

Does rev rec compute?

Getting your accounting system to handle the relative selling price method

July 14, 2010

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New Financial Accounting Standards Board (FASB) guidelines will change the way many companies recognize revenue. You may be willing (well, obligated) to comply, but your accounting system will probably just say “no” to the relative selling price method you’re required to use. This guide walks you through evaluating system capabilities and finding a solution.

Unless you luck out, prepare to go shopping

There's good news and bad news in the new Financial Accounting Standards Board (FASB) rev rec rules requiring companies to use the relative selling price method (EITF 08-1 [ASU 2009-13]). That method—which attributes revenue to each deliverable in a multiple-element arrangement based on its fair value as a percentage of the arrangement's total fair value—is likely to cause a nice bump in your up-front revenue recognition. But it's unlikely that your ERP system or other accounting software is equipped to handle it.

Most systems can defer revenue based on a dollar amount but are unable to defer a percentage of the total revenue—and upgrades are not expected to be available in time for most companies' mandatory adoption date. If your system can't handle the change, you'll need to look for upgrades, workarounds, or alternative software solutions.

Will my system accept relative pricing or give it the cold shoulder?

Step 1: Evaluate your system capabilities. Talk with your system provider and your IT group to determine if your system will cooperate. Maybe you're one of the lucky ones! Most of you, however, will find a combination of these issues:

- The system is unable to allocate total arrangement revenue to multiple line items.
- The system is unable to defer revenue based on a percentage of the total arrangement value (i.e., it allows only the dollar-value deferrals in use today).
- The system is unable to measure contingent revenue. Only amounts that are *not* contingent on the delivery of additional items or meeting other performance conditions can be allocated to the delivered unit(s) of accounting.

My system doesn't want to play. Now what?

Step 2: See if you can buy time. First, measure the impact that adopting the new rev rec rules will have on your top line. If it's immaterial, a materiality assessment and discussion with your auditors may be all you need. Keep in mind, however, that you'll have to continue to assess materiality, and if it *does* become material, you'll need to find an alternative solution—fast. That's why this is just a delaying tactic—we strongly recommend finding a long-term solution as soon as possible.

Time is not on my side. Next?

Step 3: Find the right software solution. Consider internal solutions first. Depending on the complexity of your revenue model, the number of products and deliverables, and the capacity and sophistication of your IT personnel, a homegrown internal reporting solution might be the right answer. And if your auditors have told you that your revenue arrangements are unique (code for "We've never seen this before"), then a cookie-cutter third-party software package may not work for you.

If an internal fix isn't in the cards, there are a number of third-party software packages designed to help

companies recognize revenue using the relative selling price method. Key questions to help you choose the right one include:

- Does the software work with my ERP system? How well? Ask which other companies use the software and with what ERP system. Most vendors don't have a one-size-fits-all perfect solution.
- Is the software scalable? It should be able to meet your needs tomorrow as well as today.
- Has the software vendor partnered with a Big 4 accounting firm or other technical resources in developing its platform? This adds credibility to the software. It's also worth asking your auditors if they've heard of the software or would recommend it.
- Does the software vendor have technical accounting support on staff? Accounting and IT personnel can speak different languages, so implementation will be easier if the vendor employs technical accountants who can help bridge the gap.
- Is the software compliant with proposal-stage rev rec rules? FASB recently issued an Exposure Draft on rev rec in connection with the effort to converge with International Accounting Standards Board guidelines. You don't want to implement a software package that will only work for a short time, so make sure the vendor is aware of the proposed guidance and is planning for necessary upgrades.

Shopping's done; why do I feel like I'm not?

Step 4: Do some housekeeping. First, get your records in order and review your order-to-cash cycle. You might find that you need to break down your revenue arrangement in greater detail by adding new accounts, cost centers, and so on. Doing this before you implement new software will save time and money.

Next, train everyone involved on the new rules. Your IT group doesn't need to become revenue recognition experts, but all parties involved should understand the rules at a high level so that everyone's objectives are aligned and project management goes smoothly.

IT not your thing?

Get help! RoseRyan can help you evaluate your system, address key issues in your rev rec implementation, or manage the entire rev rec adoption process from start to finish. We can assess revenue impact, scope your implementation needs, reinvent your revenue accounting processes, and more. Contact Maureen Ryan at mryan@roseryan.com to find out how we can relieve rev rec headaches.

And we've got more rev rec advice for you next month: our guide to providing comparative revenue data. If you missed our overview guide, *OMG! Rev rec is coming!*, or our guide to determining the selling price of deliverables in multiple-element arrangements, *Priced to sell*, [get them here](#).

About Kelley Wall: Kelley Wall, a CPA with more than 15 years' experience in finance and accounting, regularly advises clients on the interpretation and implementation of new accounting pronouncements. She joined RoseRyan in 2005 and helps lead the firm's growing technical accounting group.