

New Revenue Recognition Rules Change Everything – Are you ready?

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Why are CFOs and CEOs losing sleep over IFRS 15 / ASC 606 revenue recognition rules?

The deadline for the most significant accounting change since the adoption of IFRS is rapidly approaching, but many telecoms finance teams have yet to take action.

Achieving compliance now requires deploying packaged products rather than building out ERP systems that were not designed for complex revenue accounting.

There is no shortage of priorities for telecoms executives who aim to deliver great customer experiences, new services and operational efficiencies. How CFOs react to IFRS 15 / ASC 606 will have a wide-ranging impact beyond sheer compliance – it will enable telecoms to maintain investor confidence, rollout innovative new products and gain a competitive edge.

What's stalling progress?

Telecom operators need to generate internal, comparative reporting under the new Standard beginning 1 January 2017.

Most telecoms have completed impact analyses and started sourcing the data required. But according to a recent Aptitude

Achieving compliance is much more than a simple policy adjustment.

Software survey, only 8% of firms have selected a solution to implement the new rules. This leaves less than 9 months for operators to put in place the systems that they will rely on to deliver comparative reporting.

Many operators have been waiting for the mega-vendors to come up with ways to accommodate the new rules within their ERP platforms.

“Historically, ERP systems were generally not designed to perform complex revenue accounting,” according to John McGaw and Jeff Johnson at EY in the February 2016 issue of CFO Magazine.

“The myriad of industry-specific guidance [makes] the full automation of revenue accounting too unique and complex a problem for ERP vendors to solve.”



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Steps to compliance

Achieving compliance is much more than a simple policy adjustment. It requires significant changes to process and systems.

The most prominent challenge is to bring together contract-level data for millions of customer contracts. This data can be buried in the clunky IT environment made up of multiple billing, operational and ERP/CRM systems.

Selecting a system to apply the new standard's five-step process is the second necessary step. An appropriate solution needs to integrate granular data, model contracts, calculate fair-value pricing, apply recognition scenarios, manage contract modifications, and generate outputs.

The good news is that there are packaged solutions, such as Aptitude Software's Revenue Recognition Engine, that provide the full range of functionality including hundreds of pre-configured recognition scenarios out-of-the-box. The product enables telecom finance and IT teams to implement a fit-for-purpose IFRS 15 / ASC 606 solution with the flexibility to quickly configure inputs and business rules – a fitting approach especially when considering the timeframes involved.

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Ensuring the support of shareholders

Implementing reporting under the new standard well in advance of 1 January 2018 is an issue of paramount importance because it will call into question the financial metrics - such as ARPU and ARPA - on which the telecoms industry has long relied.

According to Deloitte, "the new rules may result in significant changes to the profile of revenue." They forewarn that "entities should expect changes to KPIs... the profile of tax cash payments and availability of profits for distribution."

A new approach for a changing industry

Amidst an onslaught of telecom regulatory reporting requirements, one can easily forget that the purpose of accounting is to give people information to make good decisions. The new standard provides an opportunity to improve the value of accounting outputs. Operators will be able to drive performance through the organisation by using the granular, contract-level data to make decisions and ensure profitability.

With this new data asset, telecoms CFOs will be able to deliver more accurate revenue forecasting, profitability by sales channel, by product and by customer. The few leading operators that have implemented solutions for IFRS 15 compliance are finding that they can now do this analysis against real data rather than hypothesised models.

The new revenue recognition rules require telecom operators to take action. Packaged products are available that will ensure operators comply by the deadline, while giving them the foundational data to drive their businesses forward in a fast changing telecom marketplace.



About Aptitude Software

For more information about the Aptitude Revenue Recognition Engine, Aptitude Software's solutions for telecoms revenue management and how they help enterprise finance teams to achieve financial insight, control and transparency, please email info@aptitudesoftware.com

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