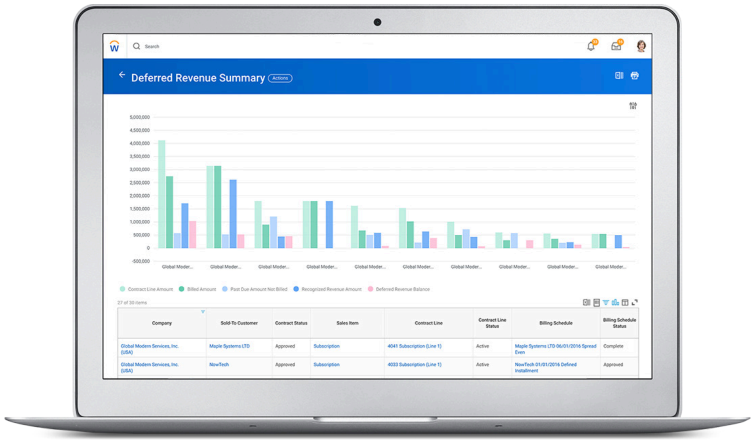
Revenue Recognition

Revenue recognition is a challenging financial and accounting process to get right, especially with the complexity of the new standards. At Workday, we've been determined to make the entire process easier for companies since the new standards were announced. And being one of the first tech companies to adopt ASC 606 with full retrospective method and by using our own revenue management solution, we've proven we can walk the walk when it comes to revenue recognition.



Challenges Posed by the New Standards (ASC 606/IFRS 15)

Even more than revenue, the new standards have a full P&L impact, so it's important to consider the broader financial management implications. Additionally, the new standards are principle-based rather than prescriptive, making companies even more dependent on their 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 companies using disparate systems or Microsoft Excel.

The Top Challenges Companies Face

If you are experiencing challenges as you transition to the new standard, you are not alone.*

According to annual and quarterly filings by the *Fortune* 500, between July 1, 2017, and August 18, 2017:

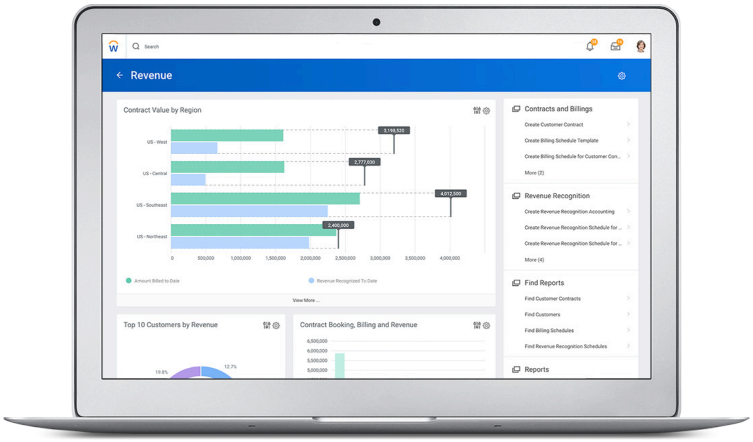
- 57 percent indicate they are using modified retrospective method, while 32 percent haven't determined or disclosed
- 34 percent have only provided qualitative disclosures, while 17 percent are still evaluating the impacts

Revenue Recognition Within Workday

Developed with market experts and companies evaluating the new standards, revenue recognition functionality in Workday offers the flexibility to handle different products and services, and supports a large variety of pricing models—including subscription, usage, project-based, fixed fee, prepaid, milestone, and more. Easily record revenue events, complete fair value analysis, and link contracts. Allocate and recognize revenue for multielement arrangements, as well as track revenue recognition milestones and percent complete. Billing is also independent from revenue recognition to ensure adherence to both billing and revenue guidelines and to allow for agile business model experimentation.

The always-on audit approach in Workday 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 for more stringent disclosure requirements.

* PwC report: "The quarter close: A look at this quarter's financial reporting issues"; September 13, 2017.



Going Beyond Revenue Recognition

While the new standards directly tie into how you recognize revenue, there are broader implications that will impact 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 can post right to the general ledger, eliminating the need for batch processing.

Easing the Transition to ASC 606 and IFRS 15

Workday has functionality and services specifically designed to get you compliant easily and on time. Find, review, and assess your entire contract database in one system where all contract data resides and historical data can be converted. Create multiple revenue scenarios with alternate contract capabilities to compare the existing standards against the new standards. And we support alternate contracts from Workday as well as third-party systems, giving you the flexibility and agility to meet deadlines with confidence.

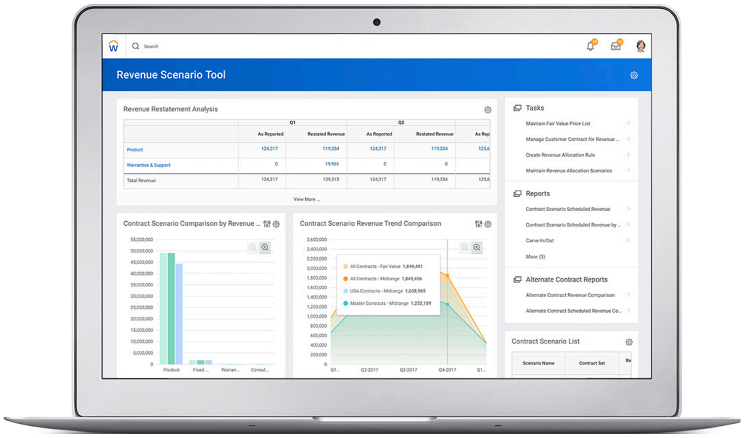
Workday offers the functionality needed to adjust your revenue recognition strategy with respect to the new standards. As your team reviews the latest requirements, you might want to approach the transition in three phases.

1. **Assess the impact.** 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 you with 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 the impact on P&L, 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 easy to take on new requirements.



How Companies Are Handling the Transition

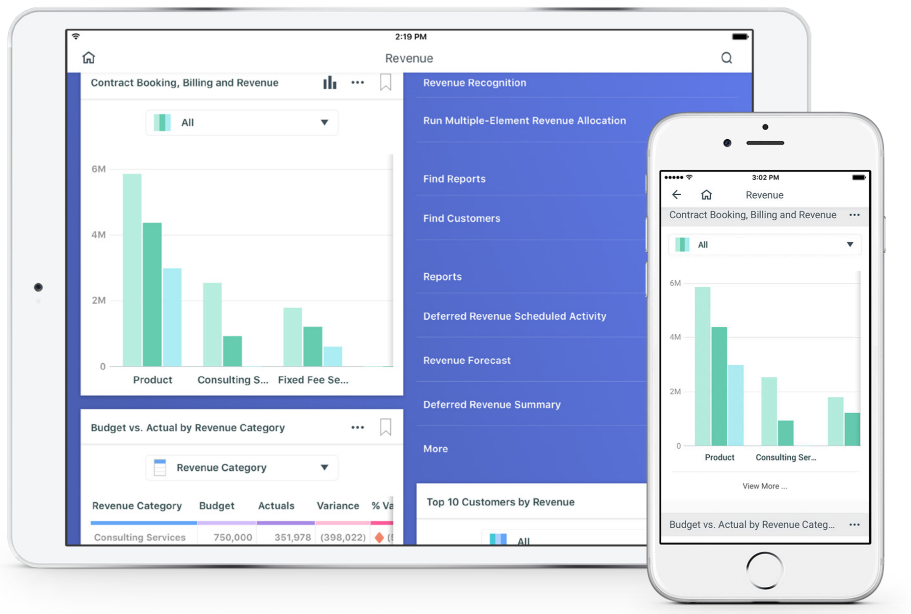
Despite the approaching deadlines, many companies are not ready. Data and IT have been cited as key bottlenecks to adoption. According to Ernst & Young's 2017 revenue recognition survey* of public U.S. companies with revenues greater than $1 billion:

- 34 percent of CFOs said they're at risk of falling behind schedule or had not begun
- 71 percent said their revenue recognition programs were not yet complete
- 49 percent are not beyond establishing IT and business process requirements
- 47 percent are planning system changes
- 45 percent are having difficulties implementing or upgrading to a new system and may not have a system in place for the adoption deadline

*EY 2017 Revenue Recognition Survey

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, including:
   a. Audit committee/board
   b. CFO
   c. Cross-functional team/steering committee
3. Engage with your auditors by:
   a. Meeting quarterly for updates, and informally as needed
   b. Reviewing impact analysis
   c. Reviewing policies and scenarios
4. Look for a system that's not just for short-term compliance needs. To be prepared for the future, your system should:
   a. Be an integral part of a financial software suite (not an external bolt-on)
   b. Be able to create and maintain unlimited what-if scenarios—while keeping original records intact—and easily track and analyze new scenarios
   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

"Had we been using a legacy financial system, it would not have been possible for us to be an early adopter, and our adoption would have cost us considerably more money."

—Robynne Sisco, CFO, Workday

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