What is the right path to prepare for accounting change?

What you need to know: Effectively operationalizing accounting change across the enterprise
Agenda

► Introductions and objectives
► Overview
► Snapshot: Where do we stand now?
► The challenge ahead: Drivers of complexity
► Getting started
► Practical considerations
► Diagnostic activities
► Implementation experience
What is accounting change?

Accounting change

Revenue recognition

Leasing
The new standard was issued on 28 May 2014, and a number of questions have arisen in transition.

The Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB) Joint Transition Resource Group for Revenue Recognition (TRG) and American Institute of Certified Public Accountants (AICPA) industry task forces are actively discussing issues submitted to them.

Some of the issues discussed by the TRG have resulted in FASB and IASB activity:

- The FASB issued ASU 2016-08 covering principal versus agent assessments on 17 March 2016.
- The FASB issued ASU 2016-10 covering licenses and performance obligations on 14 April 2016.
- The FASB has issued an ED on narrow scope improvements and practical expedients covering certain transition issues, noncash consideration, sales taxes and collectibility which is expected to be finalized as an ASU in Q2 2016.
- The FASB is planning to issue another ED in Q2 2016 to address certain technical corrections discussed with the TRG and stakeholders.
- The IASB issued *Clarifications to IFRS 15* (containing all of its amendments to IFRS 15) on 12 April 2016.

The complexity of implementing the new standard should not be underestimated.

Many companies are appropriately accelerating implementation efforts.
Leases
Snapshot: Where do we stand now?

Key changes affecting lessees

- Requires most leases to be recorded on the balance sheet, but expenses are recognized in a manner similar to today
- Eliminates real estate-specific provisions
- Provides new presentation and disclosure requirements
- Changes sale and leaseback criteria, and they apply to lessees and lessors

Key changes affecting lessors

- Modifies classification criteria and accounting for sales-type and direct financing leases
- Eliminates leveraged leases prospectively

Q3 2010 Exposure draft (ED)
2011–13 Re-deliberations and 2nd ED
2014–2015 Re-deliberations on 2nd ED
Q1 2016 Final standard
Leases
Timing

- Certain practical expedients are available for transition
- Full retrospective adoption is prohibited
- Certain disclosures are required in accordance with ASC 250, *Accounting Changes and Error Corrections*
Accounting change impacts can span across the organization.
# Accounting change: Drivers of complexity

## Overall accounting change

<table>
<thead>
<tr>
<th>Less complex</th>
<th>More complex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic operations only</td>
<td>Global operations</td>
</tr>
<tr>
<td>Highly centralized</td>
<td>Decentralized</td>
</tr>
<tr>
<td>One global ERP</td>
<td>Multiple, disparate IT systems</td>
</tr>
<tr>
<td>Strong organizational change management</td>
<td>Organization struggles to implement change</td>
</tr>
</tbody>
</table>

## Revenue recognition

<table>
<thead>
<tr>
<th>Less complex</th>
<th>More complex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shorter revenue cycle</td>
<td>Long-term contracts</td>
</tr>
<tr>
<td>Single line of business</td>
<td>Multiple, diverse businesses</td>
</tr>
<tr>
<td>No change to existing performance obligations</td>
<td>Additional performance obligations under new model</td>
</tr>
<tr>
<td>Well-controlled process currently provides revenue estimates</td>
<td>More and more complex estimates and judgements required by new revenue recognition standard</td>
</tr>
</tbody>
</table>

## Leasing

<table>
<thead>
<tr>
<th>Less complex</th>
<th>More complex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasing is core to company’s operations</td>
<td>Leasing activity supplements company’s operations</td>
</tr>
<tr>
<td>Existing lease management software</td>
<td>Leases tracked via spreadsheet software (if at all)</td>
</tr>
<tr>
<td>Lease accounting tied to lease administration system</td>
<td>Lease accounting often separated from the lease administration system</td>
</tr>
</tbody>
</table>
Getting started
Operating model considerations

► What transition method or transition relief will be used?
► What changes do we need to make to policies and procedures?

► Is the revenue accounting organization effective?
► Is lease accounting and administration effective?

► Does our data structure satisfy the new standard requirements including disclosures?
► Is the contract or lease data available and complete?
► Do we need additional data for reporting and compliance indicators?
Getting started
Develop a strategy that best leverages your key drivers

Accounting change project drivers

- Financial reporting compliance
- Operating model transformation
- Systems, processes and control optimization
Getting started
Identify time-sequenced dependencies

<table>
<thead>
<tr>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagnostic</td>
<td>Solution development</td>
<td>Implementation</td>
<td>Sustain</td>
<td></td>
</tr>
<tr>
<td>Governance objective and plan</td>
<td>Program governance structure, ongoing management, budget and resource management, dependency analysis, risk management</td>
<td>Communication structure, approach, routine work sessions with stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue stream identification and scoping</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual contract selection and review</td>
<td>Preliminary accounting policy decision</td>
<td>Expanded contract review to support changes and lack thereof</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting and disclosure gap analysis</td>
<td>Transition method evaluation</td>
<td>Finalize new policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition method selection</td>
<td></td>
<td>Transition method selection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analyze accounting differences and potential financial impacts</td>
<td>Evaluate transition method selection requirements and data to support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follow TRG, FASB and IASB activities, AICPA and peer group implementation developments</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Understand and assess current transaction processing by revenue stream</td>
<td>Develop systems and business processes</td>
<td>Design systems and processes enhancements</td>
<td>Implement systems and processes enhancements</td>
<td>Go live in future state environment</td>
</tr>
<tr>
<td>Design and implement I/C changes</td>
<td>Test and remediate I/C changes</td>
<td></td>
<td>Sustain I/C environment</td>
<td></td>
</tr>
<tr>
<td>Full retrospective – interim processing environment, including cumulative adjustment and &quot;look-back&quot; transaction processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition contract and data approach, consideration and capture until future state environment is live</td>
<td>Modified retrospective – interim processing environment, including cumulative adjustment</td>
<td>Maintain legacy processing environment for modified retrospective disclosures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify new or different temporary differences</td>
<td>Document, train and execute new tax policies and procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify tax method changes and finalize new policy</td>
<td>File method changes and adjust transfer pricing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other considerations – I/C prices, transfer pricing and indirect taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess and implement changes to customer contracting process, legal terms or business practices, finance planning and analysis, and investor relations</td>
<td>Timely discussion of key implementation considerations with external audit team</td>
<td></td>
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</tbody>
</table>
Diagnostic activities: Revenue recognition

Project flow overview

Key to a successful diagnostic process is to understand the big picture first – that is, a diagnostic process focused on identification of key revenue streams and accounting topics of significant interest may in turn reduce effort on detailed contract reviews required to support desired accounting treatment under the new standard.

Governance objective and plan

Prepares gap analysis of current policies compared to new standard and identify potential impact to current business processes, systems and tax

Revenue stream identification and scoping

Individual contract selection and review

Train team and refine objectives

RRR tool

No expected change

Expected or potential change

Perform preliminary accounting policy decision

Transition method evaluation

Analyze accounting differences and potential financial impacts

- Follow TRG, FASB research projects, AICPA and peer group implementation developments
- Transition contract and data approach, consideration and capture until future state environment is live
- Assess and implement changes to customer contracting process, legal terms or business practices, finance planning & analysis and investor relations
- Hold timely discussion of key implementation considerations with the auditors

Project outputs

- Project plan incl. preliminary design and implement
- Results of scoping and surveys
- Key revenue streams
- Summary of overall scoping methodology
- Preliminary accounting policy and sample contract gap analysis
- Preliminary transition method determination
Process and systems impact assessment
Overview of diagnostic activities

<table>
<thead>
<tr>
<th>Business process and systems</th>
</tr>
</thead>
</table>

### 2. Understand current state
- 2.1 – Gather business information from documentation
- 2.2 – Gather business information from interviews
- 2.3 – Gather business information from surveys
- 2.4 – Analyze current state
- 2.5 – Document current state findings
  - Current state findings
  - e.g. Leading practices, KPI, and regulatory requirements

### 3. Define future state
- 3.1 – Validate key strategic objectives
- 3.2 – Identify and evaluate future state options
  - Selected criteria
- 3.3 – Document selected future state vision
  - Current state
- Future state

### 4. Identify gaps and prioritize improvement opportunities
- 4.1 – Identify gaps between current state and future state
  - Current state
  - Future state
- 4.2 – Define and prioritize solution components

### 5. Develop roadmap
- 5.1 – Roadmap
  - Roadmap
- 5.2 – Develop business case
- 5.3 – Develop project charter(s)
Practical considerations
Lease accounting change journey

1. Understand current state of leasing activities (e.g., lease procurement, administration, and accounting and reporting)

2. Identify changes resulting from the new leases standard (e.g., data gaps, processes, controls, systems and tax)

3. Design solution for accounting change (e.g., new accounting policies, processes, controls and systems)

4. Implement new accounting policies, processes, controls and systems to capture new lease data requirements and understand financial statement impact

5. Transition to the final leases standard

Understand the new leases standard
Lease accounting change journey

Diagnostic

Key to a successful diagnostic process is to understand the big picture first – that is, a diagnostic process focused on identification of key lease arrangements and understanding the current-state may in turn reduce the overall cost of implementation by allowing a company to make informed decisions, minimize unwanted surprises and costly missteps.

- Train team and refine objective
- Follow standard setter projects for leasing
- Assess and implement changes to lease contracting processes, legal terms or business practices, finance planning and analysis and investor relations
- Timely discussion of key implementation considerations with external audit team, including concurrent auditing

Project outputs

- Project plan incl. preliminary design and implement
- Results of scoping and surveys
- Key revenue streams
- Summary of overall scoping methodology
- Preliminary accounting policy and sample contract gap analysis
- Preliminary transition method determination
Implementation experience
What are we learning?

Planning

1. More than an accounting change
2. Program governance
3. Enabling technology

4. Understanding complex accounting
5. Early involvement of external auditors
6. Think beyond compliance
Scoping and contract analysis

1. Top-down approach
2. Effective surveying
3. Scoping rationale
4. Local operating management

Implementation experience
What are we learning?
Diagnostic outputs and next steps

1. Capture relevant information
2. Supporting absence of change
3. Multiple tax impacts
4. ERP gaps and opportunities
5. Modeling financial impacts
6. Next steps

Implementation experience
What are we learning?
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