Revenue Recognition
Private Companies: Are You Ready to Adopt the New Standard?
THE ADOPTION ENABLER

- Orchestrates the execution of a strategic, tactical, and efficient adoption.
- Eliminates stress on internal resources and acts as a liaison.
- Identifies opportunities to implement strategic changes beyond compliance.
- Educates key stakeholders on the applicable impacts of the new standard.
- Ensures compliance with accounting and reporting requirements.
THE FUTURE OF REVENUE IS YOUR ORGANIZATION PREPARED?

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, which is codified in ASC Topic 606. The new standard is a shift to improve comparability of revenue recognition practices across companies, industries, and the capital markets. Impacts of the new standard on your organization may include the following:

- Changes how revenue is recognized both in timing and amount.
- Requires that companies select a transition option.
- Eliminates virtually all industry-specific revenue guidance.
- Includes new qualitative and quantitative disclosure requirements.
- Lays out a five-step approach for recognizing revenue that depicts the transfer of goods or services to customers.
- Impacts other financial areas, such as commission expenses, incentive plans, debt compliance and fulfillment costs.

The new standard requires new judgments and estimates, includes substantial new qualitative and quantitative disclosure requirements, and has the potential to materially impact areas other than revenue. The new standard is more than a compliance requirement—we believe it is an opportunity. MorganFranklin helps organizations ask the right questions to not only understand how these changes affect your organization but also identify the opportunities as a result of the new standard. For example, we will assess the complexities and opportunities to be considered for each of the new standard’s transition options.

*Companies need to evaluate and perform detailed reviews of existing contracts to calculate the cumulative catch-up adjustment.
The new standard impacts more than the finance organization. Executive leadership, finance, information technology, legal, budgeting and planning, human resources, and tax are all affected. Organizational capabilities, processes, and technology need to be assessed and changes need to be implemented to address the new standard. Our approach helps drive better planning and decision making to help organizations stay ahead of the curve and leverage strategic opportunities.

**SOLUTIONS FOR SMART PLANNING & TACTICAL APPROACH**

**ASSESS**

Understand What is Changing

- Understand the impacts on a sample of contracts and IT system implications
- Identify executive sponsor, steering committee, and adoption leader
- Hold necessary training to understand requirements
- Conduct assessment to draw preliminary focus areas of impact across the business and capture larger workstreams or efforts for organizational awareness

**KEY ACTIVITIES**

Be smart.

- Scoping of revenue streams
- Initial contract analysis
- Contract cost analysis
- Confirm transition method
- Revenue recognition IT system use cases
- Technical training
- Business impact assessment
- Implementation roadmap

**DELIVERABLES**

- Understand the impacts on a sample of contracts and IT system implications
- Identify executive sponsor, steering committee, and adoption leader
- Hold necessary training to understand requirements
- Conduct assessment to draw preliminary focus areas of impact across the business and capture larger workstreams or efforts for organizational awareness

- Scoping of revenue streams
- Initial contract analysis
- Contract cost analysis
- Confirm transition method
- Revenue recognition IT system use cases
- Technical training
- Business impact assessment
- Implementation roadmap
### DESIGN

**Prepare to Implement Changes**

- Conduct expanded contract analysis
- Evaluate current financial policies and areas likely to be impacted
- Conduct deep dive on data, systems, reporting, processes and disclosure requirements to support a detailed execution plan
- Define implementation requirements and agree on which opportunities to pursue
- Establish appropriate project management function to ensure efficient and effective approach

---

### IMPLEMENT

**Implement Changes into Operations**

- Design, build, and test, required system changes
- Enable dual reporting for transition periods
- Educate and train staff on new requirements
- Implement new processes to ensure internal and external reporting needs are met
- Institute new policies and update process flows
- Optimize, update, and document internal controls for new processes

---

### REPORT

**Calculate, Disclose, and Report**

- Model financial reporting and new disclosure requirements
- Calculate the financial statement impact at the date of adoption, restating prior periods, if applicable
- Draft required disclosures and updates to the financial statements
- Prepare for the external audit, including documentation of internal controls specific to adoption of the new standard

---

### Be strategic.

- Governance structure, communication plan, roles and responsibilities
- Expanded contract analysis
- Policies evaluation and accounting position papers
- IT systems deep dive assessment—systems implementation approach and vendor selection, if required
- Board & executive communication preparation
- Project management

---

### Be tactical.

- System implementation/improvements/updates
- Business process changes
- Accounting policy updates
- Internal controls documentation and optimization
- Organizational training and change management

---

### Own the process.

- Beginning retained earnings adjustment and comparative periods
- Financial statements and transition disclosures compliant with the new standard
- Audit readiness
PAST PERFORMANCE
CLOUD-BASED E-COMMERCE COMPANY

A publicly traded e-commerce provider of software-as-a-service (SaaS) solutions to retailer and manufacturer customers to integrate, manage, and optimize merchandise sales across hundreds of online channels.

ASSESS
- Scoping of revenue streams
- Initial contract analysis
- IT system use cases
- Technical training
- Business impact assessment
- Implementation roadmap

Upon issuance of the new standard, management recognized an immediate need to understand the standard’s impact across the business. MorganFranklin facilitated an initial workshop to provide technical training, raise awareness within the organization, and capture key considerations for further evaluation. MorganFranklin worked with management to perform a detailed contract analysis on an initial sample of the company’s contracts based on its revenue streams by using a proprietary, audit-ready checklist to understand how each revenue stream and customer contract type would be accounted for under the new standard. MorganFranklin leveraged the initial contract analysis to prepare IT system use cases to determine the impacts of the new standard on the company’s IT systems. MorganFranklin performed a detailed business impact assessment to determine the new standard’s effects on each of the company’s relevant business functions and made strategic recommendations for adoption, ultimately forming the basis for the company’s detailed transition plan. Armed with an understanding of the financial and business impacts, management engaged MorganFranklin to develop a detailed transition plan to guide all aspects of adoption of the new standard.

DESIGN
- Project management
- Governance structure and communication plan
- Expanded contract analysis
- Policies evaluation and accounting position papers
- IT systems deep dive assessment
- Board & executive communication preparation

The Chief Accounting Officer recognized that the initiative required a dedicated project management office (PMO) and engaged MorganFranklin to establish a PMO to act as the adoption enabler and build support for the project with stakeholders across the entire organization. In this role, MorganFranklin developed a detailed transition plan to guide all aspects of adoption. We worked with management to develop a resourcing approach that balanced internal stakeholders’ availability to execute project activities and perform business-as-usual responsibilities. To communicate this plan, MorganFranklin assisted management in preparing an executive summary for the Board of Directors and audit committee, outlining the company’s adoption plan. These executive summaries were updated by the PMO for the company quarterly to ensure the relevant stakeholders across the organization were informed of adoption progress.
MorganFranklin developed and executed an expanded contract analysis approach for extending the conclusions to the larger population of contracts. MorganFranklin also performed in-depth analysis to identify which costs should be capitalized under the new guidance (e.g., costs to acquire a contract, fulfillment costs) and to define the amortization period. These technical accounting conclusions were documented in position papers and discussed with the company’s auditors.

Concurrently, MorganFranklin collaborated with the IT and finance teams to perform a deep dive assessment to map the requirements of the new standard to the existing order-to-cash process and financial information systems environment. This exercise identified specific points within the process requiring new technology solutions required for compliance with the new standard, while also identifying additional opportunities to automate transaction flow and enhance internal controls.

After performing assessment and design activities, the combined project team shifted its focus to implementing changes into operations. MorganFranklin provided project management and information technology expertise over a series of NetSuite implementations—including Advanced Revenue Management, Multi-Book, and SuiteBilling—that enabled the systems environment to decouple revenue recognition from billing. As the system enhancements advanced, MorganFranklin continued to work with the company to implement decisions into business operations. MorganFranklin assisted the company with revising its policies to reflect the new guidance, documenting updated business processes, and preparing updated risk and control matrices.

MorganFranklin assisted the company with the calculation of the retained earnings adjustment at transition and preparing external financial statements, including necessary disclosures and footnotes. To facilitate their ongoing dual reporting requirements during the initial year of adoption, MorganFranklin built a model for the company to calculate the differences between legacy GAAP and the new standard. During the entire adoption process, MorganFranklin worked with the company to ensure the company’s auditors agreed with conclusions such that the company would be ready for their first audit under the new standard. Through this long-term, complex, cross-functional initiative, management came to rely on MorganFranklin to provide strategic vision for the transition, drive efficient decision making, identify strategic opportunities beyond compliance, foster support, educate stakeholders, facilitate communication, provide technical accounting expertise, and ultimately drive the successful adoption of the new standard.