Revenue Recognition... It's Time to Act!

No doubt, most of the directors reading this article are aware of the pending new accounting rules affecting revenue recognition. Many of you have been told that the standard is not likely to have a material effect on your company but that more analysis is required to be sure. Based on assessments we have performed to date, the majority of our clients have been surprised to learn the true extent of the impact to their organization. They now realize that, as the implementation deadline gets closer each day, they will need all the time available to implement the standard. Here are some observations we can share from helping our clients develop their revenue recognition implementation game plans:

The first issue encountered typically has to do with data. Companies may have difficulty ensuring a complete population of contracts to assess. Contracts may be hard copy or electronic, at corporate or business units, in English or another language. Some may not be documented and some may have been modified with amendments or side letters. Having access to all contracts is critical to identify revenue streams. Controls over contract review should be increased now to implement policies for heightened attention, if certain materiality or complexity criteria are met.

The extent to which a company's financial and operational systems will be affected depends on the technical accounting policy changes required and the capabilities of existing systems. Some companies will be able to modify systems, while others will need to seek new options. Those relying on Excel should consider how an automated solution might offer a more sustainable path forward.

The amount of time it will take to implement the standard depends not only on the complexity of accounting issues and gaps identified, including necessary changes to systems, processes and controls, but also the method of implementation selected by the company. The guidance allows an option to restate prior periods at the effective date (2018 for U.S. public companies), or adopt prospectively with increased disclosures. Which option a company chooses will largely be based on the anticipated financial statement impact, investor expectations for comparability, and cost considerations.

Companies are burdened with day-to-day activities and projects which already put a strain on the bandwidth of their people. The timeframe and in-house expertise will be a factor in considering whether the assessment and implementation can be done with internal resources, or whether external advisors/support teams should help with one or more work streams, including the essential role of project management.

For many organizations, the new Rev Rec guidance is a tsunami on the horizon. Avoid underestimating the impact. Plan and institutionalize the changes early and manage stakeholder expectations, so you are not caught in the mayhem that will likely unfold.

Lester M. Sussman has 39 years of professional services and private industry experience in accounting and corporate governance. Since 2005, Les has been the Senior Practice Director of the Governance Risk & Compliance (GRC) practice area for Resources Global Professionals (RGP), a global professional services firm that provides finance and accounting, information management, human capital, legal and regulatory, supply chain management and governance, risk management and compliance services to clients. Les is a frequent speaker on corporate governance and risk management topics. He also leads RGP's financial services industry group for the western region of the United States.