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Revenue Recognition

IPO Market Could Stall Next Year From New Revenue Accounting

The IPO market could see a slowdown in 2018 stemming from private companies dawdling over adopting new revenue rules that take effect next year for public companies, according to a Deloitte & Touche LLP poll.

More than 60 percent of about 3,000 executives polled say their companies haven't yet even started implementation or remain only in the initial assessment phase of the standard, Deloitte said in a survey released Sept. 19.

The executives were predominantly from private companies contemplating initial public offerings across a wide range of industries. Only 8 percent are ready.

''The bigger thing is this really impacts accounting systems,'' Deloitte's national managing director, emerging growth company practice, Heather Gates, told Bloomberg BNA.

''You need to set them up so that they're properly reflecting revenue under the new ways of doing so—you may need to even alter how your contracts are worded, so there's just a lot deeper implementation with a change like this than I think a lot of people realize,'' Gates said.

The new revenue rules are a major change for how companies report revenue, an important metric used by investors to determine ongoing profitability and growth of a company.

The guidance, Revenue from Contracts with Customers, ASC 606, was issued in 2014 by the Financial Accounting Standards Board. They take effect for public companies in January, and 2019 for private companies. All companies can adopt them as early as this year.

Waiting Disadvantages IPO Filers Waiting to follow the new revenue standard could place IPO filers at a disadvantage in the public company arena. Although certain emerging growth companies with annual gross revenues of less than $1 billion that undertake an IPO can elect to delay adoption of the new revenue rules until the private company deadline in 2019, that would be a mistake, Deloitte said.

Private company IPO filers would potentially be at a disadvantage to their public company peers that have already adopted the standard, said Deloitte, because if an IPO filer's financial statement isn't current with the latest accounting standards that could hinder their transparency and comparability.

Being able to compare financial reports is of vital importance to public company investors.

Should Have Started Already Among the biggest change for companies under the guidance could be differences in the timing of when to recognize revenue earned from sales to customers, which might make a difference for a company's quarterly results.

To adopt the rules, companies should already have started to change accounting systems and coordinate their efforts company wide. ''Implementation of the new revenue recognition standard is a marathon, not a sprint,'' Bernie De Jager, Deloitte's audit and assurance partner and West region accounting and reporting advisory service leader, said.

''It impacts not only finance and accounting, but also requires collaboration among multiple organizational functions, including information technology, sales, tax, human resources, and others,'' De Jager said.

Telecoms Face Acute Challenges Deloitte said half of IPO activity over the next 12 months will stem from technology, media and telecommunication companies. But challenges companies in the telecommunications sector will face to implement the rules will be more acute because of their often complex sales arrangements. ''You have a lot of different components to a revenue contract,'' Gates said.

''For example you may have implementation of the software, you may have licensing of the software itself, and then you may have a separate piece of it for support of the software outside of usage,'' she said.

Software contracts are notorious for being more complex than regular technology purchases, such as computers, Gates said. ''TMT is fraught with software—60 percent of funding has been going into the software sector the past year or two,'' she said.

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