

Intacct Leads the Way in ASC 606 and IFRS 15 Revenue Recognition

Published: May 2016

Report Number: A0241

Analyst: Hyoun Park, Chief Research Officer

Share This Report



What You Need To Know

Every subscription-based business and services firm should be aware of ASC 606 (FASB ASU 2014-09) and IFRS 15, which substantially affect how revenue is recognized. As this new standard is established, these companies will have to recognize revenue correctly or risk audits and the need to re-file earnings. Blue Hill believes that Intacct has taken an important leadership stance in providing a first-to-market revenue recognition solution for organizations seeking to understand how best to manage “performance obligations” and event-based revenue.

ASC 606 and IFRS 15 Revenue Recognition Standards

ASC 606 and IFRS 15 represent a shared agreement between FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) regarding best practices for recognizing professional services contract revenue. Under this new standard, Blue Hill notes a variety of interesting new definitions and requirements for revenue recognition, including:

- Revenue is recognized based on defined “performance obligations,” which can be thought of as being similar to deliverables in multi-element revenue recognition.
- Each performance obligation must be accounted for distinctly as a standalone good or service and as defined within a contract.
- The full transaction price can reflect variable amounts that are “probable” of not having significant reversals based on prior experience with similar delivery arrangements. The transaction price should also reflect the time-value of money if financing is a significant project component.

AT A GLANCE

Solutions

On May 20th, 2016, Intacct launched a first-to-market solution that displays ASC 606 and IFRS 15 revenue recognition standards in its Contract and Revenue Management solution, taking advantage of Intacct’s dimensionality and providing a head start for companies that need to transition to the new guidelines.

Relevant Industries

Industries affected include, but are not limited to: Aerospace, Communications, Defense, Engineering, Law, Media, Information Technology, Management Consulting, Marketing Services, and Pharmaceuticals.

Benefits

By using Intacct’s Contract and Revenue Management solution, companies can simultaneously see their revenue both based on existing and upcoming rules, which aids with forecasting, guidance, and invoicing. Firms currently signing multi-year deals have greater visibility to the true impact those deals may have on future earnings.

- Revenue should be recognized as each performance obligation transfers goods or services to the client. This transfer can be determined as either a point in time or over a range of time, based on the agreement, but will also require appropriate reallocations and deferrals as each obligation and timeframe passes.
- Public business entities, certain not-for-profit entities, and certain employee benefit plans must follow these standards for annual reporting periods beginning after December 15, 2017.
- All other companies are required to follow these revenue recognition standards for annual reporting periods beginning after December 15, 2018.
- Early application is permitted for annual reporting periods beginning after December 15, 2016.

Clearly, there is enough flexibility here that businesses could see significant changes in revenue recognition that would affect future revenue guidance, and Blue Hill believes that companies should start focusing on the tools and processes needed to be compliant this year, especially since multi-year contracts signed in 2016 with complex or project-based deliverables will be held to this standard.

Intacct Contract and Revenue Management Solution

Starting on May 20, 2016, Intacct will provide companies with the ability to manage revenue with new recognition rules through Intacct Contract and Revenue Management, which will allow companies to look at existing revenue based on both current and upcoming recognition standards. This makes Intacct first-to-market in supporting these new revenue recognition rules.

This support will be based on out-of-the-box functionality, meaning that no additional scripting or intermediate spreadsheet work will be necessary to see revenue according to both standards. From Blue Hill's perspective, this translation represents an intelligent use of Intacct's multi-dimensionality, multi-entity, and multi-book functionality in supporting multiple sets of business rules from a single source of data. As financial modeling continues to become more complicated through the need to support multiple geographies, business models, and revenue recognition models, Blue Hill believes that it will be increasingly important for mid-market organizations to choose financial solutions based on the ability to support a variety of different potential business and financial views out of the box.

In addition, Intacct also provides "what-if" visibility to recognition so that companies can see how current and future revenue recognition rules will apply to existing contracts. This capability will help accountants and financial analysts to understand how to recognize, manage, and project revenue expectations over time.

Finally, Intacct's revenue recognition solution is also integrated with subscription billing to bridge the order-to-cash path by allowing Intacct clients to bill for new obligations. Intacct has designed its billing and revenue recognition solution with an eye towards supporting sophisticated contracts rather than focusing on high-frequency billing with simple revenue recognition.

Figure 1: Intacct Portrayal of Legacy and ASC 606 Compliant Revenue Recognition

	Month Ending 12/31/2015	
	Legacy	ASC 606
Gross Margin - Detail		
05/05/2016 10:00		
Gross Profit		
Revenue		
Setup		
Sales Revenue - Setup Fee - Unbilled	204.41	267.31
Sales Revenue - Setup Fee - Billed	409.85	535.97
Sales Revenue - Setup Fee - Paid	821.78	1,074.64
Total Setup	1,436.04	1,877.92
License		
Sales Revenue - License - Unbilled	490.58	641.54
Sales Revenue - License - Billed	983.64	1,286.33
Sales Revenue - License - Paid	1,972.27	2,579.14
Total License	3,446.49	4,507.01
Service		
Sales Revenue - Support - Unbilled	289.44	378.51
Sales Revenue - Support - Billed	580.35	758.93
Sales Revenue - Support - Paid	1,163.64	1,521.69
Total Service	2,033.43	2,659.13
Downloads		
Sales Revenue - Downloads - Unbilled	694.66	908.42
Sales Revenue - Downloads - Billed	1,392.84	1,821.43
Sales Revenue - Downloads - Paid	2,792.74	3,652.06
Total Downloads	4,880.24	6,381.91
Total Revenue	11,796.20	15,425.97
COGS		
Commissions	761.78	227.06
Royalties	554.86	404.88
Total COGS	1,316.64	631.94
Total Gross Profit	10,479.56	14,794.03

Source: Intacct, May 2016

Companies seeking to understand the danger of misstating earnings can look at publicly traded companies that have faced this challenge recently. As an example, in March of 2016, Tangoe declared the need to restate professional services revenue from 2013 – 2015 based on inaccurate usage of ASC 605-25, ASC 985-605. This led to the resignation of the CFO based on the preferences of the Board. To avoid similar problems that will inevitably arise as companies have to shift revenue recognition standards over the next two years, companies need to start doing their homework now.

In this regard, Blue Hill finds Intacct's solution for revenue recognition to be compelling in that it provides a governed environment and clear visibility for revenue recognition. Blue Hill is concerned that a majority of financial analysts and accountants tasked with enacting these new accounting rules will do so through a combination of spreadsheets and customized scripting based on VBscript or other code. However, this approach will inevitably lead to failures due to poor data governance and the inability to track or scale this work across the entire organization.

In contrast, by providing revenue recognition information through configurable and rules-based data, Intacct will allow financial analysts to conduct side-by-side analysis of revenue. One final value proposition that Intacct will

provide, due to its existing functionality, is a Salesforce-native user interface for sales and service personnel to accurately capture new contract terms and edits that will directly affect revenue. By directly tying together contract changes made during the sales process with financial revenue recognition, Intacct provides an immediate turnkey solution for revenue recognition that every Salesforce customer should be considering immediately.

Recommendations

For professional services-based financial departments, Blue Hill provides the following recommendations.

- 1) Future-proof your company to make sure that your company does not make the headlines for firing its CFO. The clock is ticking in preparing your organization for new revenue recognition standards. Considering that early application for these standards actually starts in 2016, every professional services firm needs to start looking at current projects and contracts in terms of obligation-based recognition milestones. Going forward, there will be no such thing as “cash on receipt” for these projects from a revenue perspective. If the “magic wand” for calculating ASC 606- or IFRS 15-based revenue is only in the hands of a single financial analyst, this is a governance nightmare in the making with potentially dire repercussions. There are CFOs who are going to lose their jobs in three to five years based on their inability to manage these new revenue recognition rules correctly.
- 2) Mid-market subscription or services firms and business units in large enterprises should consider Intacct as a revenue recognition solution rather than try to create their own revenue recognition conversion tools from scripts and spreadsheets. To create a consistent version of financial revenue that can be accurately filed, analyzed, and audited, revenue recognition methods need to be made available for every financial analyst and manager responsible for calculating revenue. And by seeing how these revenue recognition rules affect current contracts, financial teams will be more familiar with using these standards by the time that they truly count in 2017 and 2018. Blue Hill has previously written about how Intacct’s multi-dimensionality, subscription billing capabilities, and ease of use make it stand out among existing enterprise applications.
- 3) Make sure that line-of-business based contract changes and edits are directly reflected in revenue recognition rules. Going forward, new sales, procurement, or service-based changes that affect contract deliverables may also affect revenue. These accounting standards will require finance to work more closely with sales and related operational departments to ensure that contract terms used to seal the deal or to match client expectation don’t end up creating longer-term challenges to properly recognize revenue. With these new rules, companies must be sure that their revenue recognition is directly linked to relevant contract edits or additions that are created within CRM (Customer Relationship Management) or procurement solutions to ensure alignment.

Additional Research

To learn more about Blue Hill’s perspective on Intacct as a mid-market financials solution, read our report, “[Is Intacct the Business Platform of the Future?](#)”



Hyoun Park

Chief Research Officer

Hyoun Park is the Chief Research Officer of Blue Hill Research, where he oversees day-to-day research operations, delivery, and methodology focused on vendor and technology selection. In addition, Park covers analytics and enterprise mobility technologies as a noted advisor, social influencer, and practitioner. Park has been named as a top 10 Big Data, analytics, and mobility influencer including quotes in USA Today, the Los Angeles Times, and a wide variety of industry media sources. Over the past 20 years, Park has been on the cutting edge of web, social, cloud, and mobile technologies in both startup and enterprise roles. Park holds a Masters of Business Administration from Boston University, and graduated with a Bachelor of Arts in Women's and Gender Studies from Amherst College.



CONNECT ON SOCIAL MEDIA



[@HyounPark](#)



[linkedin.com/in/hyounpark](https://www.linkedin.com/in/hyounpark)



bluehillresearch.com/author/hyoun-park

For further information or questions, please contact us:

Phone: +1 (617) 624-3400

Fax: +1 (617) 367-4210

Twitter: @BlueHillBoston

LinkedIn: [linkedin.com/company/blue-hill-research](https://www.linkedin.com/company/blue-hill-research)

Contact Research: research@bluehillresearch.com

Blue Hill Research offers independent research and advisory services for the enterprise technology market. Our domain expertise helps **end users** procure the right technologies to optimize business outcomes, **technology vendors** design product and marketing strategy to achieve greater client value, and **private investors** to conduct due diligence and make better informed investments.

Unless otherwise noted, the contents of this publication are copyrighted by Blue Hill Research and may not be hosted, archived, transmitted, or reproduced in any form or by any means without prior permission from Blue Hill Research.