

Faster Revenue Recognition? Not so fast.



Is this the right time to early adopt the new revenue recognition rules? New accounting rules change the way companies will account for multiple element arrangements including certain arrangements that include products that contain both hardware and software. For example, in the past, businesses may have had to defer all revenue from an arrangement until every element of the bundle was delivered, which could take years – especially if the bundle included a long-term service contract. The new rules require companies to establish the selling price for each individual deliverable in the arrangement (that meet the criteria to be accounted for separately) and then recognize the revenue for individual components as they are delivered (assuming revenue recognition requirements have been satisfied).

Most everyone agrees this new approach is a better, more logical way to handle revenue arising from multiple element arrangements. The big question is when to make the jump. Should companies invest the time and effort to move now to early adopt? Or should they wait until it is required?

Here's the debate:

	Point	Counterpoint
Move now <i>"Move quickly to adopt the new rules for recognizing revenue from bundles."</i>	The sooner we move, the sooner we can better match the economics of our business with our accounting.	Aren't we just moving the same revenue dollars around? It's worth doing, but it's not as if we are actually improving our business.
	The new rules allow us to bundle and price our products in a way that make sense for the market, instead of designing everything around accounting rules.	In the past, we always found a reasonable way to work with the accounting rules. What's the rush?
	Other companies are already doing it. We need to move quickly if we want to remain competitive.	Right now we have more urgent business problems to deal with. This accounting stuff can wait.

	Point	Counterpoint
<p>Hold off</p> <p><i>“Stay with the current rules until we are required to move.”</i></p>	<p>Revenue recognition issues are being addressed as part of the FASB/IASB convergence process. Why rush to change now when we may have to make further changes later?</p>	<p>This particular aspect of revenue recognition will still require special attention and is consistent with the current decisions by the FASB and IASB in their joint revenue recognition project. By starting now, we can use it as a pilot for our broader IFRS effort.</p>
	<p>The new rules won't materially affect our reported results.</p>	<p>Accounting-related benefits are just part of the story. An even bigger benefit is the ability to bundle and price our offerings in new ways.</p>
	<p>Pioneers get shot full of arrows. Better to be a fast follower.</p>	<p>Key industry leaders have already blazed the trail. It's time to follow.</p>



My take

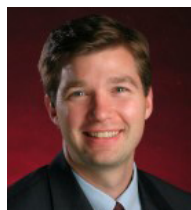
Sam Doolittle, Partner, Deloitte & Touche LLP and Miles Ewing, Principal, Deloitte Consulting LLP

When it comes to the issue of revenue recognition, the right answer varies from company to company.

Moving to the new rules may require significant changes to your accounting practices, information systems, business processes, and internal controls. It can also have a big impact on how you run your day-to-day business. For example, some companies will need to establish an estimated selling price for every single product before they could make the shift. Others will need to restructure their financial reports. In both cases, the required investment of time and effort will be anything but trivial.

To make the right decision, you need to think about the specifics of your business. If you don't have many transactions which would be impacted by the new rules, or didn't find the old accounting rules particularly restrictive, it could make sense to wait. Moving to the new rules probably won't have much impact on your bottom-line, and the required investments might be better applied elsewhere.

On the other hand, if you find that many of your product bundling and pricing decision are driven by accounting considerations, it probably makes sense to move as quickly as possible. Shifting to the new rules could give you an edge in the marketplace, or at least help you keep pace with your competitors.



A view from the early adopters perspective

Miles Ewing, Principal, Deloitte Consulting LLP

Our experience supporting early adopters of the new accounting rules has shown that a rigorous, programmatic approach is needed due to the cross-company impact of revenue recognition changes. Active coordination across accounting, shared services, marketing, IT and other reporting/forecasting groups is key to effective adoption in financial reporting -- and to capitalizing on the broader business benefits.

For further information, please visit: www.deloitte.com/us/revenuerecognitiondebate.

For further information about this debate, please contact:

Sam Doolittle

Partner
Deloitte & Touche LLP
sdoolittle@deloitte.com

Miles Ewing

Principal
Deloitte Consulting LLP
miewing@deloitte.com

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