



**BLYTHE** GLOBAL ADVISORS  
*Filling the Gap in Accounting and Financial Expertise™*



## Perspective from Marc Blythe

The convergence of U.S. GAAP and IFRS standards will have a significant impact on how all companies report financial results. With interim changes to the accounting for certain revenue recognition transactions effective for most companies in 2011, [the time to get ready is now.](#)

You have probably read about the Security and Exchange Commission's (SEC) active support for a single set of global accounting standards, with International Financial Reporting Standards (IFRS) taking prominence. Before the full move to a single standard takes place, U.S. and international accounting bodies must complete almost a dozen convergence projects – among them projects on revenue recognition and lease accounting. Once completed, the new rules will apply to all U.S. companies – private and public, large and small.

Although no specific date has been announced for mandating full implementation of IFRS, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) plan to issue final rules in key areas (including a new global standard for revenue recognition) by mid-2011. That said, many required changes are taking place in the interim. For instance, last year, the FASB's Emerging Issues Task Force (EITF) issued changes to revenue recognition rules affecting multiple element arrangements that are mandatory by 2011. At Blythe Global, we're finding that many companies are opting for early implementation.

In this advisory, I'll focus on the impact of these interim changes on revenue recognition accounting and reporting. In my next advisory, I'll discuss the anticipated changes to lease accounting – which are expected to have a significant effect on all companies holding leases of any kind. For both issues, I'll also discuss some steps companies can take now to ensure a smooth transition.

### The Current State of Revenue Recognition

Because there has never been a single, comprehensive revenue recognition accounting standard, revenue recognition has traditionally been an area of high focus and high stress. To avoid costly errors and the stigma associated with restatements, the process for accurate revenue recognition has evolved into strict adherence to the countless, highly specific SEC rules and regulations, as well as the numerous U.S. generally accepted accounting principles (GAAP). In the environment of second- and third-guessing that permeates the world of financial reporting, the checklist has been king. In most reporting, judgment decisions have played a decreasing role. Company professionals from the CFO to accounting and finance department managers have all followed this stringent prescriptive process. Not any more.

## The Future State of Revenue Recognition

Simply put, the new global standard for revenue recognition will not contain a lot of guidance. Going forward, companies will need to make more judgment decisions – contrary to current practices. The EITF's interim changes also reflect this broader approach. To be clear, the final reported results will be the same over the long term; however, the EITF's changes affect the timing for reporting revenue for some companies. In addition, the implementation of more judgment decisions will require more disclosures and transparency – potentially aggravating an environment already awash in multiple layers of review.

This tilt toward judgment decisions will put a greater burden on all levels of accounting and financial management. At the department or functional level, managers will need to get comfortable with fewer and less specific checkpoints and more decisions. The old adage “it's lonely at the top” will mean even more to the CFO or controller responsible for signing off on those judgment decisions. All decision-makers will need help understanding the new rules and revising internal processes and policies to comply with them.

Here's a brief illustration of how the changes to revenue recognition rules regarding multiple element arrangements will affect management.

Determining the stand-alone value for individual elements of an arrangement has always been difficult given the complexity of current U.S. accounting rules. The new EITF rules no longer permit the use of the “straightforward” residual value method of allocating consideration, but instead require companies to determine stand-alone value based on management's best estimate of selling prices. Once made, management will need to feel comfortable defending the decision against the inevitable second- and third-guessing. On the upside, the flexibility in the new standards will allow management to recognize some revenue earlier than under current U.S. standards. In addition, the results may be more in line with the economics of the arrangements and with how international companies report, thus enabling better comparability.

## Some Steps to a Smooth Transition

Because accounting firms need to maintain independence and avoid conflicts of interest, they are precluded from providing too much advice to clients. Auditors often recommend accounting and financial reporting consultants to bridge the gap and bring the required expertise in-house. Here is how such a consultant can help companies make a successful transition to the new revenue recognition standards.

Executive Counsel: At the executive level, face-to-face, peer-to-peer advice and counsel cannot be underestimated. From education on the new standards to general review of the company's specific revenue recognition issues, an unbiased consultant with Big Four experience can cut through to the core issues quickly and provide the kind of peer advice and sophisticated services needed at the senior management level.

Accounting Competency: Upgrading the competency of any department needs professional oversight. A seasoned consultant can evaluate current processes and skills and recommend best practices and/or training to ensure compliance under the new standards – quickly and efficiently.

Sales Transactions/Contracts: This is an area where the right consultant can make a considerable difference. While most companies commit an appropriate level of attention to the proper accounting of sales transactions, few companies have resources dedicated to the impact of revenue recognition issues on contracts. A consultant with revenue recognition experience can identify issues that will impact revenue recognition before contracts are finalized.

Although most companies are not required to implement the recent revenue recognition changes until fiscal year 2011 reporting, many companies have already committed to 2010 adoption. Some are doing it to get an early start and ensure the kinks are worked out before mandatory compliance. Others have become early adopters because of the opportunity to recognize some revenue earlier. Given the toll that improper revenue recognition can have on a company both in the short and long term, we at Blythe Global Advisors recommend getting ready now.

**To discuss this important topic further,  
contact [marc@blytheglobal.com](mailto:marc@blytheglobal.com)**

**Here's a sample of the services we are currently providing to several clients.**

- Assisting companies that are in various stages of the IPO process, including preparing technical memos and assisting with accounting treatment in the areas of revenue recognition, stock compensation, asset impairment, convertible debt, warrants and complex equity transactions.
- Preparing historical financial statements for companies prior to their audit, including preparing/ reviewing schedules requested by the auditors – making the audit much more efficient for both the auditors and the companies.
- Assisting companies with the sale of the business by preparing/reviewing schedules requested by the buyer's due diligence team, minimizing business disruption, identifying potential deal pitfalls and improving/maintaining seller credibility.
- Providing on-demand accounting advice to public and private companies on a monthly basis via meetings with their CFO, controller, VP of finance and other senior management.

**To learn more about Blythe Global Advisors and our solutions,  
visit our web site at [www.blytheglobal.com](http://www.blytheglobal.com) or call 949-757-4180**

**About Marc Blythe**



As president of Blythe Global Advisors, Marc Blythe brings more than 20 years' experience advising companies of all sizes across all industries on their accounting and financial reporting requirements. His areas of expertise include revenue recognition, equity compensation, mergers and acquisitions/purchase accounting, restructurings/ impairments, consolidations, lease accounting, derivatives and debt. Prior to forming Blythe Global Advisors, Marc was an audit partner at Ernst & Young.