

Revenue revolution

What audit committees need to know
about the new revenue standard

Accounting Advisory Services



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Changing your *perspective*

If you earn revenue and apply IFRS or US GAAP, your company is about to face a major change as the accounting requirements for revenue change effective 2018.

The new standard will impact your revenue cycle, key performance indicators, systems and processes. For some, it may be more pervasive than the recent transition to IFRS.

The time to act is now.

5 *questions audit committees should be asking*

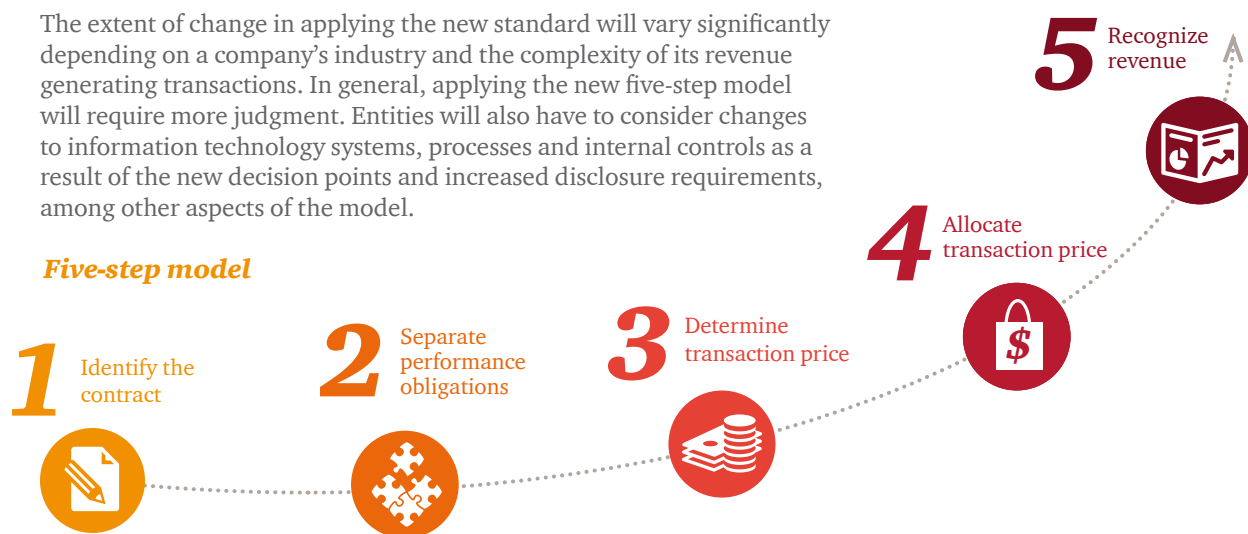
- What's management's transition strategy, timeline and budget?
- What are the key issues specific to our industry and company?
- How will the change impact our business, beyond the financial statements (e.g. processes, systems, compensation plans, key performance indicators (KPIs), tax, controls, debt covenants, etc.)?
- How and when are we communicating changes to stakeholders?
- How are our competitors addressing transition?

The new model— a 50,000 foot view

The new standard presents a single, principles-based five-step model that applies to all industries.

The extent of change in applying the new standard will vary significantly depending on a company's industry and the complexity of its revenue generating transactions. In general, applying the new five-step model will require more judgment. Entities will also have to consider changes to information technology systems, processes and internal controls as a result of the new decision points and increased disclosure requirements, among other aspects of the model.

Five-step model



Transition

The standard is effective in 2018 for public companies with two alternatives for transition.

| | <i>Retrospective</i> | <i>Modified Retrospective</i> |
|--|---|--|
| 2017 reporting in 2018 | Contracts restated and reported in accordance with new standard | Contracts reported in accordance with existing guidance |
| 2018 reporting | Contracts reported in accordance with new standard | New and existing contracts reported in accordance with new standard, incremental disclosure required |
| Cumulative adjustment to opening retained earnings | 2017 | 2018 |

Change is coming

While the extent will vary depending on industry and complexity of contracts, all entities with revenue will be affected by the new standard.

Areas impacted may include:

- the number of deliverables in a contract to which revenue must be allocated
- the method of allocation to those deliverables
- timing of recognition of revenue
- other recognition and measurement areas, such as the accounting for collectability, contingent revenue and accounting for contract costs (e.g. sales commissions)
- disclosures



What's on your mind?

The implications aren't limited to accounting procedures and entries – the new standard may also change the way you do business.

Revenue as a KPI

For most businesses, revenue reporting is essential. The new standard presents a fundamental change that could have far-reaching consequences and require careful communication with analysts and others.

Bundling products and services

Business is becoming more complicated as consumers demand more innovative products and services bundles. Accounting for bundled contracts is about to become more complicated too and the new standard presents an opportunity to analyze your revenue cycle and understand the strengths and weaknesses of your current model, including how products and services are bundled.

Contract terms

Changes in how contract terms affect reported revenue, such as contingent fees and prepayments or extended payment terms, could influence how companies and their customers choose to negotiate.

Systems and processes

Data needs for ongoing reporting means many companies will need to change systems to capture different information and develop new processes for estimates that aren't required today.

Three-step approach to successful transition

1 Assess

- Establish governance, project and change management approach
- Inventory revenue arrangements
- Review current accounting policies and practices
- Identify relevant differences under the new standard

2 Convert

- Determine transition method
- Map accounting policy differences to systems and processes
- Consider dual-reporting implications and interim solutions
- Establish roadmap and communication plan

3 Embed

- Educate and communicate within the organization
- Implement process and systems changes
- Collect and convert data, perform calculations
- Draft disclosures (both transition and ongoing)

Contacts

For more information about the revenue standard and how we can help you, please speak with your local engagement partner or one of our accounting advisory contacts below.

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