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ready for change?

REVENUE RECOGNITION

Health care



Are you ready for principles-based revenue recognition?

WITH THE NEW REVENUE RECOGNITION

standard scheduled to go into effect in 2018 for public companies and 2019 for private organizations, it's imperative to begin planning if you haven't already.

The new guidance provides a principles-based, five-step process for recognizing revenue that's in sharp contrast to the current rules-based, industry-focused standards that have been in use for decades.

If your organization issues financial statements based on generally accepted accounting principles (GAAP) in the United States, the most important thing to understand about the new standard is that the transition will involve significant planning, training, and process changes, regardless of the effective date. Any delay on your part could cause significant difficulties as the effective date approaches. This is not like a tax deadline, where you can count on extensions.

The revenue recognition process

To appropriately recognize revenue under the new standard, each individual customer contract should be reviewed on its own merits.



How much time will you need to implement the new standard?

The amount of time required for your organization to successfully implement the new standard lies in a number of variables.

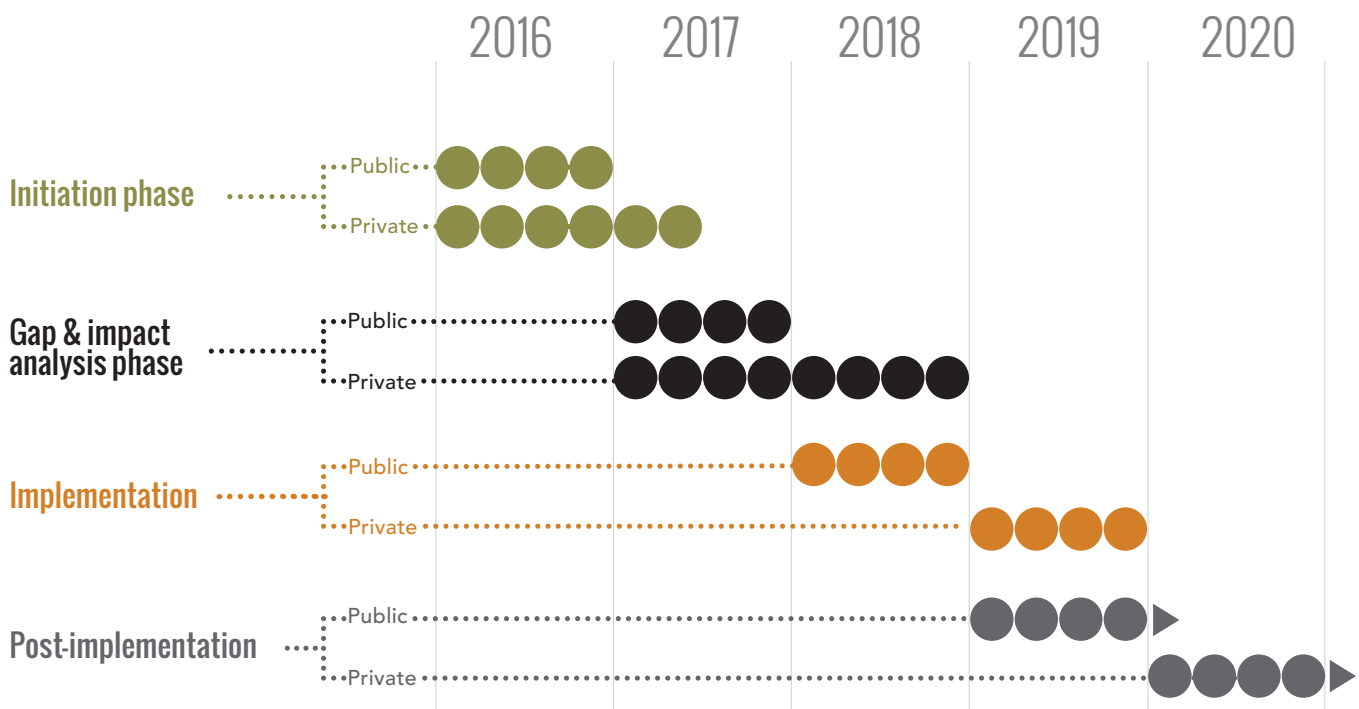
IMPLEMENTATION VARIABLE	POTENTIAL CHALLENGES	ADDITIONAL TIME REQUIRED?
REVENUE STREAMS	Extensive and diverse	YES <input checked="" type="checkbox"/>
CONTRACT COMPLEXITY	Numerous, complex	<input checked="" type="checkbox"/>
DATA AVAILABILITY	Data not currently available, or will require significant effort to compile	<input checked="" type="checkbox"/>
PROCESSES AND SYSTEMS	Significant changes needed	<input checked="" type="checkbox"/>
RESOURCES AVAILABILITY	Outside resources needed	<input checked="" type="checkbox"/>

Timeline and implementation steps

The new standard that governs the recognition of revenue from contracts with customers is currently scheduled to become effective for public company financial statements in 2018 and all other entities in 2019. It's easy to dismiss this deadline as "years away," but the work needed to prepare for this change is quite possibly unlike any accounting implementation project your organization has undertaken before.

The implementation can be broken down into four phases.

IMPLEMENTATION PHASES BY ORGANIZATION TYPE



Initiation phase

2016 for public companies

2016–early 2017 for private organizations

Assign staff to become your experts. They'll take the lead on understanding and implementing the new revenue recognition standard.

Note: Be mindful of accounting, financial reporting, tax, internal audit, sales operations, IT, legal, and human resources implications.

Read the standard or a summary of the standard.

Determine areas of judgments in the standard applicable to your contracts.

Inventory contracts and terms.

Develop an internal training plan.

Understand current processes and system capabilities related to initiation, storing, & accounting for contracts.

Determine project management tools.

Evaluate any new long-term contracts.

Gap & impact analysis phase

2017 for public companies

2017–2018 for private organizations

Determine what interim disclosures will need to be made before the standard is effective.

Apply the new model to selected contracts. Evaluate the changes from current GAAP to the new revenue standard and evaluate the impact.

Develop a methodology for applying and documenting key judgments & estimates.

Determine the transition approach to be applied (cumulative-effect or retrospective).

Evaluate necessary changes to business processes, IT systems, & internal controls.

Evaluate how the standard will affect operational and performance metrics and other areas of your organization.

Note: Consider the timing of revenue recognition, balance sheet impact, disclosures, accounting policies, tax, and other contractual arrangements (leases, covenants, compensation, earn-outs).

Educate key stakeholders (audit committee, board of directors, investors, and others) on the impact of the changes to your organization.

Implementation

JANUARY 1, 2018 for public companies

JANUARY 1, 2019 for private organizations

Apply the transition methodology selected to contracts in place.

Apply the new standard to contracts entered into after the implementation date.

Execute changes to business processes, IT systems, & internal controls.

Execute changes required in other areas of your organization.

Note: Consider the timing of revenue recognition, balance sheet impact, disclosures, accounting policies, tax, and other contractual arrangements (leases, covenants, compensation, earn-outs).

Post-implementation

Establish processes to evaluate instituted business processes, IT systems, internal controls, and other changes.

What you need to know

HEALTH CARE

Within the healthcare industry, many organizations will be required to implement the new revenue recognition standard in 2018 as they meet the definition of a public entity or are a not-for-profit entity that is a conduit bond obligor. Whether your organization is required to implement the new standard in 2018 or 2019, the amount of work involved to switch to the new framework can take years.

The new standard is a framework to apply to each contract. The variation of services provided, payment methodologies employed, and contracts used within healthcare organizations add to the complexity of the standard. We believe the issues identified on the following page will provide the biggest challenges to healthcare organizations when preparing to implement the new principle-based guidance, but it's not an all-encompassing list.

THINGS TO REMEMBER



Get started now

The only way to know how long this will take for your organization is to do it.



Don't wait

Don't put it off because you don't believe it will affect you, or that you can catch up in the future.



Avoid costs

The process will be more painful, and more expensive, the longer you wait.

If you have any questions about the new standard or if you need assistance with the implementation process, please contact a member of your engagement team or our revenue recognition implementation team.

How we can help

Our revenue recognition experts can assist your organization in a number of ways. We can serve as solely an advisor, collaborate closely on all aspects, or a combination of the two.

CUSTOM SOLUTIONS FOR YOUR ORGANIZATION



We can serve as your advisor

Our team can provide feedback on your implementation efforts throughout the process.



EVALUATE PLANS

We can evaluate your training plans and interpretations of the new standard and make recommendations for improvements.



REVIEW ANALYSIS AND APPLICATION

As advisors, we will review your analysis and application of the standard and your methodology. We will also help evaluate any new long-term contracts.



PROVIDE RECOMMENDATIONS

We'll provide necessary recommendations and advise on your transition approach.



CONSULT ON DESIGN AND MONITORING

During implementation and post-implementation, we'll further consult on your design and provide recommendations for your ongoing monitoring framework.



We can take a more collaborative approach

Beyond advising, our team can share responsibility for the coordination and oversight of teams.



COLLABORATE ON PROCESS

Collaboratively, we will help you determine areas of judgment applicable to contracts, develop a training plan and materials, and share in the delivery of the materials. Our experts will also assist with the development and implementation of your transition approach.



PARTNER THROUGH TRANSITION

During implementation and post-implementation, we'll be by your side providing observations and insights for a successful transition, and will work with your team to establish a framework for monitoring compliance, analysis, and continuous improvement.



We can help with the operational impacts of changes on your business:



ENHANCE RELIABLE FINANCIAL REPORTING

We can advise you on new processes, systems, and controls required to ensure you produce high quality, timely, and reliable financial reporting under the new standard.



EVALUATE ERP COMPLIANCE

We'll evaluate ERP system compliance required to support the new standard. If non-compliant, we can evaluate alternative solutions, including the implementation of new software solutions.



ASSESS OPERATIONAL RISK

We can help assess operational risks which result from the new standard, including revised contract profitability, changes to financial ratios on company commitments, and contract administration inefficiencies.

If you have financial reporting covenants, we can develop a financial bridge outlining changes to financial reporting to assist in communicating with lenders and other stakeholders regarding appropriate changes to financial covenants.



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