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## Talk to Lenders About Accounting Changes

Over the past few years, the Financial Accounting Standards Board (FASB) issued new accounting standards that will have a major impact on manufacturers and distributors.

For example, ASC 606 requires a new five-step model of revenue recognition for all customer contracts and is effective for privately held companies for periods beginning after Dec. 15, 2018. ASC 842 requires that lease obligations be reported on the balance sheet for periods beginning after Dec. 15, 2019.

Both standards were designed to improve the information contained in financial statements and make them more useful for lenders, investors, and others. Both will change the way income and liabilities are reported—which may impact your banking and lending arrangements.

It is wise to proactively communicate these changes to your bank, but you won't know exactly how these standards will impact your financial statements until you actually apply them. Even so, initiating a conversation with your bankers now, with implementation dates approaching, lets them know you are on top of the new requirements and eager to have an open discussion about them.

To prepare for your conversation:

**Review the standards.** Both standards are extremely complicated and demand a significant amount of work up front before you can implement them. Familiarize yourself with what is required.

**Start testing.** Once you have determined the effect of the new standards, you can take steps to modify existing provisions. For example, relative to ASC 606, you may be able to rework your contracts to avoid a negative impact on your revenue recognition.

**Educate your team.** Your lenders may not be aware of how these standards will affect your financial statements. Letting them know what to expect will help avoid surprises.

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Feel free to ask your CPA to accompany you to this meeting. Your accountant can help put your bankers at ease about the upcoming changes.



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