



Privately Speaking

Insights on private company growth
from private company insiders

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Are you confident in your approach to revenue recognition?

By now, all private companies should be compliant with the new revenue recognition accounting standards (which came into force on January 1, 2019). But are you confident in the way your organization has implemented the new standards?

In this edition of Privately Speaking, we look at some of the “post-deadline” challenges facing private companies across industries and offer some ideas and insights based on our work with leading private companies.

Why should you care about revenue recognition?

The FASB and the IASB have developed new—largely converged—standards that essentially introduce a new model for determining how and when revenue is recognized. The new standards were developed to:

- Streamline current rules by providing a single framework that replaces existing industry and transaction-specific U.S. GAAP
- Introduce global and cross-industry consistency and comparability so financial statement users and preparers can compare companies in different industries and across borders
- Provide more transparency by introducing new disclosures.

Here’s the important part: The deadline for private company compliance passed on January 1, 2019. And our experience suggests that many companies have reason to lack confidence in their current state of compliance. Urgent action is needed.

Use your judgment

These standards are particularly good news for private companies with international footprints as revenue recognition is one area where U.S. and international accounting rules have largely converged in the past. However, while the new standards have set out to simplify what had been complex and inconsistent standards, “simple” is a relative term.

One major divergence from the past is that the standards are now more principles-based instead of rules-based. The old U.S. GAAP rules may have been labyrinthine, but once mastered, there were few ambiguities. Now, many companies face difficult and judgmental decisions regarding revenue recognition—and must find or develop ways to support and defend those decisions.



Our experience suggests that many private companies may have underestimated the complexity of compliance and continue to struggle to meet compliance deadlines. This isn’t just about changing a few accounting rules and processes—compliance will require you to think about how your current processes and IT systems support the new standards and take swift and considered action to fill the gaps.

—**Sal Melilli**,
National Private Markets
Group Audit Leader,
KPMG LLP



Are you confident in your approach to revenue recognition? 1

How are the new revenue recognition standards impacting functional leaders across your business?

Companies that have already implemented the new rules are finding that it's more than just a simple accounting exercise. Successful implementation of the new revenue recognition standards requires the participation of many different parts of the private market organization, including the following:



Controllers and CFOs need access to timely and accurate data to support revenue recognition and remain compliant with the accounting rules.



Accounting teams need new systems and processes to calculate and record revenue and design new period-close processes.



CIOs must supply the required data from multiple, perhaps disparate, systems while protecting data and avoiding breaches. IT systems may need to be upgraded or modified to meet the revised requirements.



Operational leaders may need to drive changes across the organization to ensure newly required information is being captured throughout processes in the order-to-cash lifecycle.



Finance will need to work together with product development and marketing to understand how to account for new products, bundles, and offerings under the new standard. Sales and contracting processes may need to be reconsidered.



Business leaders and founders will need to work out how to use the new data to uncover valuable business insights and better manage and understand their revenues.



The old rules may have been complex, but they were highly prescriptive. The new rules, on the other hand, are principles-based and require significant judgment. Private market companies will need to not only start making some difficult decisions regarding revenue recognition—they will also need to find ways to support and defend those decisions.

—**Brian Hughes**,
National Private Markets
Group Leader and Venture
Capital Coleader, KPMG LLP



Questions to ask yourself and your executive team



- 1 Has your company considered the impact of the new revenue recognition accounting standards on financial statements, disclosures, systems, processes, and controls?
- 2 Have impacts on areas such as performance measurement, compensation systems, and contracts been examined?
- 3 Does your company have specific plans for implementing the revenue recognition standards?
- 4 Does your company understand how the revenue recognition standards may affect its financial reporting metrics and perhaps its valuation in the market?
- 5 Does your company have the resources and knowledge to carry out the conversion effectively and efficiently?
- 6 Has your company assessed the need for an automated solution for revenue and cost accounting?
- 7 Is your company planning other transformational projects? Are these projects aligned with the new revenue recognition guidelines?

Want to avoid the pitfalls of implementing the new revenue recognition standards?

Check out this webcast featuring some of KPMG's top leaders from across the U.S.

Lessons learned adopting the new revenue standard



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Are you confident in your approach to revenue recognition? 2

How KPMG can help



With an integrated team of accounting and technology professionals focused on private market clients, our team can help your company understand the impact of the new accounting and regulatory requirements and implement the changes you need to successfully comply with the new standards.

For those organizations seeking a revenue recognition solution—or for those seeking to optimize their current processes—KPMG has partnered with Aptitude Software to provide the capabilities required to address the changes to your accounting, business processes, and supporting systems. Our alliance can help you to:

- Efficiently address regulatory changes with industry-leading accounting and technical practices
- Empower your finance and accounting organizations to support a fast-changing business landscape
- Streamline and automate revenue recognition processes to reduce close times and inaccuracies while getting access to insights faster.

KPMG's holistic approach covers the full lifecycle of revenue recognition standard implementation—from assessment to requirements and design to implementation. And our project management professionals can help you accelerate the implementation, ultimately reducing implementation and investment risks.

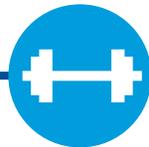
Starting your
business



Growing your
business



Strengthening
your business



Transitioning
your business



Privately Speaking focuses on the issues that matter most to privately held entities, including PE- and VC-backed companies.

KPMG's Private Markets Group understands what it takes to drive private company growth. In each edition of **Privately Speaking**, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

For more information, click here to visit our **Privately Speaking** web page.



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