ASSESSING THE IMPACT OF THE NEW REVENUE RECOGNITION STANDARDS ON YOUR BUSINESS

There’s no doubt that revenue is a critical measure for any business anywhere. However, inconsistency in revenue reporting, multiple subsets of standards that differ from industry to industry, and variations in requirements across jurisdictions have made it increasingly difficult to meaningfully compare reported revenues.

It will not come as a surprise to most people involved in the financial side of businesses that the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have issued a converged standard on the recognition of revenue to address the inconsistencies. Coverage and discussions of the new standards appear regularly in bulletins, professional journals, print and Web articles, and blogs.

The May 28, 2014, joint FASB/IASB news release on the new standard states, “… the boards have developed new, fully converged requirements for the recognition of revenue in both IRFS and U.S. GAAP – providing substantial enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and U.S. GAAP.”

The new guidance goes into effect for public companies for annual and interim reporting periods beginning after December 15, 2016, and a year later for non-profits and private companies. This is the most significant revenue recognition guidance in the last 15 to 20 years and its impact will be felt at varying degrees by all businesses.

UNDERSTANDING THE STANDARD AND FACILITATING TRANSITION

Whatever your industry or business, the standard will affect your company. The amount of effort, time and investment required to adopt the new standard will vary depending on the complexity and structure of your contractual agreements and revenue terms.

The standard is long—more than 700 pages—and complicated to get through. As you delve deeper into the details of the standard, you may find that while finance and accounting will lead the transition, they won’t be the only departments whose expertise will be needed. For some businesses and industries the impact will be minimal, perhaps only a review of the new standard to ensure that you address any requirements that have the potential to affect your business and making certain updates to your financial statement disclosures. For others—telecommunications, aerospace, construction, asset management, real estate and software among them—the impact has the potential to be much greater, possibly necessitating changes to systems, internal controls and methods for tracking contractual revenue.
Given the levels of potential impact, the implementation dates loom much closer than it might at first seem. It is time to start thinking about this now, to begin evaluating the impact on your business and set in motion the processes and changes to allow a seamless transition.

Some examples of issues you will want to think about and address as you move forward include:

**TRANSITION METHODS**
You will need to determine which of two options for transitioning will be best for your company. You can opt for a full retrospective approach that will require all periods presented to be in accordance with the new standard. The alternative method is a modified retrospective approach that will require a cumulative adjustment be made in the current period.

**DEPARTMENTS AFFECTED**
While the initial impact may be felt primarily in finance and accounting, it is likely that these will not be the only areas of your company affected by the new standard. Additional areas to consider will include your sales department, if future revenue arrangements will be modified, and your internal audit department, if changes are required to properly implement and track compliance with the new standard. It will be important to determine where there are significant impacts as soon as possible to avoid last-minute issues that could result in noncompliance.

**CONTRACT & REVENUE TERM REVIEW**
If your company maintains contracts with customers or stated revenue terms, you may need to call on your legal department or outside counsel to determine if these items need to be rewritten in light of the new revenue recognition requirements.

**IMPACT ON BUSINESS PROCESSES**
If you determine that you may need or want to make changes to business practices, you will want to thoroughly examine the potential benefits versus impacts of any changes.

**INVESTOR RELATIONS**
This is your company’s primary department for communicating with stakeholders and analysts. They will need to have a clear understanding of the impact of the changes on your business in order to communicate them accurately and minimize any confusion the changes might create.

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NATURALLY, WE WOULD LIKE YOU TO CONSIDER US AS A POTENTIAL ACCOUNTING PARTNER FOR YOUR BUSINESS, BUT ONLY IF WE ARE THE RIGHT ONE FOR YOU.

ABOUT THE AUTHOR.
Josh Edwards is an assurance services senior manager for HORNE LLP. He provides assurance, internal audit and Sarbanes-Oxley consulting services to a number of public and middle market companies in the manufacturing, agribusiness, technology and gaming industries.

RESOURCE AVAILABILITY
Depending on the level of expertise in your company and resources available to study and evaluate the impact of the standard, it may be in the best interest of your organization to engage outside experts to work with you to determine the company-wide impact and develop a comprehensive implementation plan. While the impact on your company may be significant, starting now to set your course for on-time implementation is the key to a successful transition. If you find that you need assistance in sorting through the requirements, planning and executing your implementation, companies like HORNE, with experts who are already familiar with the nuances of the new standard, are available to provide the help you need.

A FEW WORDS ABOUT HORNE
Naturally, we would like you to consider us as a potential accounting partner for your business, but only if we are the right one for you. We offer a balanced combination of personal relationships and capabilities to support your public, middle market or emerging growth company. Our resources are available to assist you in meeting your goals and can provide the comprehensive assistance you need to reach them. Our services include audit services, tax planning, SEC financial reporting assistance, acquisition due diligence, Sarbanes Oxley compliance, enterprise risk management, internal audit, IT consulting, and forensic accounting.

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