Revenue Recognition

Transitioning to the New Standard

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Meet current standards while transitioning to the New GAAP Standard

The Convergence of ASC 606 and IFRS 15

Revenue recognition is one of the most difficult financial and accounting processes to get right. It represents the area at highest risk of material error on financial statements, and is one of the leading causes of restatement. To safeguard against this risk, you must closely evaluate these requirements to incorporate into your revenue management and recognition strategies.

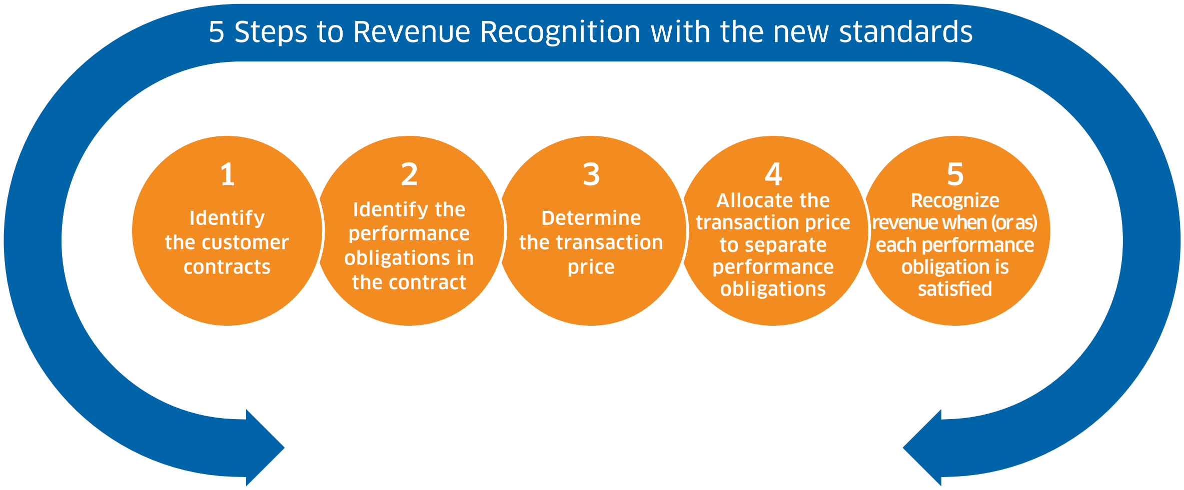
What are the requirements?

The new revenue recognition requirements will standardize financial statement presentation and improve disclosures through five key steps.

Through these key steps, the standards will simplify the volumes of revenue recognition rules that must be referenced today, while also eliminating some industry-specific guidelines.

Implications and challenges the new standards pose

- More than revenue, the new standards have a full P&L impact, so it's important to consider broader financial management implications.
- The new standards are principle-based rather than prescriptive, making companies even more dependent on the underlying data.
- To meet rigorous reporting and disclosure requirements, companies will need to report on two different methods of revenue recognition, which will be extremely time-consuming and challenging for those companies using disparate systems or Excel.



Timeline

The timeline to transition to the new GAAP standard depends on whether your company is public or private. Regardless, the dates are fast approaching and important to consider as you plan your transition:

Company	Deadline	Calendar Scenario
Public	FY2018	• Year-end December 31: January 1, 2018 (FY2018) • Year-end June 30: July 1, 2018 (FY2019)
Private	FY2019	• Year-end December 31: January 1, 2019 (FY2019) • Year-end June 30: July 1, 2019 (FY2020)

What are the top challenges that companies face?*

If you are experiencing challenges as you plan your transition, you are not alone. In a recent survey completed by PwC, survey participants shared the following top challenges:

- 78% indicate contract reviews (current and ongoing)
- 75% indicate documentation of conversion process and associated auditability
- 68% indicate revisions to system and associated controls
- 65% indicate identification of accounting differences across the organization

* PwC survey: "2016 Revenue Recognition Survey—Readiness Update, Impacts, and Remaining Challenges"

Revenue Recognition Within Workday

Developed in concert with market experts and companies evaluating the new standards, Workday revenue recognition offers the flexibility to handle different products and services, and supports subscription, usage, project time, and expense. You can easily record revenue events, complete fair value analysis, link contracts, and allocate and recognize revenue for simple and multielement arrangements, as well as track revenue recognition milestones and percent complete. Billing is also independent from revenue recognition to ensure appropriate adherence to both billing and revenue guidelines.

Workday's "always on" audit approach fully documents all changes and adjustments throughout the contract lifecycle as they happen—including contract events and amendments, changes to revenue recognition, and more. Auditor dashboards and reporting make it easy to monitor your business and aggregate audit information for both internal and external auditors, saving you the time and resources needed to pull this information together.

Going Beyond Revenue Recognition

While the new standards directly tie into how you recognize revenue, there are broader implications that will affect sales, sales operations, expenses, forecasting, policy decisions, and more. Workday Financial Management offers you the ability to handle it all—contract management, payments and collections, planning, and a general ledger. Revenue accounting allows you to run revenue recognition as part of your period-close process—without having to close an AR subledger, you're able to post right to the GL, eliminating the need for batch processing.

Workday Eases the Transition to Meet ASC 606 and IFRS 15 Deadlines

Workday offers you the easiest route to transition with functionality and services designed to have you ready in time and in full accordance with the requirements.

One system where all contract data resides and where historical data can be converted makes it easy to find, review, and assess your entire contract database. The "what-if" scenario modeling capabilities in Workday make it easy for you to create multiple revenue scenarios with alternate contract capabilities for comparing the existing standards against the new. Workday allows you to leverage the alternate contract and reporting capabilities to significantly simplify your ability to meet reporting and disclosure requirements.

Workday offers the functionality needed to adjust your revenue recognition strategy with respect to the new standards. As your team reviews the latest requirements, you should approach the transition in three phases:

1. **Assess:** Review and assess active contracts with potential impact. With Workday, you have the ability to define contract sets that support the new requirements for contract transaction pricing and revenue allocation. And by defining the contract sets, you're able to quickly identify which contracts will be impacted.
2. **Model policy changes:** Workday provides the flexibility to configure revenue rules based on the new standards, create alternate contracts for those with potential impact, and run what-if scenarios to assess the total impact of the new standards on historical data. This allows you to understand the broader implications such as potential impact on P&L and more, safeguarding your organization from potential risk.
3. **Meet dual reporting and disclosure requirements:** Once you have assessed the impact using the scenario functionality, you can determine the appropriate allocations to put into effect and automatically generate revenue adjustment accounting entries based on alternate contracts. These adjustments are reflected in real time across financial statements and disclosures to meet these reporting requirements. Workday allows you to create and maintain alternate contracts in a separate set of books, and run this retroactively during the dual reporting transition period so that you can meet all dual reporting and disclosure requirements.

Not only does Workday offer comprehensive functionality for revenue recognition, it also provides a clear path to transition that makes it simple to take on new requirements such as the revenue standards.

How are companies transitioning?

Despite the approaching deadlines, many companies are not ready:

- 22% have not started the transition
- 66% of respondents plan to use up to three full-time employees; 34% plan to use more than three
- 52% have not chosen an adoption method (full retrospective or modified retrospective)
- 16% indicate potential material impact on their income statement and/or balance sheet

Key Considerations When Preparing for the Transition

1. Do not underestimate the time and effort it will take to assess and transition to the new standards.
2. Engage with your internal stakeholders early in the process:
   a. Audit committee/board
   b. CFO
   c. Cross-functional team/steering committee
3. Engage with your auditors:
   a. Meet quarterly for updates, and informally as needed
   b. Review impact analysis
   c. Review policies and scenarios
4. Know what to look for in a solution—it should:
   a. Be an integral part of a financial software suite (not an external bolt-on)
   b. Have the ability to create and maintain unlimited what-if scenarios in the same accounting book
   c. Support revenue and expense recognition
   d. Include capabilities that help you transition to the new standards

"Workday possesses a few key advantages re: revenue recognition. Their solution is multi-tenant and the automatic rollout of new functionality to customers means no delay in getting the new functionality in place for financial accounting users. Workday can model the effect of the new rules to a specific event or across a large number of similar transactions. The software can also model the effect of new rules and provide comparative financial results between the new and old rules. The application of these new and old rules can be maintained in separate books but this capability does not require the redundant posting of other journal entries to the other sets of books. That alone can be a huge time saver for accounting groups and eliminate a major source of errors and discrepancies."

—Brian Sommer, CEO, TechVentive; August 2016.

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