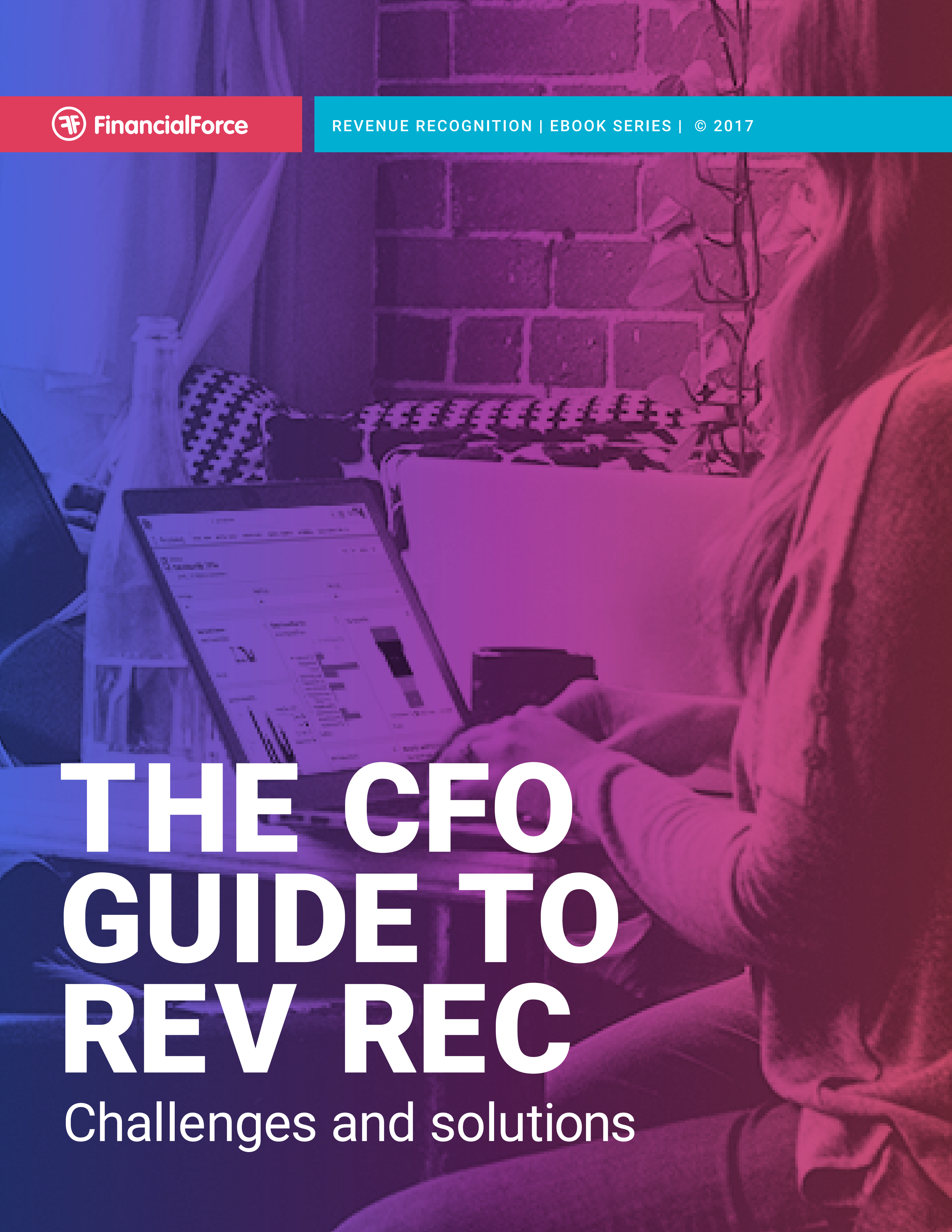


THE CFO GUIDE TO REV REC

Challenges and solutions

23 pgs
10 mins

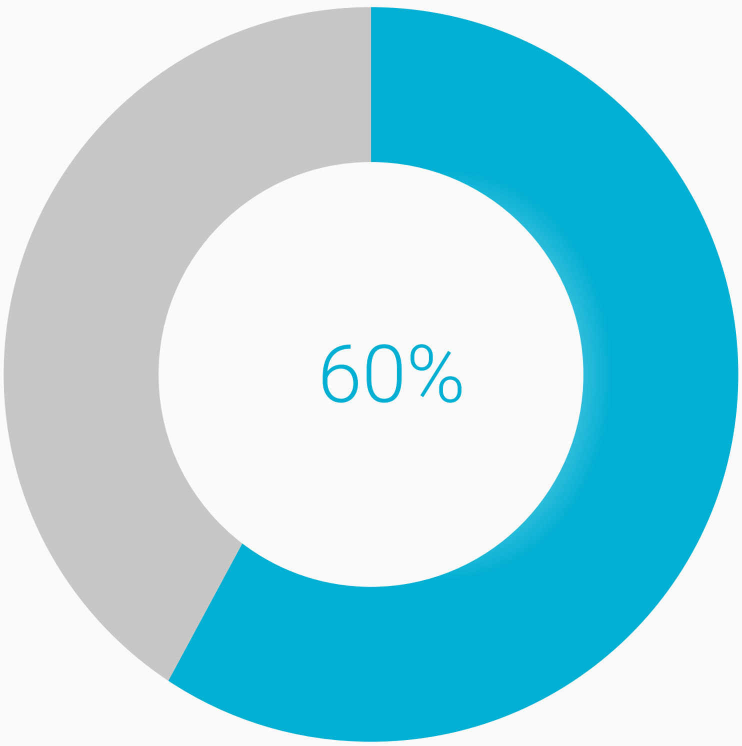
The deadline to comply with the new revenue recognition standards—ASC 606 and IFRS 15—is fast approaching.

Deadline is Dec 15, 2017 for public companies and Dec 15, 2018 for private.

In this guide, we'll review three major pain points that companies are facing as they prepare for the new standards.

Struggling with the transition?

You're not alone.



KPMG reports that more than 60% of their survey respondents admitted to being behind schedule.[1]

1. https://advisory.kpmg.us/content/dam/kpmg-advisory/deal-advisory/pdfs/2016/kpmg-accounting-change-survey.pdf

13%

Only 13% of companies surveyed by PwC said they have fully implemented the major standards overhaul.[2]

We'll illustrate how the right cloud application can reduce friction and position your company for a smooth, successful changeover. We'll also explore one common mistake that can spell disaster no matter where you are in the transition process, and the criteria for evaluating technology solutions.

2. http://www.pwc.com/us/revrecsurvey?030011

“This is a major accomplishment that will greatly change how people think about perhaps the most important item in financial statements.”

Tom Linsmeier
Member of the US Financial Accounting Standards Board (FASB)

Getting ready for ASC 606 and IFRS 15

3 key challenges

1 Assessing impact

Evaluate your primary revenue streams to identify rev rec changes required.

If you aren't armed with the proper information, making the best business decision can be difficult.

At some point in the transition process—ideally early on—you'll need to assess how the new standards will affect your company. This includes an evaluation of primary revenue streams and key contracts to identify the revenue recognition changes required and the business units where these changes may have the greatest impact.

The questions that come up during this phase are weighty. When you apply the new five-step compliance model (as defined in the standards' documentation) to a sampling of mission-critical contracts, what happens to your revenue recognition profile? Will you need to change the design of your customer contracts? Can your sales process stay the same, or does it need tweaking? If you aren't armed with the proper information, making the best business decision becomes difficult.

How the right cloud application can help

A technology solution can't make outright business decisions—a job best left to skilled humans—but it does provide you with the tools and flexibility to examine what's really going on in your business, and how it will change under the new standards.

The right cloud application empowers your teams to make more informed business decisions without relying on time-consuming, error-prone spreadsheet analysis. It puts useful, actionable information—both granular and high-level—at your fingertips.

2 Evaluating effort

Know the scope of work required so you can assemble the right plan, team, and budget.

Several factors will impact your resource allocation and cost calculations.

1

Contract evaluation requirements

You'll need to develop a new rules-based framework for your accounting policies based on an assessment of your contracts. If your contracts are highly variable, will it be burdensome for the transition team to thoroughly evaluate each one and draft new policies accordingly?

2

Choice of transition method

The full retrospective and modified retrospective methods each have pros and cons, but both require significant implementation efforts. The full retrospective method requires restatement of the prior two comparative years (possibly three), while the modified retrospective method requires dual recordkeeping during the adoption year. Do you have the necessary systems and people in place?

3

Handling comprehensive disclosures

The new standards' requirements for quantitative and qualitative disclosures are significantly more expansive than those under the current guidelines. How will you create a method for systematically gathering, reviewing, and disclosing information about remaining performance obligations, including resources consumed, labor hours expended, costs incurred, or machine hours used?

4

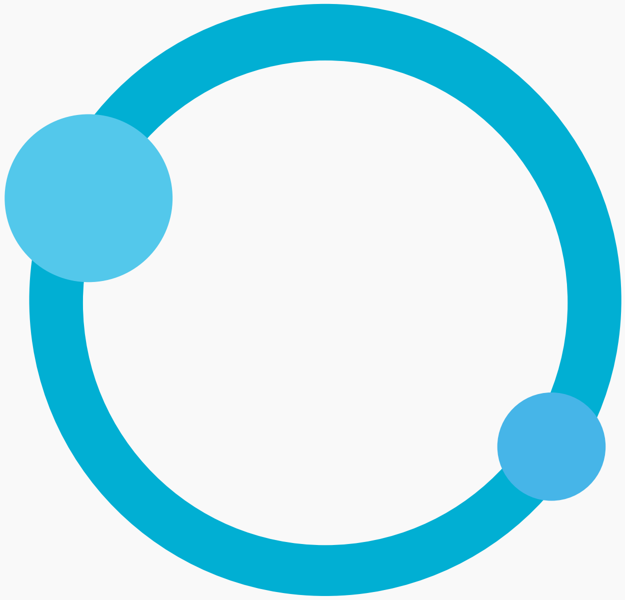
Post-transition revenue recognition plans

How will you track performance obligations and apply your new revenue calculation rules? How much manpower will be required to handle complex revenue scenarios, multiple revenue streams, and contract modification? How will you institute controls along the way?

How the right cloud application can help

A robust technology solution offers two key ways of reducing the amount of required manual effort: automation and flexibility. First and foremost, the right solution helps you track various revenue streams, automate allocations and calculations, and configure different rules and templates for different calculations—all while eliminating your reliance on overly complex spreadsheets.

Additionally, a strong technology solution also eases the pain of implementing a transition method. Your choice of method should be driven by what's best for investors, auditors, and financial statement readers, not by the capabilities of your IT systems (or lack thereof). With a strong technology solution, you can recognize revenue under the current standards up to the transition date, then seamlessly deploy retrospective or parallel recognition processes. Let your systems empower you to make the best choice for your stakeholders.



3 Achieving compliance

Deliver the right reports to internal and external stakeholders.

About 50% of spreadsheet models used operationally in large businesses have material defects.

You'll need to deliver the right reports internally and externally, to pass an audit—the crux of this entire endeavor. If your process is based on spreadsheets, this will be painful. Inefficient and error-prone, spreadsheets are notoriously difficult to audit. Furthermore, multiple user access easily leads to version-control problems, which degrades data quality. It's not just anecdotal: the European Spreadsheet Risks Interest Group cites research stating that 50% of spreadsheet models used operationally in large businesses have material defects.[3]

3. http://www.eusprig.org/basic-research.htm

How the right cloud application can help

A strong technology tool reduces errors and bolsters your data integrity. Best-in-class solutions seamlessly integrate with your other applications and link directly to the source data, eliminating manual keying and messy data synchronization efforts.

With the right system in place, you can produce clear audit trails and attach supporting documents and evidence directly to transactions. A robust tool also provides user-friendly reporting options, allowing you to slice, dice, and customize your data on a summary level or on an item-by-item basis. With better reports, your business teams will make better decisions.

Don’t come up short: Avoid the underestimation trap.

Even companies who realize they must make changes can still fall victim to a common error: underestimation. Preparing for the new standards demands considerable time, effort, and resources at all stages. For most organizations, implementing the new standards will be a complex project that demands significant planning and coordination.

If you determine your company will only be minimally impacted by the transition—perhaps you have a straightforward business model with standardized contract structures—underestimation can still be an Achilles’ heel. Don’t underestimate the amount of effort required to update accounting policies, systems, and internal controls.

What should you look for in a revenue recognition cloud application?

1

Powerful, flexible data models

Revenue models continue to multiply, from product-based to SaaS to bundled and usage-based contracts. The right tool recognizes revenue from multiple sources, including directly from opportunities, orders, contracts, projects, and invoices. The data model should also handle complex use cases, including multi-element arrangements.

2

Seamless integration with other applications
The best cloud applications harness the power of your existing platforms (e.g. Salesforce) and integrate directly with your other applications, including customer relationship management (CRM) and professional services automation (PSA).

3

Configurable templates and rules
The right tool enables you to adapt to whatever comes next. Create different rules based on your needs and how you want to recognize revenue. Find a tool that adapts to what's best for your business—not the other way around.

4

Forecasting capabilities
Go beyond retrospective reporting to gain a complete picture of your business. A cloud application should empower you to derive revenue forecasting with both recognized and forecasted values on multiple revenue source data.

The opportunity in the challenge

If you're committed to leaving spreadsheets behind or curious about upgrading your current technology solution, now is the perfect time to make that decision. The right cloud application can help solve some of the major pain points associated with transitioning to the new revenue recognition standards.

Meeting the new compliance standards will take time and careful planning but it shouldn't be a dreaded process. In fact, organizations large and small will find the transition provides an opportunity to transform their businesses for the better. Far beyond simply helping them pass an audit, choosing a cloud application to help with revenue recognition will allow organizations to more easily evolve to meet customer demands in the new services economy.

With companies of all shapes and sizes exploring new and diverse business models, you have the chance to start running your own business in entirely new ways. Once you've established baseline needs by automating processes and building audit trails, you'll be able to do even more—centralize all your revenue streams in one system, automate revenue calculations, reduce period-end close, deliver a complete picture of your organization's revenue, and more.

Don’t get bogged down by the transition to new compliance standards. Transform the process into an opportunity for strategic wins across your business.

FinancialForce is the only customer-centric ERP for the new services economy

The #1 ERP on the Salesforce platform.

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