Revenue recognition readiness assessment

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The deadline to implement the new revenue recognition standard is fast approaching. Are you ready for the new standard to go live? Use the following checklist to gauge your readiness and prioritize next steps ahead of the deadline.

Understand, scope & plan

- Understand the new standard's requirements. Confirm your understanding with your auditor.
- Determine what, if any, new information needs to be gathered to comply with the standard.
- Assess whether your organization's existing systems, internal controls, and processes are adequate or if new systems and tools are required.
- Look beyond financial reporting to determine how the new standard may affect other aspects of your business, including marketing, sales, and pricing.
- Assess the tax implications of the new standard. If your company uses U.S. GAAP to determine revenue recognition for income tax purposes, the changes in timing of revenue recognition may result in changes to your current taxable income. It may also impact your organization's deferred taxes.
- Enlist the help of external experts, if necessary.

Technical analysis & assessment

- Divide your revenue into similar revenue streams and assess the impact of the standard on your revenue streams.
- Perform a detailed analysis of the accounting impact of individual transactions in the revenue streams identified. This detailed analysis should include the costs capitalization rules and should confirm and/or further your initial assessment.
- Decide on one of the available transition methods and consider discussing these approaches with your financial statement users and peer organizations, if relevant.
- Full Retrospective: Under this approach, entities may avail themselves of certain practical expedients.
- Modified Retrospective Cumulative Effect: If this method is selected, entities must disclose which results would have been under prior U.S. GAAP in the year of adoption.
- Confirm your decisions with your auditor.

Consider changes to existing processes

- If your assessment has determined that new information will be needed, determine the changes needed to ensure that that information is gathered accurately and on a timely basis.
- Prepare for estimates and judgments. In some situations, you may be required to make more estimates and use more judgment than under current guidance, such as estimates related to variable consideration. Those matters should be highlighted for users through increased disclosure requirements.
- Depending on your analysis of the standard's potential impact on your business, consider possible changes to your organization's standard contracts.
- Consider discussing changes with lenders to revise debt covenants that are impacted by revenue, such as EBITDA and times-interest earned ratios.
- Consider possible changes to compensation arrangements that are driven by revenue, if the timing or pattern of your organization's revenue recognition changes under the new guidance.
- Revise your documented processes and controls to ensure they are sufficient to prevent or detect misstatements under the new guidance.

Implementation & testing

- Run applicable historical transactions through new systems and business processes to calculate the effect on prior periods or the cumulative effect upon adoption date.
- Allow time for your auditor to test your restated accounts or cumulative adjustment.
- Prepare new disclosures and ensure auditor concurrence.

Stay up-to-date with new guidance

- Monitor the activities of the American Institute of CPAs (AICPA) and the joint FASB/IASB Transition Resource Group.
- Stay informed on SEC developments, including any amendments the Commission may make to its own staff interpretations on revenue recognition.