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CFO JOURNAL

Tech Teams Rush to Catch Up as New Accounting Rule Looms

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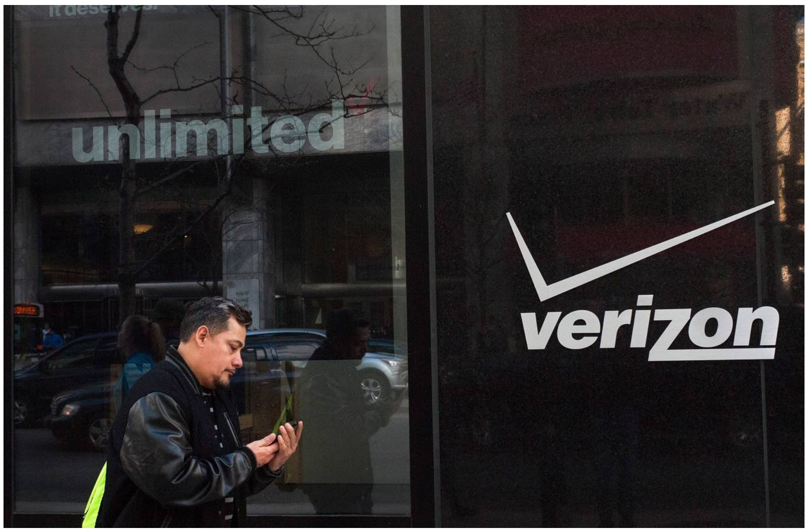

As the finance staff determined how the accounting needed to change, Verizon's software programmers wrote new code to transcribe information from the contracts to the financials. PHOTO: SCOTT OLSON/GETTY IMAGES

By Vipal Monga

June 5, 2017 5:30 am ET

A major accounting rule change is stressing finance staff and creating headaches for technology departments at some of the world's largest businesses.

Public companies like Verizon Communications Inc., VZ 0.18% ▲ Hortonworks Inc. and Workday Inc. WDAY -0.48% ▼ are facing higher costs as they spend months to comply with a new rule that will change how they book revenues.

For large corporations, the task is arduous and complicated: Accountants are scouring thousands of bills and contracts to determine if they must change how they book the sales for fiscal years beginning after Dec. 15.

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Meanwhile, tech departments are writing new code, upgrading their systems and investing in expensive new software as they work to ensure their increasingly automated finance operations can keep up.

It's not clear all of them can.

Almost a third of 300 finance and technology executives surveyed in March by Ernst & Young LLP said they are at risk of lagging behind in their rush to comply with the new revenue recognition rules. More than a fifth were concerned their finance and tech upgrades wouldn't be complete by the end of the year, leaving only a partially functioning system in place, requiring manual workarounds.

"Companies are finding it is very difficult to translate accounting rules from the new standard into usable business requirements," said John McGaw, a partner with Ernst & Young.

The U.S. Financial Accounting Standards Board, known as FASB, imposed the new rule because it wanted financial statements to more accurately depict the timing, uncertainty and volatility of doing business. The rule will align a company's booking of revenue with the sales of products and services that generate it. In theory, the new standard will allow investors to more easily compare revenue bookings between companies.

Corporations have been wrestling with the implications; many are still assessing how to apply the rules.

Telecommunications giant Verizon sells wireless service and handsets to more than 100 million customers, among its many businesses. The company has long relied on software that automatically logs the information for each contract on its financial statements.

After the accounting change, Verizon will credit more of its revenue to equipment sales and recognize it earlier. In effect, the company will account for revenue from many contracts differently from the way it bills customers, forcing it to reprogram its accounting software.

“It starts as an accounting exercise and ends up as an IT project,” said Tony Skiadas, controller for the New-York based company. “It uses up a lot of resources and puts pressure on the team.”

Verizon began the work three years ago, he said. He wouldn’t reveal how much the effort has cost, but employees have already spent thousands of work hours on the project. As the finance staff determined how the accounting needed to change, Verizon’s software programmers wrote new code to transcribe information from the contracts to the financials.

“Doing it all on a spreadsheet is not tenable,” said Mr. Skiadas.

The revenue rule was initially supposed to go into effect last year, but companies successfully lobbied FASB for a one-year delay. Even with that grace period, many are still struggling to meet the new deadline, said Tony Sondhi, an accounting consultant and a member of FASB’s Emerging Issues Task Force.

“For a large company, it’s not unusual to spend eight to 12 months implementing new software,” he said.

Large companies often have legacy IT systems cobbled together over decades and through multiple acquisitions. Changing something as integral as revenue recognition often means dismembering the complex systems and then putting them back together, he said.

Even companies with newer systems are finding the change taxing.

Hortonworks uses a cloud-based system by Oracle to manage its finances. The Santa Clara, Calif., data analytics business will be able to make changes to its system without tearing down and rebuilding a legacy back office system, said a spokeswoman.

Yet, the company’s administrative costs will rise, said Scott Davidson, the chief financial officer, during a February earnings call. He wouldn’t say by how much.

“It impacts every aspect of how you go to market and run the business, requiring changes in systems, processes and reporting both internally and externally to investors both public and private,” said Mr. Davidson in a statement emailed to The Wall Street Journal. “It’s a very heavy lift for us.”

Finance and human resources software developer Workday employed a team of five full-time accountants to review more than 6,000 contracts as it prepared for the new rule. The Pleasanton, Calif., company adopted the new standard early and changed its accounting on Feb. 1.

“The biggest surprise was how much work it was,” said Robynne Sisco, the finance chief. The staff had to manually reallocate revenue between subscription sales and consulting fees. The work took six months to complete, she said.

As some companies adopt the new rule, they will also restate financials going back two years, forcing them to audit multiple years' worth of results. The simultaneous audits made the work even more challenging, said Ms. Sisco.

Adding to the pressure: the 2019 deadline for companies to begin reporting leases on their financial statements. The lease accounting rule will create another round of IT upgrades as corporations skim contracts to collect information on leases they have signed and bring them onto their financials.

"It's another big technology commitment," said Ms. Sisco.

—Tatyana Shumsky contributed to this article.

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