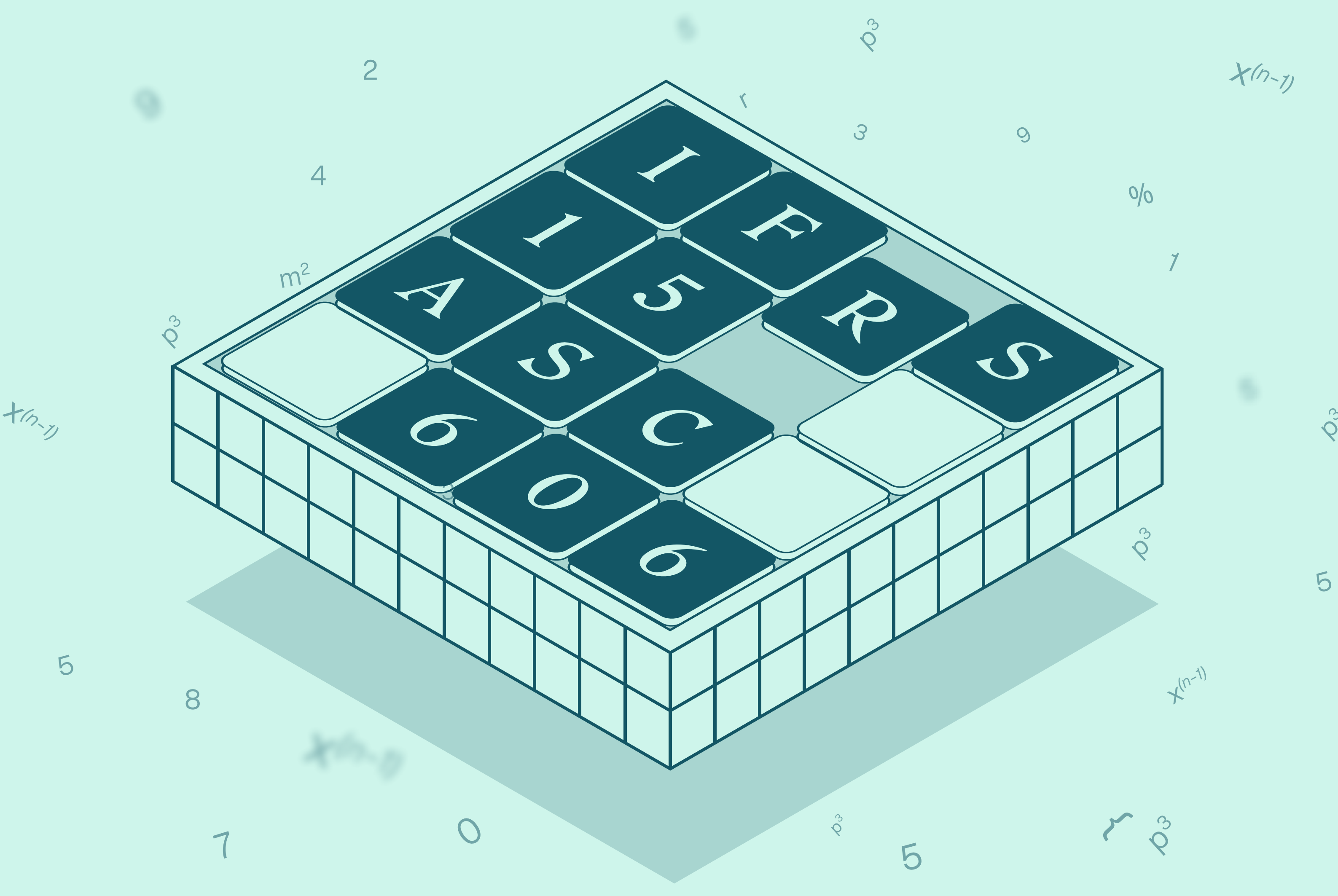
# New Revenue Recognition Standards Can Add Tremendous Value – If You Know Where To Look

The challenges, opportunities, and what the future holds for companies in a revenue environment where change is rapid, pace is increasing, complexity is growing, and the tools available are getting more and more powerful.

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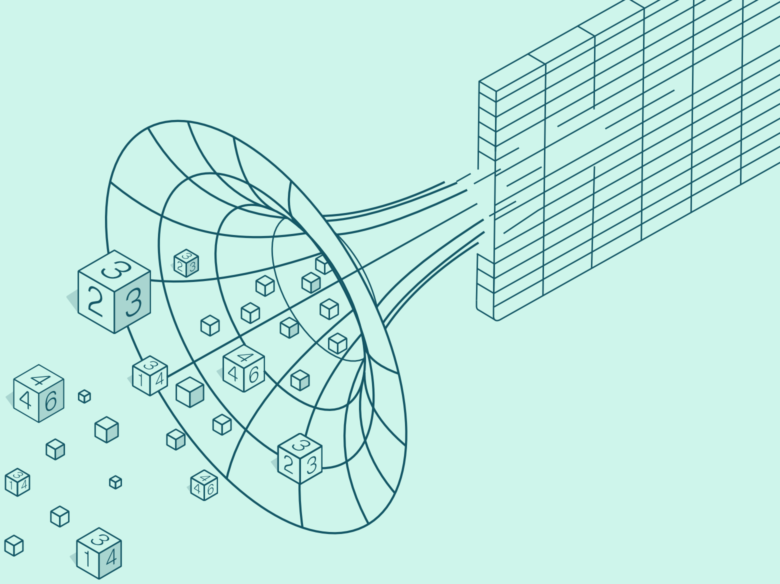

# Introduction: Rapidly Changing Business Environment Drives Revenue Recognition Updates

**The way that business has changed in the last few years is staggering, from new ways of providing services, to novel billing methods and more. Decades – if not centuries – of "traditional" business methods have been upended.**

Prime examples include Airbnb, worth more than double traditional hotel groups such as Hilton Hotels Corporation, and that without owning a single physical property. Or the widely popular SaaS model, where a monthly subscription replaces inhibitive up-front costs. Related to this is cloud computing, particularly serverless computing and auto scaling that ensures applications only pay for what they use, and can scale up and down seamlessly.

These new ways of doing business have surfaced incredible opportunities, opened up new markets, and given individuals and organizations more flexibility. They have also posed a number of significant challenges, particularly when it comes to issues such as revenue recognition.

One particularly interesting example is venerable U.S. machine manufacturing giant John Deere, which is aiming to make 10% of its revenue from software subscriptions.

This demonstrates why new revenue recognition standards were needed. Most organizations have now implemented these standards, and many are asking, "Now what?"

Besides ongoing compliance, how can companies – and finance teams in particular – leverage these new standards to add value? And how can modern accounting solutions be used to improve these processes, particularly those leveraging AI?

In this Guide we'll explore these challenges, opportunities, and what the future holds for companies in a revenue environment where change is rapid, pace is increasing, complexity is growing, and the tools available are getting more and more powerful.

# New Revenue Recognition Challenges

Traditional methods of accounting struggle to cope with the complexities introduced by new revenue recognition challenges we've referenced – such as subscription billing and automation. Manual accounting processes are susceptible to errors and inefficiencies, particularly when dealing with complex revenue models and large volumes of data. The lack of real-time insights from traditional accounting systems hampers timely decision-making and monitoring of revenue performance. Moreover, compliance with the appropriate revenue recognition standards can be difficult, exposing companies to the risk of non-compliance and potential legal consequences.

Some recent examples demonstrate this.

Revolut, the global neobank and financial technology company, recently had auditors raising concerns around half a billion dollars of revenue. Revenue from subscriptions, cards, foreign exchange and wealth activities could not be sufficiently verified. Auditors noted that the company's "IT systems weren't designed in such a way that would allow for IT or business process controls to be effectively tested throughout the year."

Another example is Bird scooters, who admitted to the SEC that it overstated revenue for two years. Again the culprit was complex revenue recognition issues; in this case, the company had recorded revenue for rides even when the customer had no money preloaded in their wallet (it should have reported unpaid balances as deferred revenue).

These incidents highlight the challenges that companies and auditors face in accounting for revenue against the backdrop of innovative business models, particularly when they don't have the right accounting software in place.

These challenges highlight the complexity inherent in revenue recognition, which have been a focus ever since the new standards were introduced.

What's been less publicized is the value that finance teams specifically can extract from the process of complying with these new standards.

From an accounting perspective, there are several challenges posed by subscription billing, automation, per user billing, and other innovative revenue models, especially in light of recently updated revenue recognition standards such as ASC 606 and IFRS 15.

These include:

### 01. Recognition Timing

With subscription billing and other recurring revenue models, determining the appropriate timing for recognizing revenue becomes complex. For example, companies must decide whether to recognize revenue on a monthly basis or allocate it over the duration of the subscription.

### 02. Performance Obligations

In modern business methods, contracts may include multiple performance obligations, such as providing software licenses, services, and ongoing support. Identifying and properly accounting for these obligations can be intricate.

### 03. Variable Consideration

Some business models involve variable consideration, where the revenue amount fluctuates based on factors like usage, customer behavior, or performance metrics. This variability makes revenue recognition more challenging.

### 04. Customer Termination Rights

In subscription-based models, customers often have the right to terminate their contracts with short notice. Companies need to account for these termination rights and adjust revenue recognition accordingly.

### 05. Bundled Arrangements

Many businesses offer packages or bundles of products and services at a combined price. Allocating revenue appropriately to individual elements within the bundle can be a complex task.

### 06. Contract Modifications

Changes in customer contracts, such as upgrades, downgrades, or changes to service levels, can impact revenue recognition. Companies must assess these modifications and adjust their accounting accordingly.

### 07. Automation and Technology

Automation can streamline processes, but it can also introduce complexities in revenue recognition. For instance, determining whether to recognize revenue upon delivery of a product or upon system activation can be challenging.

### 08. Multi-Party Arrangements

In collaborative business models, multiple parties may be involved in delivering products or services to customers. Determining how to recognize revenue in such complex arrangements can be difficult.

# Leveraging New Revenue Recognition Standards To Add Value

When the new revenue recognition standards were first introduced, there was much confusion in terms of implementation, the “day after,” and the tools and resources required to maintain ongoing compliance.

Now that the dust has somewhat settled, leading companies are fast discovering that in complying with these new revenue recognition standards, they are able to surface value in ways that previously might have been unnoticed, or at least under-utilized.

Some of these are consistent with the spirit of the new standards, while others are serendipitous offshoots of compliance and the tools required to maintain this compliance, such as AI-powered automated accounting software platforms.

**Here are some of the ways the new standards can be leveraged to add value:**

## 01 Make A Mark Internally

The new standards promote greater transparency in financial reporting by requiring companies to provide more detailed information about revenue recognition methods, contract terms, and performance obligations. This transparency not only helps investors and stakeholders better understand a company's financial health and the nature of its revenue streams, but adds a tremendous amount of value internally too – now company leadership can better understand the breakdown of revenue, its key drivers, and where risks and opportunities may lie.

It’s also an opportunity for finance teams to offer training sessions or workshops to educate other departments and company leaders about the new revenue recognition standards – which can help build trust, and improve communication and collaboration.

## 02 Provide Crucial Comparability

ASC 606 and IFRS 15 provide a consistent framework for revenue recognition across industries and geographical boundaries.

This makes it easier to compare the financial performance of a company against competitors in the same industry to facilitate more accurate benchmarking, including against international competitors.

## 03 Streamline Processes and Boost Efficiency

The adoption of these standards often necessitates a review and optimization of internal processes related to revenue recognition. Finance teams have discovered they may need to reassess their systems, contracts, and accounting policies, leading to more accurate revenue recognition procedures and having a positive knock-on effect across the organization.

Automation and process improvements often lead to cost savings and increased efficiency, which do not go unnoticed from company leadership.

## 04 Increase Trust In The Team

By adhering to standardized revenue recognition guidelines and ensuring full compliance, companies are less likely to encounter accounting errors or issues that could lead to financial restatements, as was the case in some of the examples we looked at in previous sections.

This of course reduces the risk of legal and reputational damage, and increases the status of the finance team within the company.

## 05 Enable Better Decision-Making

Enhanced financial reporting and transparency can increase investor confidence, often directly increasing the value of the company. Ensuring full compliance reduces the risk of hidden financial problems lurking below the surface.

What's more, armed with more granular reporting, finance leaders can be more proactive when it comes to investor relations, being able to anticipate questions and concerns and proactively addressing these.

## 06 Increase Investor Confidence

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## 07 Improve Contract Management

To comply with the new standards, companies often need to establish better contract management systems. This not only facilitates revenue recognition but also helps in managing customer relationships and contract negotiations more effectively.

Since the new standards often involve closer scrutiny of contracts, finance teams can play a central role in improving contract management practices, resulting in better negotiation and risk management practices.

## 08 Adapt Quicker to New Business Models

The new revenue recognition standards are designed to accommodate various business models, including subscription-based services and SaaS offerings. This flexibility allows companies to adapt to evolving industry trends and revenue models.

## 09 Leverage new powerful tools

One of the most far-reaching and beneficial gains from the new revenue recognition standards has been the implementation of modern accounting solutions.

Most companies have discovered that a purpose-built accounting solution for revenue recognition is essential, not only to comply with IFRS 15 and ASC 606, but to compete in the new world of business.

# Modern Accounting Software To Handle Revenue Recognition Challenges

To address the challenges presented by ASC 606 and IFRS 15, modern accounting software – and in particular, AI-powered automated accounting software – has emerged as the key element in solving these challenges.

By leveraging AI and automation, such software can automate data entry, calculations, and revenue recognition processes, minimizing the likelihood of human error and maximizing accuracy and ongoing compliance.

Not only that, but they can be used to take advantage of the benefits that complying with these revenue recognition standards present. For many, these advantages would be unattainable without such software in place.

For example, such solutions offer the transparency, comparability, streamlined processes, and other benefits explored previously – effortlessly, and all as part of ongoing compliance.

Leading AI-powered accounting solutions like Trullion offer real-time insights and analytics, empowering businesses to monitor revenue performance continuously, giving access to all relevant stakeholders, and responding promptly to potential issues.

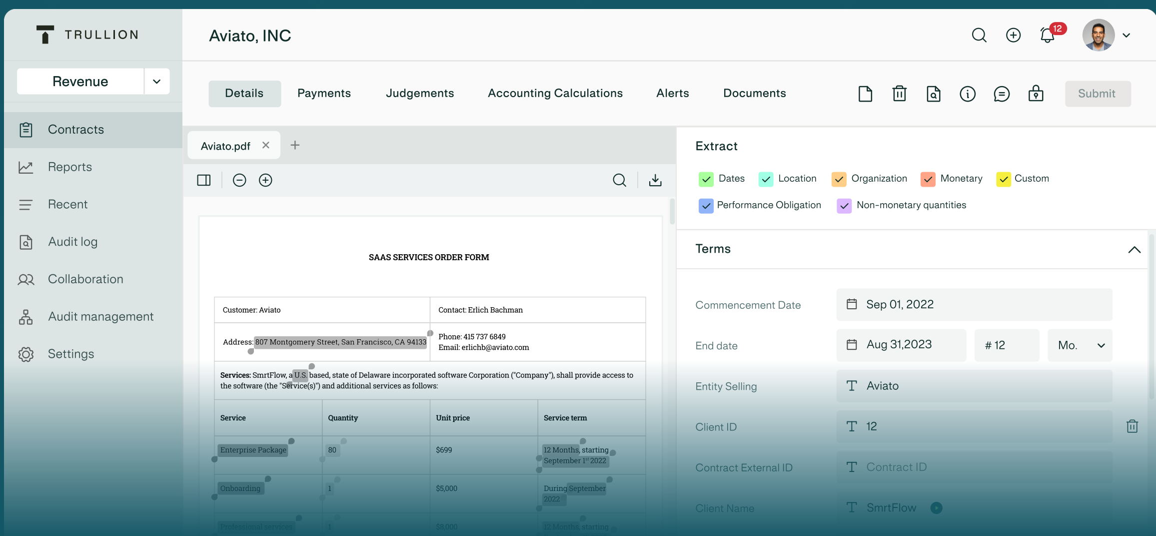
Seamless data integration capabilities allow AI-driven software to handle data from various sources, promoting data consistency and reducing discrepancies.

Trullion is the market leader when it comes to AI-powered automated accounting software, particularly for complex areas such as revenue recognition and leases.

The software's efficiency streamlines revenue recognition procedures, ensuring faster and more accurate financial reporting and closing cycles, and enabling revenue model flexibility while providing automated workflows and regulatory compliance.

# Learn more about meeting today's revenue challenges head-on.

Set up a call with a Trullion product expert.

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