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A ProNexus, LLC white paper



Implementing the New Revenue Recognition Standard

Helping others prepare and manage the upcoming revenue recognition standard

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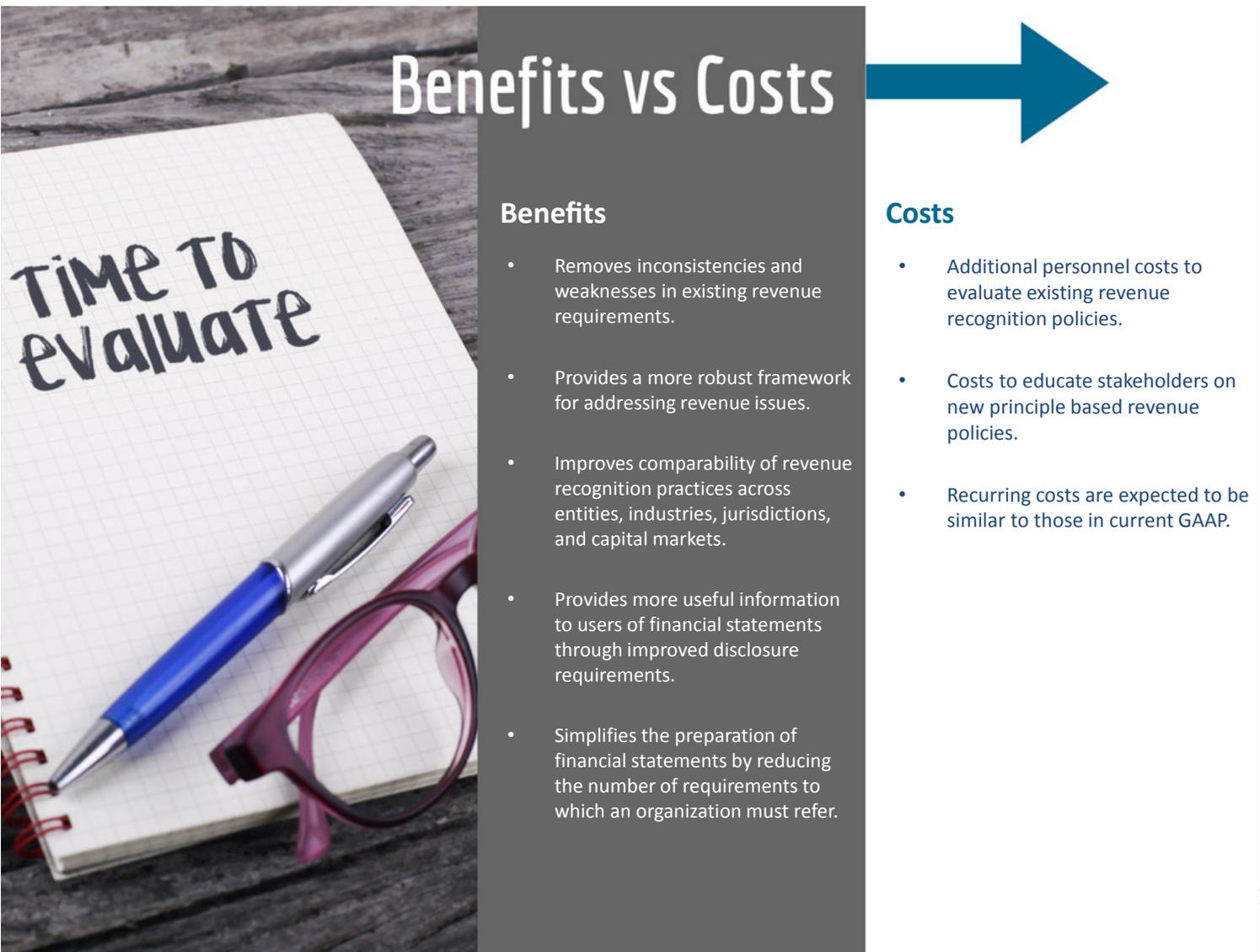
Implementing the New Revenue Recognition Standard

In May 2014, the FASB and the International Accounting Standards board (IASB) issued converged guidance on recognizing revenue in contracts with customers. The Financial Accounting Standards Board (FASB) issued **Revenue from Contracts with Customers**.

The difficulty in implementing the new rules will vary by organization.

Why a New Revenue Recognition standard?

GAAP currently has complex and varying guidance for multiple industries and transactions. This resulted in different industries accounting for similar transactions in different ways. The new standard replaces current GAAP guidance with a principal based approach for recognizing revenue.



Benefits vs Costs

Benefits	Costs
<ul style="list-style-type: none">• Removes inconsistencies and weaknesses in existing revenue requirements.• Provides a more robust framework for addressing revenue issues.• Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.• Provides more useful information to users of financial statements through improved disclosure requirements.• Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.	<ul style="list-style-type: none">• Additional personnel costs to evaluate existing revenue recognition policies.• Costs to educate stakeholders on new principle based revenue policies.• Recurring costs are expected to be similar to those in current GAAP.

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What Is the Effective Date?

Public Companies - January 1, 2018

Non-Public Entities - January 1, 2019

How is the new standard different from current GAAP?

The new rules replace specific GAAP guidance in several industries. These include software, construction and production type contracts, and entertainment and financial services, as well as others.

The new standard creates a principle based approach to revenue recognition.

The new guidance establishes the following principle: “Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.”

Current GAAP	New Guidance
There are numerous requirements for recognizing revenue.	There will be consistent principles for recognizing revenue, regardless of industry and/or geography.
Other than disclosures in accounting policies and segment reporting, organizations provide limited information about revenue contracts.	The new guidance includes a cohesive set of disclosure requirements that will provide users of financial statements with useful information about the organization’s contracts with customers.
Many goods or services promised in a contract with a customer are deemed not to be distinct revenue generating transactions when in fact those promises might represent obligations of the entity to the customer.	Reporting organizations will identify each of the goods or services promised to a customer, determine whether those goods or services represent a performance obligation, and recognize revenue when (or as) each performance obligation is satisfied.
In a multiple element arrangement, the amount of consideration allocated to a delivered element is limited to the amount that is not contingent on delivering future goods or services.	Companies will allocate the transaction price to each of the performance obligations in the contract on the basis of the relative standalone selling price of the underlying goods or services, except when a discount or a variable amount consideration relates entirely to one or more of the performance obligations in the contract.
Accounting for variable consideration differs greatly across industries.	A single model to consider for variable consideration, which includes rebates, discounts, bonuses, or a right of return. Variable consideration will be included in the transaction price to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Source: FASB

How Prepared are you for the Transition?

This process may have impacts in other areas. Additional financial statement disclosures will be required. Income projections, taxes, loan agreements and other areas where measurement of revenue is a key consideration will be affected. Changes in the IT infrastructure may be needed to accommodate the new revenue recognition timing.

It is important not to be surprised by these impacts. Organizations will want to explain the effects of the changes in accounting for revenue on their financial statements to the board of directors, investors, and other users of financial statements.

In addition, there may be very positive outcomes gained from the process. It may produce a deeper understanding of your business and the internal control structures needed, as well as reveal potential income opportunities and leaks.

Initial Project Plan May Include:

- Establish working group to become experts on the new standard.
- Evaluate the changes from current GAAP to the new revenue recognition standard.
- Assess current contracts to determine when revenue is recognized.
- Determine how you will retrospectively adopt the new standard.
- Determine whether any changes will be needed to IT systems to capture data needed for the new standard.
- Develop a project plan for implementation of the standard considering data developed in the previous steps.



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How ProNexus Can Help:

With private companies facing adoption in 2019 there is very little time to think through the potential impacts, particularly in light of the required retroactive disclosures. ProNexus can assist clients in a variety of areas including but not limited to the following:

- Developing and/or directing the project plan and implementation thereof.
- Understanding the changes in GAAP, related accounting requirements, and the affected revenue streams.
- Analyzing your contracts to determine when revenue is recognized.
- Assessing current state processes, information requirements and capabilities of existing technology.
- Performing a gap analysis and impact on financial statements and covenants.
- Providing resources or loan staff augmentation to support your implementation.

About ProNexus

ProNexus, LLC is a management consulting and professional services firm that offers scalable, customized Finance, Accounting, and IT solutions and consulting services from strategy and leadership to project execution. ProNexus supports the offices of the C Suite using a unique blend of engagement models:

Consulting - assess needs, make recommendations, and deliver results

Projects - support CEOs, CFOs, CIOs to accomplish critical projects

Outsourcing / Co-Sourcing - CFO, Compliance, Internal Audit, Tax, Accounting, PMO

Interim Management - CFOs, CIOs and more

Staff Augmentation - to support the CFO or CIO organizations

Retained Search - Finance & Accounting, IT, Sales/Marketing, Operations, HR, Legal

ProNexus can assist any business including those facing challenges, or in transition, whether it's rapid growth, mergers, acquisitions or exit, integration, turnaround, building infrastructure, compliance, systems optimization, improving performance, bridging a gap in leadership or skill set, or simply augmenting staff to maintain productivity.

We'd love to start a conversation with you. Connect directly with a member of our Executive Team below:



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