Since the new revenue standard was released, companies have been hard at work to achieve compliance. Its requirements have driven organizations to track revenue at more detailed levels than they have previously. The related system implementation to achieve this detail can be more cumbersome and more difficult than anticipated. Deloitte and Aptitude Software have supported multiple such implementations and have compiled some key insights.
Deloitte and Aptitude Software Alliance

Deloitte and Aptitude Software have developed an alliance based on successful solution implementations for finance teams across industries. This alliance was developed and grown in the USA, but has since expanded globally with Deloitte now having the most Aptitude Software accredited resources in the global market. Deloitte and Aptitude Software have complementary capabilities and specialties, which means that our clients benefit from well-rounded experience.

In 2017, after over twenty years of serving CFOs and financial controllers, Aptitude Software acquired RevStream to add to their revenue management portfolio in serving the Technology, Media and Telecom (TMT) sector.

Customers choose Aptitude Software’s revenue recognition solutions to solve the near-term ASC 606 / IFRS 15 compliance challenges as well as to take advantage of significant long-term benefits of revenue management and automation. This empowers finance teams to move beyond traditional accounting roles and provide strategic value through data transparency, added insights and reporting, and complete configuration control of their revenue streams. Aptitude RevStream allows customers to quickly adapt to ever-changing financial standards, large scale growth, and increasingly complex business models.

Deloitte has deep global experience in revenue recognition, including a dedicated revenue recognition team of over 100+ practitioners in the USA and India, 50+ trained in Aptitude Software methodology and tools currently as of 2018. Deloitte maintains a robust inventory of templates, work products, frameworks, and other tools designed to help companies accelerate implementation efforts related to revenue recognition.

Deloitte Experience & Insights

Deloitte and Aptitude Software have worked together on multiple engagements, assisting clients of various sizes across the globe to secure compliance with the ASC 606 / IFRS 15 revenue standard; these efforts would implement the Aptitude Revenue Recognition Engine or the Aptitude RevStream solution of which several examples are below.

<table>
<thead>
<tr>
<th>North America-based</th>
<th>Customer Volume*</th>
<th>Accounting Scenarios</th>
<th>Source Systems</th>
<th>Rough Cost</th>
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<tbody>
<tr>
<td>3M</td>
<td>35-45</td>
<td>3</td>
<td>$$</td>
<td></td>
</tr>
<tr>
<td>7M</td>
<td>40-50</td>
<td>1</td>
<td>$$$</td>
<td></td>
</tr>
<tr>
<td>12M</td>
<td>65-85</td>
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</tr>
<tr>
<td>75M</td>
<td>50-60</td>
<td>8</td>
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</table>

<table>
<thead>
<tr>
<th>Other Global Entities</th>
<th>Customer Volume*</th>
<th>Accounting Scenarios</th>
<th>Source Systems</th>
<th>Rough Cost</th>
</tr>
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<td></td>
</tr>
<tr>
<td>20M</td>
<td>70-80</td>
<td>6</td>
<td>$$$$</td>
<td></td>
</tr>
</tbody>
</table>

*Customer volume represents the company’s subscriber basis

From this experience, we have concluded that several key factors drive complexity, and thus impact overall program costs. In the following sections, these key factors are explored in more detail.

Deloitte is an important alliance in this functional and accounting area and we have worked together with Deloitte on multiple engagements.

Aptitude Software and Deloitte Announce Alliance
Tom Crawford, CEO, Aptitude Software
The intersection between accounting positions and source system data is critical. Together, they support one another, meaning if one falters, the other must adjust to pick up slack. Typically, data limitations force companies to reconsider their accounting policies and find solutions with minimal system impact. Thus, flexibility in these areas provides options when addressing unforeseen future scenarios.

Exhibit 1: The balance between accounting and data

- Optimize the number of sources for simplicity
- Transform data into a landing format that is common across products, business unit, etc., prior to assessment.
- Capture results in a repository for financial reporting

Quality & Availability
Accuracy and availability of data to make accounting decisions should be assessed early as organizations tend to be overconfident of data quality. Since poor quality data makes revenue decisions difficult or near impossible, this assessment should be conducted on the source systems prior to integration with the revenue recognition engine.

Anomaly situations identified early can make future phases of the project smoother; however, the vast potential for various situations can be overwhelming, so focus on covering the most common occurrences.

The effort to assess availability and accuracy is often underestimated, but is significant given the deep level of detail required. It is important to budget adequate time and resources as lack of attention at this stage can result in more errors during testing.

Exhibit 2: Compounding complexity of the project

Accounting Positions & Rules
Defining the accounting positions is the first step of a revenue recognition project and thus the first driver of complexity. These positions define two critical items: a) product treatments and b) contract lifecycle events. Rules associated with these items should be documented clearly with specific outcomes, leaving no ambiguity or room for interpretation. Clarity at this stage allows for a cleaner alignment to data in the next phase. Any ambiguous positions at this stage can cause difficulty and confusion when translating to systemic rules in later phases.

Source System Data
Sourcing and combining data from multiple legacy systems that have been modified and updated repeatedly over time to make accounting decisions is a major challenge with associated integrity risk. The required data may be difficult to identify and validate, thereby hindering the overall data setup process. Described below are two key pillars to consider.

Sourcing
Data that triggers contract lifecycle events, identifies performance obligations, and provides product-level information that can be found in multiple sources. Some important considerations are as follows:

Testing
Testing is one of the most crucial phases of the project, requiring dedicated time and detailed consideration as it is the first chance to validate how the data and accounting positions align. Experience has shown that discrepancies tend to arise in testing because 100% data validation prior to testing is unrealistic; thus, conducting some form of ‘data readiness’ phase is strongly recommended to ease into the testing phase. A high-level illustration of testing cycles to consider, including order and descriptions, is provided.
For testing, the following considerations should be kept in mind:

- **Replicate data from production environment.** If production data is not available, then realistic test data must be created for testing purposes. This process has been seen to take ample time so start early and validate the results with the business prior to using:
  - Using mocked up data is not ideal as it does not uncover the nuances in data situations that can occur in reality.
  - Replication of production data should be made available and used for the final testing cycles, taking into account the inherent security risks and potential business impact along with access controls. If those risks are too high, any realistic/production-like data should be used.

- **Develop testing strategy** including test plans and test cases should be developed early in the project lifecycle.

- **Consider environment availability** including resource constraints.

- **Allocate time between testing cycles** to allow for environment resets before the next cycle begins.

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**Conversion (i.e., Catch-Up)**

The process of loading all historic data to obtain the opening balance under the new standard:

- **Explore and gather the necessary historical data early** to identify any data gaps that may need to be addressed by the business and could potentially lead to new accounting rules.
- **Create the necessary reference data early.** The effort to define any key manual reference data by the business for the operation of the solution tends to be underestimated due to larger volumes than anticipated.
- **Test the conversion process early** with real data to identify any functional situations that may not have been handled. This testing can also serve as early performance testing to see how the solution fares with large data volumes.

Use replicated production data for testing. From experience, new functional requirements typically surface afterwards due to nuanced business situations and processes.

**Post Implementation Activities**

So far, discussion has focused on the actual design and implementation of the solution. However, once those phases are completed, there are other important activities to consider and understand how future business decisions have an impact on maintaining the solution.

**Go-forward operations/maintenance**—once live, understand how daily business activities can impact the solution:

- If new product bundle offerings are defined by marketing or new businesses acquired, these can introduce new functional requirements for the solution.
- If future changes are needed, ensure appropriate ownership of the different solution components for updates.

**Other Considerations**

**Team Structure**

Because of the large impact of ASC 606 / IFRS 15, client project teams don't often have relevant prior experience. Often, the most efficient implementations include deep integration of business and IT resources throughout the project on a daily basis, especially during testing phases. Everyday decisions require flexibility and compromise between the defined accounting positions and available source data; as a result, the target solution requires that decision-making is business-driven with heavy and frequent input from IT.