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A Message from the Tech Practice Group

Accounting Policies 101: *Revenue Recognition*

When we spoke of key accounting policies in the Summer 2012 World's Smallest Newsletter, we mentioned that revenue recognition is an important policy to consider. Revenue is one of the most commonly monitored measures of a company's growth and market share; it is the cornerstone of accrual accounting.

Just ask Apple (NASDAQ:APPL). Apple has experienced extraordinary revenue growth, matched with a consistently high gross margin. Over the most recent fiscal years, Apple's revenues have increased an estimated six-fold. However, during this time period, the governing accounting boards amended the accounting principles related to revenue recognition. Apple was subjected to the ever-changing landscape of revenue recognition. In 2010, the company amended its financial statements to reflect the retrospective adoption of the new accounting principles. Those principles significantly change how Apple accounts for certain items, particularly sales of the iPhone and Apple TV.

Do you have a revenue recognition policy and if so, how sound is that policy? Are you ready for the proposed accounting changes relating to revenue recognition?

If you find yourself with any questions regarding the development or modification of your current revenue recognition policy or about the proposed accounting changes, please don't hesitate to reach us.

All the best,

Steve Jeff George

Steve, Jeff and George
Technology Practice Group
Batchelor, Frechette, McCrory, Michael & Co.

DID YOU KNOW?

Changing your revenue recognition policy as a result of the proposed changes can impact many other aspects of your company. Some suggestions to consider:

1. Identify the revenue streams that may be impacted by the new standards.
2. Consider whether your systems can handle the new changes.
3. Assess how these changes will impact budgeting and forecasting.
4. Determine if the changes impact the compensation and bonus structure in place.
5. Assess whether you have the internal resources to deal with the change.
6. Understand how these changes will impact your internal control structure.

Jeff Allain of the Tech Practice Group (far right) with the Vcharge Team.

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Key revenue recognition questions to ask:

1. What is the starting point for evaluating a revenue transaction?

2. What are the general principles for revenue recognition?

3. When is revenue recognized for product sales compared to SaaS (Software as a Service)?

4. How is a multiple element deliverable arrangement evaluated?

5. What is the revenue recognition model applied to a software arrangement?

6. What is the proper accounting treatment for research and development arrangements?