



Start Preparing Now for New Revenue Recognition Standard

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In 2014, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) announced the creation of a new principles-based revenue recognition model. This new revenue recognition standard, which is referred to as Accounting Standards Update (ASU) 2014-09, will replace the current industry-specific GAAP rules with a single principles-based approach that focuses on the transfer of goods and services to the customer.

Originally, the effective date for ASU 2014-09 was going to be December 15, 2016, for public companies and December 15, 2017, for non-public companies. However, due to challenges being faced by financial statement preparers, the effective dates have been delayed by one year. The new revenue recognition standard will now be applied to annual reporting periods beginning after December 15, 2017, for public companies and after December 15, 2018, for non-public companies. Early adoption is still permitted as of the original effective date.

Risks of Failing to Plan

It might seem like these dates are in the very distant future, but it is not too early to start thinking about how the new revenue recognition standard will impact your operations and reporting. The new standard will apply to almost all industries, and, while in some cases the rules will not change the amount of revenue recognized, the rationale may be quite different.

There are some serious potential risks associated with failing to plan for adoption of the new revenue recognition standard. These include the following:

- If you are in an industry that will have changes in revenue recognition, you will not be ready to apply the new standard on time.
- Your internal systems and procedures may need to be changed to accommodate the new standard.
- Your compensation plans may not be properly aligned with company goals after the new standard is implemented, especially if they are based on revenue.
- It will be difficult to benchmark your company's performance against competitors if you do not recognize revenue in the same way they do.
- Lenders will want to be sure that the new revenue recognition standard is being followed when reviewing your loan application packages.
- If you are thinking of selling the business, it might require enormous effort to restate revenues for several years in order to comply with a buyer's need to see revenue stated in accordance with the new revenue recognition standard.

Seek Professional Guidance

Given these risks and the fact that the effective dates for applying ASU 2014-09 will be here sooner than you might realize, now is a good time to seek the advice of a knowledgeable professional with regard to the new standard. Such a professional will help you:

1. Better understand ASU 2014-09, including the philosophy behind the standard as well as how it will impact your business.
2. Identify changes that need to be made to your systems and procedures to account for revenue under the new standard.
3. Determine if you need to amend your standard contracts with your customers and vendors based on ASU 2014-09.
4. Make sure that your compensation plans are aligned with your company goals after ASU 2014-09 becomes effective.
5. Ensure that your financial statements are properly formatted to reflect ASU 2014-09 and clarify the proper basis for revenue recognition.

An outsourced CFO services provider can help you in each of these areas and more. Outsourced CFOs have experience in the intricate details of revenue recognition and how the new standard will impact companies in different industries. This kind of expertise may prove invaluable in helping you prepare for the shift to ASU 2014-09 a little less than two or three years from now.

Concluding Thoughts

The effective dates for the new revenue recognition standard, ASU 2014-09, originally announced by FASB and IASB in 2014, have been pushed back by one year. While it might seem like the effective dates are a long way off, it is not too early to start thinking about how the new standard will impact your operations and reporting. In particular, there are some serious risks associated with failing to plan for adoption of the new standard. This makes now a good time to seek the advice of a knowledgeable professional, such as an outsourced CFO services provider, to help you prepare for the shift to ASU 2014-09.

About CFO Edge

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