

MORGANFRANKLIN[®]
CONSULTING

REVENUE RECOGNITION

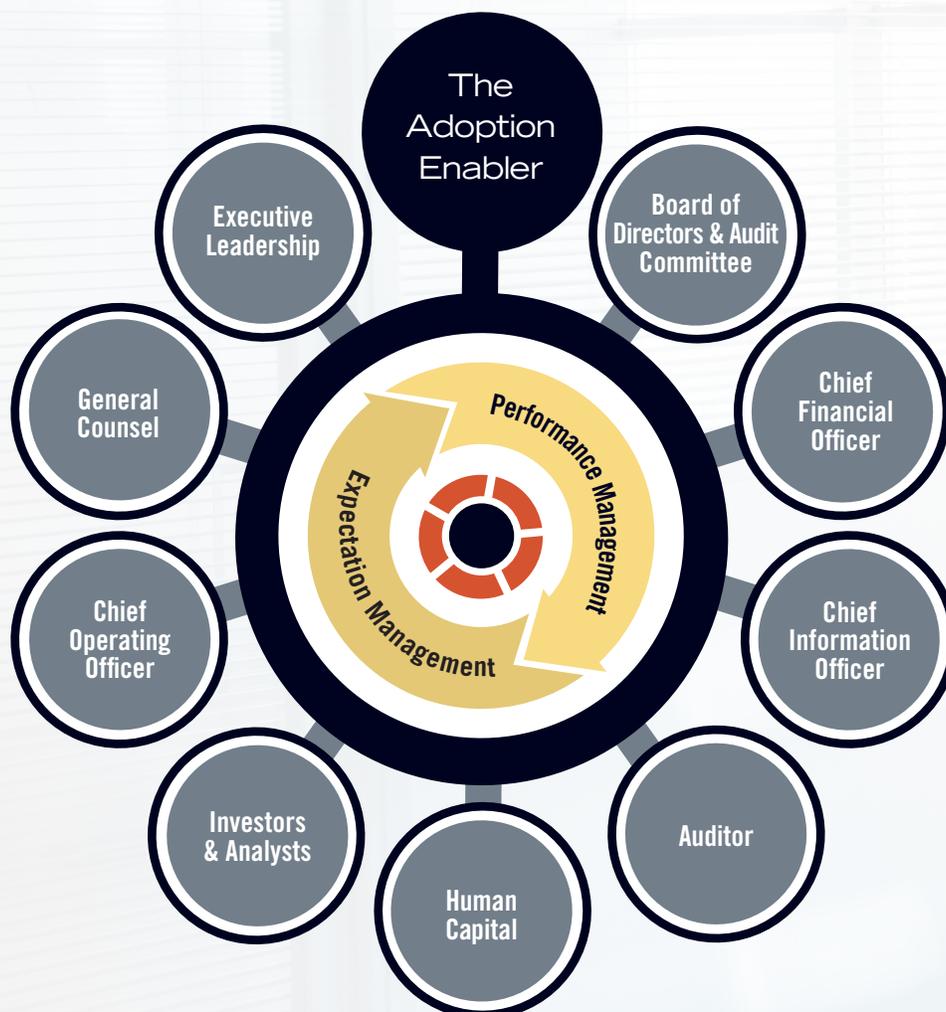
AN OVERVIEW OF ASU NO.2014-09

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THE ADOPTION ENABLER

- Orchestrates the execution of a strategic, tactical, and efficient adoption.
- Eliminates stress on internal resources and acts as a liaison.
- Identifies opportunities to implement strategic changes beyond compliance.
- Educates key stakeholders on the applicable impacts of the new standard.
- Ensures compliance with accounting and reporting requirements.



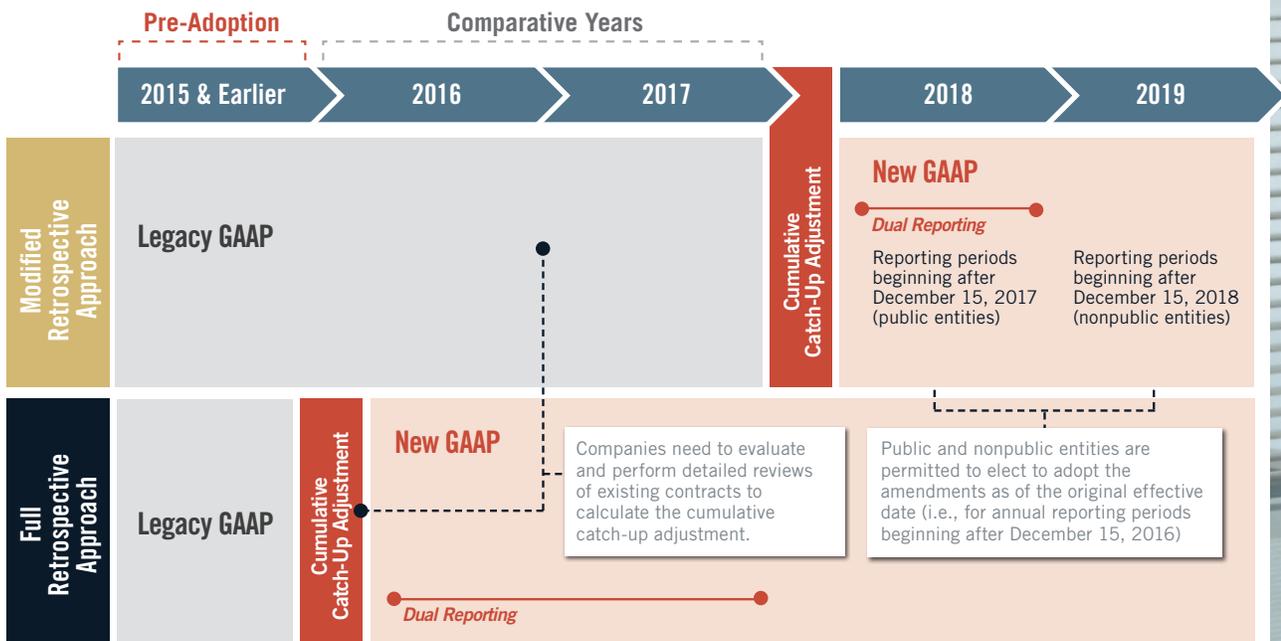
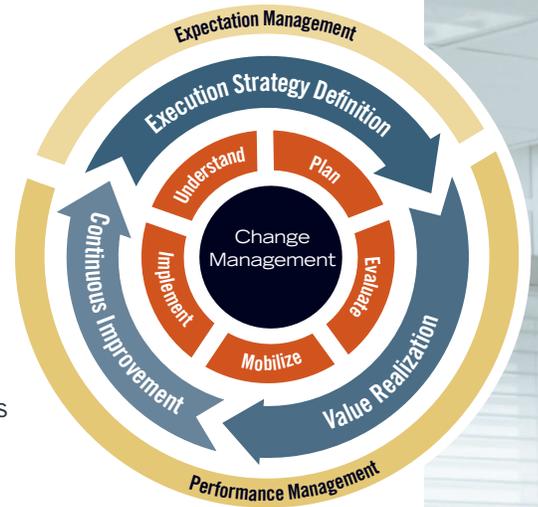
THE FUTURE OF REVENUE IS YOUR ORGANIZATION PREPARED?

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers.

The new standard is a shift to improve comparability of revenue recognition practices across companies, industries, and the capital markets. Impacts of the new standard on your organization may include the following:

- Changes how revenue is recognized both in timing and amount.
- Requires that companies select a transition option.
- Eliminates virtually all industry-specific revenue guidance.
- Includes new qualitative and quantitative disclosure requirements, including revenue disaggregation, remaining performance obligations, and initial and subsequent changes.
- Lays out a five-step approach for recognizing revenue that depicts the transfer of goods or services to customers.
- Impacts other financial areas, such as incentive plans, debt compliance, allowance for doubtful accounts, commissions, and other costs.

The new standard for revenue requires new judgments and estimates, includes substantial new qualitative and quantitative disclosure requirements, and has the potential to materially impact areas other than revenue. The new standard is more than a compliance requirement—we believe it is an opportunity. MorganFranklin will help ask the right people in your organization the right questions to not only understand how these changes affect your organization but also identify the opportunities that come with this change and better align contract economics with accounting. For example, we will explore how each transition option has its own complexities that should be carefully considered.



SOLUTIONS FOR SMART PLANNING & TACTICAL APPROACH

The new standard impacts more than the finance organization.

Executive leadership, investor relations, finance, information technology, legal, budgeting and planning, human resources, and tax are all affected. Organizational capabilities, processes, and technology need to be assessed and changes need to be implemented to address the new standard. Our approach helps drive better planning and decision making to help organizations stay ahead of the curve and leverage strategic opportunities.

UNDERSTAND

Obtain a clear understanding of the new revenue standard and its impact across the business to effectively drive the adoption process.

PLAN

Look beyond current contract terms and obligations and consider strategic and operational opportunities.

KEY ATTRIBUTES

- Understand the impacts on a sample of contracts
- Identify executive sponsor, steering committee, and adoption leader
- Hold necessary training to understand requirements and impacts at industry and company levels
- Conduct formal assessment to draw preliminary focus areas of impact across the business and capture larger workstreams or efforts for organizational awareness

- Define implementation requirements and agree on which opportunities to pursue
- Establish appropriate project management function to ensure efficient and effective approach
- Prepare to discuss with executive leadership, board of directors, and audit committee the impact assessment and path forward

Be smart.

- Initial Contract Analysis
- Board Executive Organization Training/Education
- Business Impact Assessment
 - Project Management
 - Corporate Governance
 - Accounting & Financial Reporting
 - Information Technology
 - Internal Controls & Processes
 - Legal/Contracting
 - HR Compensation Model

Be strategic.

- Transition Method Alternative Adoption
- Roadmap
- Project Plan Strategic Opportunities Analysis
- Change Management Framework
- Board & Executive Communication Preparation

VALUE REALIZATION

EVALUATE

Develop critical understanding of data, source, alternate elements from the new standard, and reporting requirements.

- Evaluate current financial policies and areas likely to be impacted directly
- Conduct deep dive on data, systems, reporting, and process to support a detailed execution plan
- Assess process and system update requirements while taking into account the new disclosure requirements

Own the process.

- In-Depth Contract Analysis
- IT Systems Deep Dive Assessment
- Sales-Based Compensation Impact Assessment & Modeling
- Impacted Policies Evaluation
- Technical Accounting

MOBILIZE

Tactically execute the project plan by leveraging strategic and operational opportunities.

- Educate and train staff on new requirements
- Prepare to run parallel workstreams, identify priorities, and understand dependencies
- Model financial reporting and new disclosure requirements
- Execute adoption requirements and opportunities plan within project management framework

Be tactical.

- Pro Forma Financial Modeling
- Strategic Improvement Analysis
- Process & System Design (Revenue, Financial Reporting, Forecasting & Budgeting, Contracting, Sales-Based Compensation)

IMPLEMENT

Implement systems and processes to ensure reporting is in place to measure revenue under the new standard.

- Design, build, test, and implement required system updates, including dual reporting for transition periods
- Implement new processes to ensure internal and external reporting needs are met
- Institute new policies and update process flows
- Optimize, update, and document internal controls for new processes

Be engaged.

- Organizational Training System Implementation/ Updates (Design, Build, Test)
- Accounting Policy Implementation
- Business Process Narratives, Flows & Internal Controls Documentation Updates
- Internal Controls Optimization

ONE TEAM. THE RIGHT EXPERTISE.

A smart and tactical approach aligns business models, resources, processes, and technology to ensure compliance, implement strategic business changes, and leverage opportunities introduced by the new revenue model.

PAST PERFORMANCE

CLOUD-BASED E-COMMERCE COMPANY

A publicly traded e-commerce provider of software-as-a-service (SaaS) solutions to retailer and manufacturer customers to integrate, manage, and optimize merchandise sales across hundreds of online channels.

UNDERSTAND

- Board & Executive Training
- Contract Scenario Analysis
- Business Impact Assessment

Upon issuance of the new revenue standard, management recognized an immediate need to understand the standard's impact across the business. MorganFranklin has facilitated an initial workshop to provide technical training, raise awareness within the organization, and capture key considerations for further evaluation. To build a full understanding, MorganFranklin has performed a detailed business impact assessment to determine the new standard's effects on each of the company's relevant business functions and make strategic recommendations for adoption, ultimately forming the basis for the company's detailed transition plan.

PLAN

- Adoption Roadmap & Project Plan
- Resourcing Approach
- Board & Executive Communication Strategy

Armed with an understanding of the business impact, management has engaged MorganFranklin to establish a project management office (PMO) and develop a detailed transition plan to guide all aspects of adoption of the new revenue standard. The Chief Accounting Officer has recognized that the initiative requires a dedicated PMO to act as the adoption enabler and build support for the project with stakeholders across the organization, including accounting, financial reporting, financial planning and analysis, financial information systems, human resources, legal, business operations, and internal audit. In this role, MorganFranklin has worked with management to develop a resourcing approach that balances internal stakeholders' availability to execute project activities and perform business-as-usual responsibilities. To communicate this plan, MorganFranklin has assisted management in preparing an executive summary for the audit committee, outlining the company's multiyear plan for adoption. The briefing provides an overview of the company's adoption plan, including project governance, implementation roadmap, key milestones, and other considerations for a strategic and effective adoption.



EVALUATE

- Contract Analysis
- Information Systems Approach
- Technical Accounting
- Project Management

MorganFranklin has worked with management to evaluate an initial sample of the company's contracts based on its revenue streams by using a proprietary, audit-ready checklist to understand how each revenue stream and customer contract type will be accounted for under the new standard. The team has developed an approach for extending the conclusions to the larger population of contracts. Through this process, the key decisions required in the adoption process have become clear. Concurrently, MorganFranklin is collaborating with the IT and finance teams to map the requirements of the new standard to the existing order-to-cash process and financial information systems environment. This exercise has identified specific points within the process requiring further review as well as new technology solutions required for compliance with the new standard. Additional opportunities have been identified to automate transaction flow and enhance internal controls. MorganFranklin continues to refine and update the project plan, including specific tasks and dependencies to facilitate necessary collaboration and communication to achieve compliance.

MOBILIZE

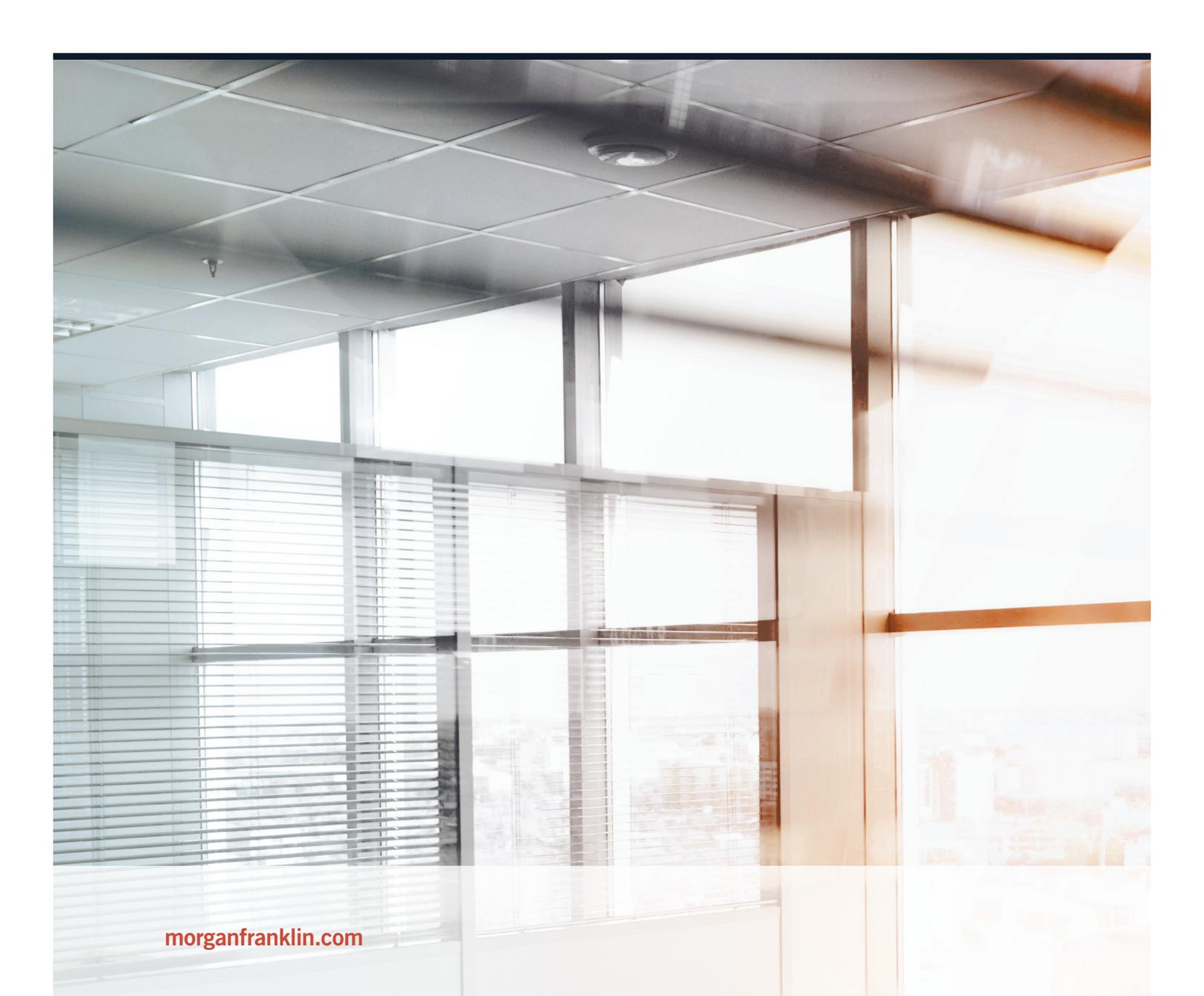
- In-Depth Contract Analysis
- Strategic Improvement Analysis
- Accounting Policy & Process Redesign
- Information Systems Design
- Project Management

After performing a business impact assessment, developing a strategic adoption roadmap, and performing the initial contract analysis, the combined project team is shifting its focus to mobilizing the transition. MorganFranklin is providing project management and information technology expertise over a series of NetSuite implementations—including Advanced Revenue Management, Multi-Book, and SuiteBilling—that will enable the systems environment to decouple revenue recognition from billing. Concurrently, MorganFranklin's technical accountants are expanding the initial contract assessment to prove that a portfolio approach can be used for the organization's contracts with customers. The team is also working with external auditors to identify which costs should be capitalized under the new guidance (e.g., costs to acquire a contract, fulfillment costs) and to define the amortization period. Relevant stakeholders across the organization, including the Board of Directors and executive leadership, are informed of progress on the transition through regular communication facilitated by the PMO.

IMPLEMENT

- Accounting Policy Implementation
- Information Systems Implementation
- Internal Controls Optimization
- External Financial Disclosures
- Project Management

As these system enhancements and technical accounting activities advance, MorganFranklin continues to work with the company to implement decisions into business operations. MorganFranklin is assisting the company with the calculation of the retained earnings adjustment at transition and preparing external financial reporting, including necessary disclosures and footnotes. MorganFranklin is also assisting the company with revising its policies to reflect the new guidance, documenting updated business processes, and preparing updated risk and control matrices. Through this long-term, complex, cross-functional initiative, management has come to rely on MorganFranklin to provide strategic vision for the transition, drive efficient decision making, identify strategic opportunities beyond compliance, foster support, educate stakeholders, facilitate communication, provide technical accounting expertise, and ultimately drive the successful adoption of the new standard.



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7900 Tysons One Place, Suite 300, McLean, VA 22102
office: 703.564.7525 morganfranklin.com