CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

Analysis

Perfecting Revenue Recognition – A Business Imperative

Andy Campbell

Andy Campbell
Global Solution Evangelist
FinancialForce

Biography

Andy Campbell is Global Solution Evangelist at FinancialForce (https://www.financialforce.com), where his work involves engaging with executive teams that are undertaking major business transformations and advising customers and partners on cloud adoption.

Prior to FinancialForce, Andy worked at Oracle for over 20 years in a variety of roles, including latterly as Cloud Evangelist, where he led the HR research and thought leadership activity for EMEA.

Andy has over 25 years of technology and business change expertise across industry sectors, including both the public and private sectors, as well as multiple geographies. He has substantial experience of successfully deploying leading edge technology to address significant business problems and opportunities.

Andy is an active blogger and regular conference presenter across EMEA, has an MBA (Nottingham), DMS (Bristol) and BSc (Exeter).

Keywords Revenue recognition, Audit, Standards, Compliance, Reporting, Spreadsheets, Software
Paper type Opinion

Abstract

Despite the ASC 606 and IFRS 15 standards deadlines of 2017 and 2018 respectively, many public and privately held companies are still not compliant. Complying to these regulations is challenging, as organizations must evaluate primary revenue streams to identify revenue recognition requirements, as well as deliver the right reports to internal and external stakeholders. As the author of this article explains, to overcome the challenges it is necessary for businesses to install the right revenue recognition system to reduce friction and position the company for a smooth, successful changeover.

Introduction

Recognizing revenue correctly is at the very heart of every successful business. In recent years, new revenue recognition rules have been introduced in an attempt to resolve historical issues relating to misrepresentation of accounts. This problem has arisen because more and more companies are not just selling products, but also selling services, which have far more complex revenue recognition rules. In fact, consequently, some organizations had to go as far as having to restate their accounts, with all the implications for perceived reputational integrity.

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

There are now two major revenue recognition standards – IFRS 15 and ASC 606 and these regulations provide a consistent framework for recognizing revenue for the transfer of goods and services to customers. The ASC 606 and IFRS 15 standards were given deadlines of 2017 and 2018 respectively to drive consistency in financial reporting and resolve issues relating to revenue recognition. However, many public and privately held companies are still having issues achieving compliance, despite their best attempts to do so. As such, adhering to these regulations is proving to be quite a challenge for businesses.

The compliance challenge

To fully understand the problems, we first need to understand the business landscape and how that has changed. Historically if we took, say, a manufacturing company, they would make and supply some products, which customers would pay for once the goods had been delivered. Revenue could be easily recognized as a result. However, if we take a modern digital business, say a cloud-based technology company offering 'software as a service' (SaaS), the range of goods and services that they offer will be much more varied. The ways in which these are delivered and billed for can also be extremely complex.

There might be an initial simple one-off purchase of some software, or this could be a term based multi-year contract. There will probably be a delivery project for professional implementation services often on a fixed price or a time and materials

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

basis. In addition, there might be a maintenance agreement for the duration of the contract, where a customer can request regular visits, drawing down from a pool of resources.

Physical products may be required to deliver the service, and again these might be consumed as a one off or perhaps on a usage basis. There could be a regular monthly subscription for additional services. Call out contracts might be in place to provide support on a break/fix arrangement, or support could be provided as a period contract, charged annually say, or it could obviously be a combination of both. Every single one of these elements will have different rules for delivery, for billing, for payment and for revenue recognition. They are separate, they are distinct, and auditors will wish to have clear visibility of every part of the process.

Taking the first steps

In order to understand and address these challenges organizations need to take a number of actions to ensure that they are compliant and the business is not at risk.

First, they must evaluate their primary revenue streams to identify their revenue recognition requirements and the business units where this has the most impact.

Secondly, they need to know the scope of work being delivered, starting with the evaluation of existing contracts. Businesses need a new rules-based framework against which they can assess contracts and if the contracts are liable to change, to ensure that processes are in place to reflect the implication of these changes.

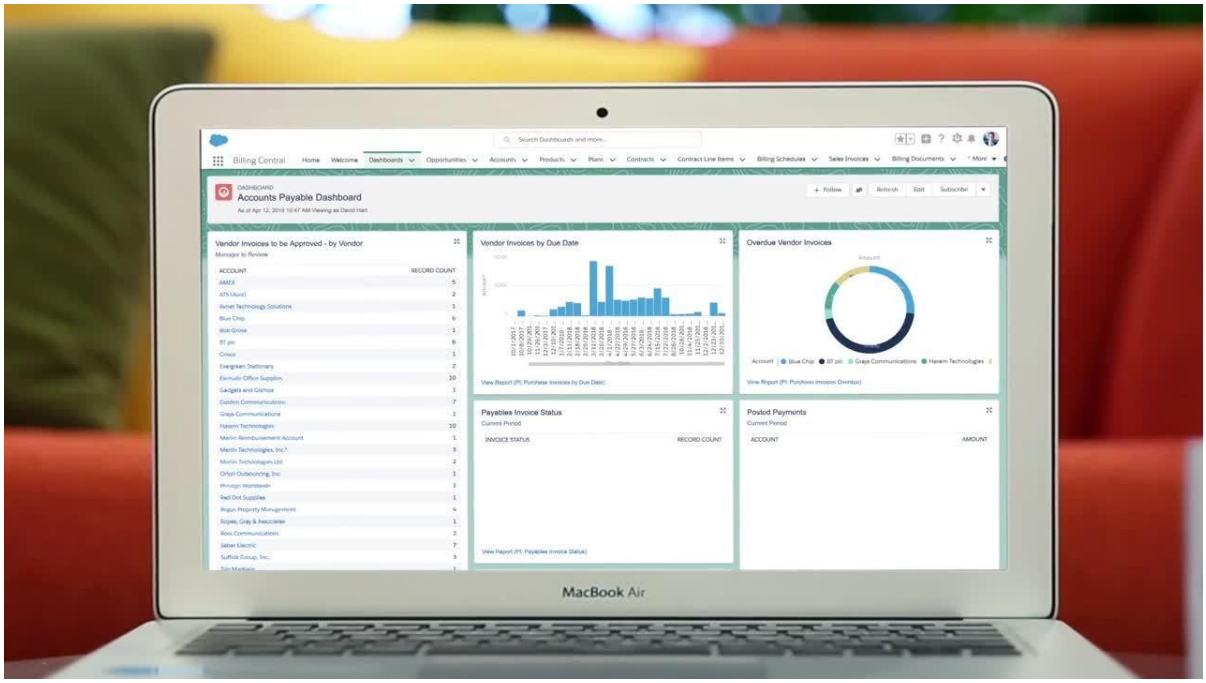
CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

Finally, businesses must prepare the right reports to internal and external stakeholders in order to pass an audit – the decisive component of the entire process.

Unfortunately, if the revenue recognition process is based on spreadsheets, this could cause problems. Spreadsheets tend to be inefficient and error-prone, which makes them notoriously difficult to audit.

In addition, multiple users often have easy access which results in version-control issues, negatively impacting data quality. But, to overcome these challenges, it is not enough just to understand the issues and processes, it is also necessary for businesses to install the right revenue recognition systems to effectively and efficiently deliver what is required.



The need for the right technology

Traditional legacy ERP systems were designed for product centric organizations that delivered simple one-off transactions, so revenue recognition was never really a major issue. However, they were never designed for the modern services economy with its variety of different service offerings, business models and revenue streams. These old systems were ill equipped to cope with these new market demands and have difficulty coping with the change. As a result, companies have had to develop bespoke bolt on cumbersome processes to address the problem, often relying on inappropriate technology such as spreadsheets.

To make things worse, these bespoke applications are often reliant upon data sourced from the company's order to cash systems and then processed

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

retrospectively to establish which transactions need to be recognized and in which period. This 'after the event' approach is typically heavily dependent upon manual processes which are obviously prone to significant errors, with transactions being incorrectly accounted for or even missed entirely. In addition, any mistakes found will need to be corrected and adjustments made, which only compounds an already messy situation.

Delivering reliable revenue recognition

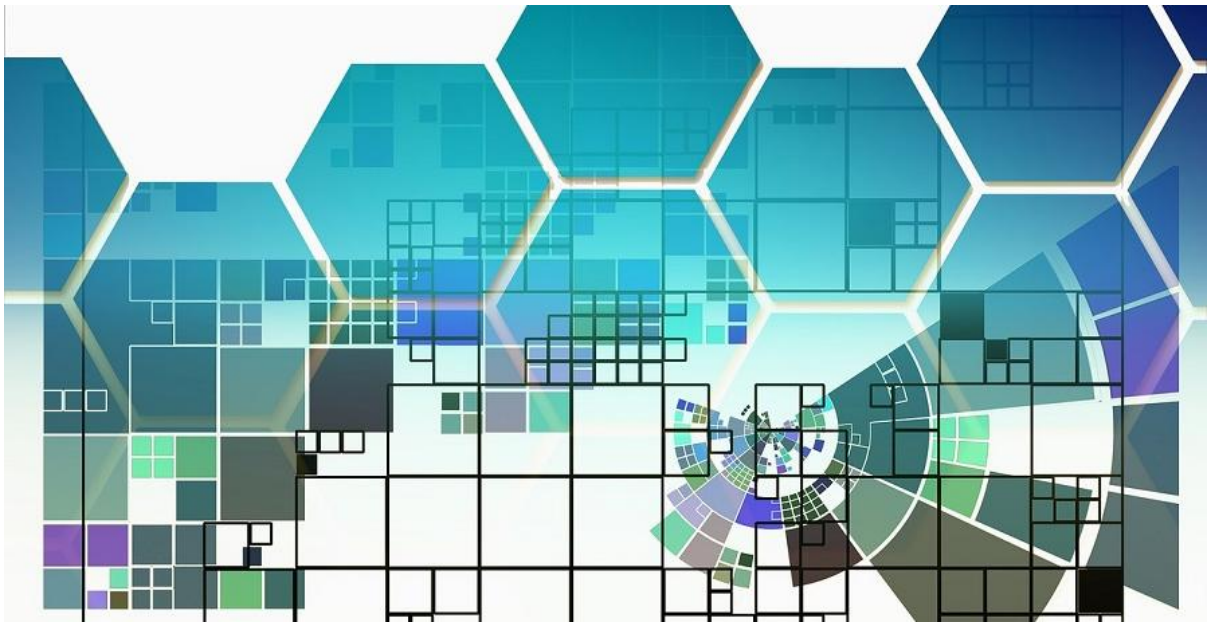
When searching for a solution to the revenue recognition conundrum businesses must ensure that their solution has several different features, so as to prevent errors. For example, all revenue recognition platforms should have data models that are both powerful and flexible. Such software would be able to control complex use cases, such as multi-element arrangements, as well as recognize revenue from various sources, including straight from contracts, invoices, and orders.

Another key attribute is the ability for the software to seamlessly integrate with other applications. The best cloud platforms can harness the power of existing applications and integrate them directly with other software, such as professional services automation (PSA) and customer relationship management (CRM) platforms.

CREDIT CONTROL JOURNAL and ASSET & RISK REVIEW is published by House of Words Media Limited.

The current issue and full text archive of this journal is available at **https://www.creditcontrol.co.uk/**

Configurable templates and rules are another vital feature as they allow companies to be adaptable. Different rules can be created based on an organization's needs and how it wishes to recognize revenue. Applications ought to have forecasting capabilities to give companies a complete overview of their business, going beyond retrospective reporting. Cloud platforms should enable organizations to obtain revenue forecasting with forecasted and recognized values on numerous revenue data sources



In summary

Overall, the right recognition application should ensure revenue recognition is automatically applied from start to finish – the entire process could and should be automated from the very outset, by design. The aim, to deliver 'one click revenue recognition'. Obviously, the platform should provide complete traceability and audibility, while also separating billing from revenue recognition processes to ensure that the two are distinct, since this is exactly what auditors are looking for.

With the ever-increasing importance of the services economy and the associated complexity that this can mean for businesses, the issue of revenue recognition is only going to assume an even greater significance. Addressing this business imperative is vital and companies need to ensure that they are properly equipped to face the challenge.