

New Revenue Recognition Standards Effective 2017

The [Financial Accounting Standards Board \(FASB\)](#) and the [International Accounting Standards Board \(IASB\)](#) have released new Revenue Recognition regulations that must be complied with by all public and private companies in all industries worldwide in 2017. The changes are wide sweeping to say the least. For many industries, the new standard will be a total game changer.



Five Step Reporting Process

Organizations will be required to capture information from all sales contracts related to revenue with a customer. Revenue recognition is fluid particularly when agreement terms are updated or new performance requirements are added to the contract. Consequently, businesses must start preparing for the new reporting requirements right now. It can take six to twelve months for a professional trained in the new standard to get a company to the point where it is fully compliant with the new rules. Early adoption is not only recommended, it is critical for successful compliance.

The new five-step process for revenue recognition is as follows:

- 1) Identify the contract with the customer.
- 2) Identify the performance obligations (promises) in the contract.
- 3) Determine the transaction price.
- 4) Allocate the transaction price to the performance obligations in the contract.
- 5) Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

There is a technical accounting assessment that must be completed in advance of implementing any part of a proposed compliance solution. It is imperative the new standard be fully understood before any Information Technology (IT) software system changes are attempted. Potential parallel reporting requirements and impacts should be analyzed fully before proceeding with any implementation methodology.

Collaboration Is Vital

The best way to prepare for the new standard should be iterative and dynamic as opposed to sudden and static. Excellent teamwork and collaboration will be required throughout all departments including Strategic Planning, Accounting, Finance, Human Resources (HR) and Information Technology (IT). Ideally, teams will be co-located as much as possible with regular and consistent communication channels in place to organize and share the required data.

Hire an Interim CFO

One of the best ways to create and install the required compliance system is to hire an interim Chief Financial Officer (CFO) who is trained in the new reporting requirements. The CFO can set the initial course of the initiative, keep it on course and plan for future compliance. Please see hiring an [Interim CFO](#) for a complete explanation of the advantages of this option.

Having a professional looking in from the outside gives that person the independence and objectivity they need to gain insights that are typically not available from inside the organization. The financial expert comes in, completes the job and then supports the accounting department in continuing the ongoing work from the outside.

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