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# Your 8 Step Revenue Recognition Checklist

New business models, new revenue standards

With a disruptive business environment and continually evolving customer expectations — many organizations have responded with new business models and market offerings, and in turn more revenue streams. It makes already complicated revenue recognition processes more complicated.

**It is of no surprise that revenue recognition continues to be a top company struggle.**

For some companies the recent transition to ASC 606 and IFRS 15 was a painful experience. Many are still living with the stop gap systems that were developed as temporary solutions at the time, such as bolt on systems or even spreadsheets.

Finance leaders need to know every new rule inside and out — and their implications on the business. Below is a checklist of things to consider and do for success in achieving compliance and staying that way.

# Checklist for Success

## 1. Assess impact

Evaluate your primary revenue streams and key contracts. Identify the revenue recognition requirements and business units where the impact is greatest and consider what changes may be required. For example, do you need to modify the design of your customer contracts or do your sales processes need to be tweaked?

## 2. Evaluate effort

Determine how heavy the lift will be and what resources will be required. Do you have the right skills in house? Do you need to bring in specialized outside assistance; and what resources will be required on an ongoing basis to ensure continued compliance.

## 3. Build a detailed plan

Once you complete steps one and two, it's imperative to build a detailed plan with project scope, required resources, budget, timeline and deadlines along the way. Ensuring revenue compliance is a business critical activity and must be recognised as such from the outset.

## 4. Determine contract evaluation requirements

Develop a new rules-based framework for your accounting policies based on the assessment of your contracts. Assign a team to thoroughly evaluate each one and draft new policies accordingly.

## 5. Design the new model

Consider how you will systematically gather and track performance obligations such as resources consumed, machine hours worked and costs incurred. Determine how to record revenue recognition rules and apply revenue calculations. This should include all revenue streams from multiple sources such as opportunities, orders, contracts, projects, subscriptions and invoices.

## **6. Implement the right IT systems and tools**

Your chosen technology solution should offer you two key ways to improve your revenue recognition processes: automation and flexibility. You need to gather data from multiple places to produce clear audit trails as well as automate calculations and ensure accuracy. The system should also link revenue source data to performance obligations based on each unique contract so you ensure proper revenue amounts are recognized. This typically involves integrating with key operational platforms such as Customer Relationship Management (CRM) and Professional Services Automation (PSA).

## **7. Adjust policies, processes, and controls**

Set up controls to automate and encapsulate the processes in your system. Repeatable and measurable processes—structured, defined, implemented, and enforced—are key to effectively and easily complying with the new regulatory requirements. Ensure that your technology solution is flexible enough to enable you to rapidly make changes as your business evolves.

## **8. Update forms, templates, reports, checklists**

Work with your auditors to determine exactly what information they need to see and when they need it. Then you can pre-define reports and queries that can be delivered on demand. Management should be able to easily check compliance status on an ongoing basis via dashboards or other customizable reports.

# Don't wait!

Do all of the above, and make your compliance a fluid, turn-key process. Your auditors will love it, your staff's lives will be made easier, and the whole business wins.

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