

COUNTDOWN TO AASB 15: WHAT EVERY BUSINESS NEEDS TO KNOW

About The New Revenue Recognition Standard



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Introduction

As we march toward its adoption, AASB 15, *Revenue from Contracts with Customers*, is on the mind of every CFO and controller. The new revenue recognition standard is a sweeping set of new regulations that all of the major accounting firms agree may constitute the biggest accounting change the world has seen in over a decade.

According to the Australian Accounting Standards Board (AASB), the new standard: removes inconsistencies and weaknesses in existing revenue reporting requirements; provides a more robust framework for addressing revenue issues; improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provides more useful information to users of financial statements through improved disclosure requirements.

However, the implications of the new guidelines goes well beyond a few adjustments to accounting practices and processes—it demands a comprehensive overhaul across all aspects of the business—finance, sales, operations, services and IT—that requires a tremendous amount of planning. The transition deadline is looming. Organisations must take immediate action to establish a program management office, develop a transition plan, conduct financial systems impact assessments, review existing contract and revenue processes, and much, much more.

Your team will have to run fast and hard with technology partners the company can trust. Don't worry; NetSuite has assembled the following guide based on a long history of leadership in providing revenue management and accounting solutions that help organisations comply with evolving standards.

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Chapter 1

MEET THE NEW STANDARD – AASB 15

By now, most corporate executives have heard of the new revenue recognition standard. Widespread changes to the method by which companies account for and report revenue are rapidly approaching and failure to adequately prepare for compliance exposes any business to significant risks.

If you aren't already familiar with these changes, The Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB)—the two main accounting standards organisations—jointly announced a new, converged set of revenue recognition guidelines.

As with any change to revenue accounting standards, the initial set of questions that come to mind for a CFO are: What does this mean for my organisation? What will be the impact on our financial results?

Chapter 2

THE NEW FIVE STEP MODEL FOR RECOGNISING REVENUE

The new revenue model's core principle and application can be depicted as follows: Recognise revenue to depict the transfer of 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.

At first glance, these steps seem straightforward and even simple, but as with any regulatory change of this magnitude the devil is in the details.

For example, the new standard calls for more management judgment in estimating fair market value, segregating performance obligations and determining collectability. On top of that, there are new variable considerations—for items such as bonuses, penalties and refunds—that will need to be considered when determining probable obligations.

Adding another layer of complexity is the need to comply with disclosures requirements related to transitioning to the new standard. Companies have two choices in how to make the transition and report the impact as part of

A new five-step process supports this core principle:

- 1 Identify the contract with a customer.
- 2 Identify the performance obligations in the contract.
- 3 Determine the transaction price.
- 4 Allocate the transaction price.
- 5 Recognize revenue when or as you satisfy a performance obligation.

its financial statements: the full retrospective approach, or the modified approach. Entities should work with their auditors to carefully evaluate the advantages and disadvantages of both approaches before selecting the method by which they will adopt the new AASB.



“The implementation of the new revenue standard, as we all know, will represent a significant and complex effort for most entities,” said IBM Vice President of Accounting Policy and External Reporting Gregg Nelson. “Even if you don’t expect a material change in your financial results, the new model likely will involve new processes, revised internal accounting policies, new control points, new disclosures and likely new systems that you will be employing in your revenue accounting model”

Chapter 3

A CHANGE THAT IMPACTS ALL INDUSTRIES

No industry is immune to the impacts of AASB 15. That said, the new standard will impact some industries more than others. These examples just begin to scratch the surface and should not be considered comprehensive.

Software & High Tech:

The elimination of software industry-specific guidelines—essentially eliminating VSOE, TPE and ESP methods of determining transaction price, will have tremendous impacts for high tech companies.



Retail & Distribution:

Customer loyalty programs and other incentives that retailers and distributors use have the potential to introduce variable considerations under the new standard.



Manufacturing:

Some contract manufacturers that currently recognize revenue when products are delivered may meet one of the criteria in AASB 15 for recognition over time.



VARs and Solution Providers:

The need to account for multiple performance obligations increases as the permutations of hardware, software and services bundles proliferate.



Media/Publishing/Advertising:

AASB 15 replaces the existing industry-specific media and entertainment guidance; IP licensing arrangements will require specific examination.



Nonprofit:

While contributions may be scoped out, nonprofits should evaluate all revenue streams, including memberships, subscriptions, tuitions, sponsorship, licensing and other revenue areas to determine which fall within purview of the AASB.



Even industries in which revenue recognition has been historically simple and straightforward will see increased complexity. Major accounting firms like Deloitte have created in-depth reviews of industry-specific requirements complete with examples and insights into ways the revenue standard is likely to impact specific industries.

Chapter 4

EFFECTIVE DATES ARE ON THE HORIZON

The best approach is to start now with assessing impacts across the organisation. Corporate finance teams need time to become familiar with the changes, adjust to auditor interpretations, plan for reporting during the transition period, and prepare for the new level of rigor required to support the increased use of management judgment and the resulting disclosures. The sooner a business can reach compliance, the sooner it can put valuable resources and attention back on what matters most: innovating and driving the business forward.

“While these timelines seem far away, forward-thinking businesses of all types, sizes and across industries will use this time wisely to get out in front. As Ken Goldman, CFO of Fiksu, Inc., a mobile marketing technology firm, put it, “the amount of work it will mean for an accounting team can be overwhelming.”¹

Chapter 5

THE BURDEN ON FINANCE AND IT

Although AASB 15 will have varying degrees of impact across industries, one thing is certain—finance and IT departments will take the brunt of the impact. Existing financial systems will need to be evaluated for their ability to accurately cover all the permutations of an organisation's various revenue arrangements.

Finance teams must shore up existing processes and systems to ensure compliance. For large organisations this will be a challenging task given most legacy financial systems are rigid and difficult to modify, and were likely deployed decades ago. Updating a traditional, on-premise financials/ERP system also places a tremendous burden on IT administrators who are tasked with what will certainly be a time-consuming exercise, tapping out staff and budgets.

Any privately-held company who is working toward an IPO or other significant funding event, or who has hopes to be acquired by a public company, will require a robust financial management system that meets the challenges of adopting the new standard. Companies who have long relied on a combination of QuickBooks and Excel, a manual solution that is tenuous at best under existing GAAP, will find this combination even more risky.

For both large and small companies, any manual effort required to reconcile revenue and report results to auditors, board members and investors will result in a substantial drag on the business.

THREE CRITICAL SYSTEMS CAPABILITIES

With so many processes changing, companies in every industry must adopt flexible systems that can adapt to the new requirements. Ultimately, the finance and IT organizations need a modern and agile financial management/ERP system that can provide three critical capabilities.

In short, organisations will benefit from a modern approach to the challenge of complying with evolving regulatory standards. They need a next-generation revenue engine that features a fully automated workflow that covers revenue arrangement: construction, allocation, adjustment, exceptions, charge, billing detail and reporting. Additionally, the solution must be highly configurable, fully integrated with core financial applications such as order management and billing, and support parallel/multiple books.

3 Critical Systems Capabilities

- 1 Flexible revenue management engine**
that supports different delivery models for products and services. Specifically, businesses need an integrated financial management system with flexible calculation engines for complex revenue recognition and complex billing at its core.
- 2 Granular reporting capabilities**
that will support the increase in disclosures and management judgment. Flexible reporting is also critical to easing the burden businesses will face working with their auditors during the transition period.
- 3 The ability to recognise revenue simultaneously**
under current GAAP and the new standard during the transition period, in other words, the ability to run parallel or multiple books.

TOP 3 AASB 15 CHALLENGES AND HOW TO TACKLE THEM

Challenge: Everyone is adopting the new rules almost simultaneously, and it will take time to gain a clear understanding of the impacts to your organisation.

Solution: Begin conversations with auditors and peers to understand the specific impacts on revenue recognition for your industry.

Challenge: Revenue recognition is dependent on many interconnected processes, from order management, to contract management, to invoicing and beyond.

Solution: A financial system with integrated complex order management, billing and revenue recognition provides end-to-end automation and eliminates manual work.

Challenge: Communicating to investors—both public and private—what the changes mean and how to evaluate the business moving forward.

Solution: Get ahead of the communication game and make sure investors understand any impacts to the business.

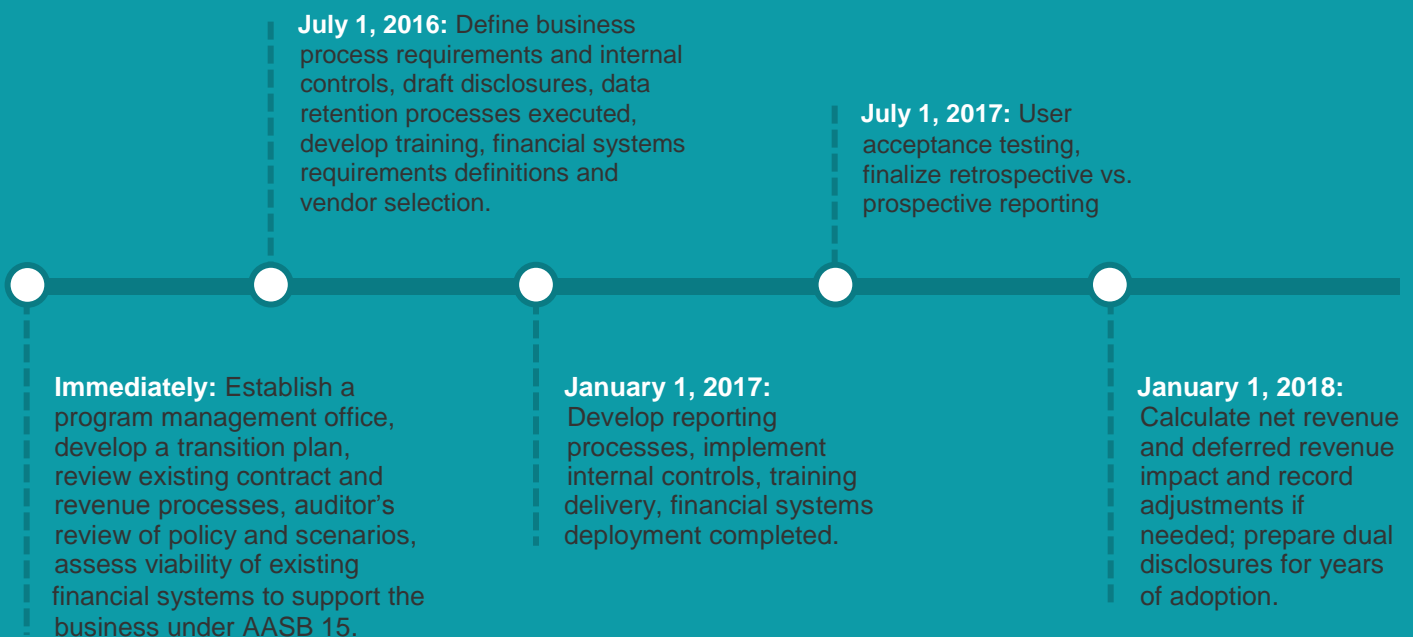
Chapter 7

A TIMELINE FOR GETTING STARTED

Now is the time for businesses to begin planning for this significant change. One thing all of the major accounting firms agree on is that preparation will cut across the organisation. It's important to discover your current state, identify the gaps and then get alignment internally with finance, sales operations, legal and IT.

Here is a breakdown of the major work efforts required over the next two years, assuming an adoption date of January 1, 2018.

Timeline



CONCLUSION

Remember, AASB 15 is the most sweeping change to revenue accounting in decades. Nothing less than a comprehensive review of an organization's complete revenue function will suffice. You might compare it to a home remodeling project. You never know what you are going to find behind those walls or how long it will take to repair.

The transition to AASB 15 will impact your entire finance organization, from people to processes to systems. Start an end-to-end review of your financial systems now and make sure those systems can support compliance or take steps to implement new systems that can.

Beyond your finance organisation, your sales operations, provisioning, billing and services groups—and even external stakeholders like auditors and your board of directors—also need to get hands on with transitioning to AASB 15.

Best Practices for Implementing AASB 15

- 1 Work early with auditors.**
Agreement among auditors about AASB 15 implementation is lacking. Talk to auditors and partners and understand how they are approaching the process.
- 2 Talk to industry peers.**
The next year will see a convergence of practices. Find out how your peers—including companies that are larger than yours—are approaching implementation.
- 3 Engage Sarbanes-Oxley Act (SOX)**
internal teams in the process before the business brings in the auditors—and after the auditors give input. These insights can help decision-makers plan for a smoother implementation.

Organisations must begin preparing now for the long journey ahead and expect bumps in the road.

Although the transition is arduous at best, the good news is moving to AASB 15 ultimately presents a strategic opportunity for companies to move away from rigid, outdated or broken systems and build a back office that is both adaptable and efficient. Indeed, AASB 15 serves as the foundation for future regulatory changes in the business landscape that are sure to follow.

About NetSuite

Are you ready to roll up your sleeves and get started? At NetSuite we've been preparing for the arrival of the new standard for some time and provide a modern approach to solving the challenge of complying with evolving regulatory standards. Our award-winning financials and advanced revenue management solution was purpose-built to handle all of the complexities inherent in AASB 15. The clock is ticking but NetSuite can help ensure your financial systems will be up to the task.

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