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Revenue Recognition

Adopt Plan B to Be OK With Revenue Recognition Standard

Public companies with less than six months left to adopt the revenue recognition standard, Accounting Standards Codification 606, should prioritize their efforts, develop an interim plan with auditors' input and blessing, and make sure to communicate with all internal and external stakeholders, Deloitte & Touche LLP executives advised.

Most industries, with the exception of telecommunications had underestimated the impact of the standard and were struggling to get into compliance by the Jan. 1, 2018, deadline, the executives told attendees at the Institute of Management Accountants' annual conference in Denver.

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board issued converged revenue recognition standards—ASC 606 and International Financial Reporting Standard 15—that change the fundamental way revenue, the most important line in the financial report, is accounted for.

FASB has already extended the effective date by a year because of complaints from companies about the cost and disruption that the new rules would cause to long-established methods of doing business and accounting for revenue from contracts with customers.

Business Issue, Not Accounting Exercise Adoption of the rules is a business issue, not just an accounting exercise, Jane Altman, Deloitte's managing director, and Derek Bradfield, the firm's audit partner who co-leads advisory functions for revenue recognition solutions, told the conference.

Unlike most rules, which affect only one or two line items in the financial statements and can be taken care of by the accounting division, this is a ''transformational'' rule and it could take ''many months or up to a year and a half'' to make the company-wide changes, Bradfield said.

The new standard will convert business practices throughout the company, from the company's internal stakeholders to the external stakeholders such as analysts, investors, and external auditors who need to understand what the new revenue numbers mean.

Adoption Road Map The Deloitte presenters laid out their implementation road map. The first step, Bradfield said, is to assess the impact of the new rules on each revenue stream of the company's contracts and contact divisions within the company that will have to help track and process the data for each of those contract groups. These will include the information technology group, the sales department, the legal department, and investor relations.

After Bradfield's initial impact assessment, Altman works with companies to find a software solution that will allow them to process the data from their contracts as required by ASC 606.

Altman involves the information technology group and the internal audit and legal divisions from the beginning, she said. She includes the sales and investor relations divisions, which will need to be trained to explain the changes to customers and investors, respectively.

Companies' internal IT solutions aren't comprehensive enough to solve the data problems of reinterpreting all the performance obligations and variable obligations of each contract group, she said.

Therefore, she helps companies implement third-party software systems, which will take the data and load it into a specially tailored software program to do the calculations required for ASC 606.

A problem, Altman said, is if the data is incomplete or wrong, it will impede the effectiveness of the program. Ideally, companies need to allow sufficient time to check the accuracy of the data before entering it into the software.

Any such system will require at least six to nine months to be fully implemented, and longer still for companies to do ''dry runs'' before the actual ''go live'' date.

Time Constraints Bradford told Bloomberg BNA that the time constraints mean that companies are ''hustling through'' the assessment stage and using more cumbersome, ''ad hoc'' solutions for recognizing revenue.

Because of the time constraints, a company that has assessed the impact of the rule and is currently using a manual-based Excel solution might decide to continue to use that for the first year while planning ''to adopt again next year to get it right,'' Bradfield said.

Another challenge, Altman found, was infighting—accounting and IT divisions have to learn to widen their perspectives and work together on finding a solution, she said.

Prioritize, Communicate, Share Bradfield and Altman advised companies implementing at this late stage to:

- prioritize contracts that produce the highest percentage of overall revenue;

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- develop a plan to make sure they are in compliance by the deadline, even if the solution is interim, manual, and cumbersome;
- assemble a team from both inside and outside the company;
- hire backup to do the day-to-day business;
- sustain a manual, interim solution while updating and continuing to improve it;
- use the process as an opportunity to standardize processes and controls;
- bounce ideas off the auditors;
- provide company-wide training;
- involve stakeholders from all groups in testing and validating components to see if they work as designed; and
- communicate with analysts to explain why the revenue numbers are changing.

By Laura Tieger Salisbury

To contact the reporter on this story: Laura Tieger Salisbury in Denver at LSalisbury@bna.com

To contact the editor responsible for this story: S. Ali Sartipzadeh at asartipzadeh@bna.com

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