual cash receipts from franchisees do not change, nor do the costs of the franchisor to generate those collections, so this is really about the timing of when those items receive accounting recognition. As private companies begin to prepare for adoption, they should focus on understanding and quantifying the true impact, considering the available options for their transition, and communicating with lenders and other stakeholders far in advance to ensure there are no ugly surprises.” stated Michael Dukes, a Partner and leader in the Firm’s Restaurant and Hospitality practice.

For more information on ASC 606 or for more information on Bennett Thrasher’s restaurant practice, please contact Michael Dukes or Cory Bennett by calling 770.396.2200.

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Riverwood 200 3300 Riverwood Parkway Suite 700 Atlanta, GA 30339 **phone** 770.396.2200 **fax** 770.390.0394

[www.btcpa.net](http://www.btcpa.net)