Revenue Recognition

A BearingPoint Accelerator

Revenue Recognition is based on the new IFRS-Standard: IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers (except for contracts that are within the scope of the Standards on leases, insurance contracts and financial instruments). IFRS 15 is effective from 1 January 2017 but earlier application is permitted.
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Market Drivers

Revenue Recognition is a compliance topic with a long history

Gaps in finance’s capabilities and key performance metrics

Despite exponential changes in the accounting field, enterprise resource planning (ERP) systems designed to process orders and cash did not evolve for revenue processing in concert with the changing revenue cycle. As a result, in many companies, revenue accounting - and its complications - is still a manual process that requires people and spreadsheets to handle calculations and allocations. Unfortunately, these methods are often inefficient, costly and rife with reporting and compliance risks.
Our Approach

The core principle of revenue recognition is based on a five step approach:

1. Identify contracts with the customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price
5. Recognize revenue when a performance obligation is satisfied
Our Approach

Due to cross organisational and functional implications IFRS 15 is not just a matter of the CFO. Structural and time-wise changes on income statement and balance sheet require careful analysis of implications.

### Strategic
- Revenue shift from service revenue to handset revenue
- Front-loading of revenue in the contract cycle
- Profitability shift from EBITDA to EBIT for sale via indirect channels
- Divergence between revenue stream and cash flow

### Tactical
- Bundling approach: adopt service definition / bundling approach?
- Service pricing: reconsider subsidisation / handset financing?
- Channel management: switch to sales focussing indirect channels?

### Operational
- Apply portfolio approach vs. individual contract approach
- Determine information source / system options to follow approach
- Channel management: switch to sales focussing indirect channels?

Findings from strategic analysis determine tactical measures to allow for avoidance of reporting deficiencies and integration simplification.

- up to more than 50%
- up to 70% on day 1
- presumably below 10%
- up to several 100%

“design to revenue”?
farewell subsidy?
SalesCo, NetCo...?
superficial beneficial...
two basic options...
determines decision...
Client Benefits

Efficiency, close acceleration and cost of finance...

... drives focus toward the 80 percent of transactions that can be streamlined, excluding from scope those transactions that have complex or judgmental accounting interpretations

Risk, control and compliance...

... drives focus toward automating complex transactions that are subject to human judgment and error

Value

The attributes within deferred revenue – drives focus toward reporting, date cleansing and quality vs. scope of the effort

Collaborative product marketing/customer management – drives focus toward operations streamlining, change management and communication processes

Deferred revenue – drives focus toward active management of revenue triggers to accelerate recognition

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Scope
The client operates a telecommunications business in more than 20 national markets and was thereby challenged to develop an efficient approach to integrate the new revenue recognition standard in diverse business and technical environments. The development of a pilot solution is required, a solution which is suitable for fulfilling the requirements of the most complex environments; at the same time it was required to downsize the integration approach for an efficient implementation in less complex environments.

Project Results
Together with the client, BearingPoint processed an organizational impact assessment/analysis for the necessary changes according to the new IFRS standard. Based on these results, the project was set up with scoping, planning and definition of the key requirements, and the assessment of potential solutions. The following Phases will cover detailed design, build test and deployment.
About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client’s individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world’s leading companies and organizations. Our global consulting network of 9,700 people serves clients in more than 70 countries and engages with them for measurable results and long-lasting success.

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