Revenue recognition: Transition rules.

What happens on day one matters.

What's this about?

Adopting the new revenue recognition standard isn't just about applying the five-step model going forward. You also need to decide how you transition into it.

That decision will directly impact your reported results, comparability year-on-year and how stakeholders interpret performance. Get this wrong, and the numbers may tell the wrong story.

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The two options.

1. Full retrospective approach

This approach applies the new rules as if they have always been in place. In practice, this means restating prior year figures, reviewing historical contracts and providing detailed disclosures to explain the changes.

Businesses tend to favour this route where consistency matters. It allows for clearer trend analysis and gives stakeholders a more complete picture across periods.

The trade-off is the level of effort involved. It requires more work upfront, but results in a cleaner, more comparable long-term view.

2. Modified retrospective approach

Here, the new rules are applied from the transition date only. There is no restatement of prior periods. Instead, a one-off adjustment is made to opening reserves, with the impact disclosed in the current year.

This is often seen as the more practical route. It reduces the need for historical data and simplifies implementation.

However, it comes with a compromise. Comparability between periods is reduced, and the story behind the numbers can become harder to explain.

What's the real impact?

This isn't just a technical accounting decision. Depending on your approach, revenue may shift between periods, growth trends can appear distorted in the year of transition, and stakeholders may apply additional scrutiny to your results.

Internally, it can also create challenges when explaining performance across finance, leadership and external audiences.

Same business. Different story.

Where businesses get caught out

The complexity isn't evenly spread. Businesses with long-term or complex contracts, revenue recognised over time, or significant historical data requirements tend to face the greatest challenges. This is particularly true in sectors that rely on milestones or variable consideration.

In these cases, the transition becomes as much a data and systems exercise as it is an accounting one.

What should you be doing now?

The right approach depends on your business, but early preparation is key. This means stepping back to assess which transition route fits best, understanding the impact under both options, and reviewing the contracts that will drive the outcome. It also involves bringing auditors and stakeholders into the conversation early, and planning how the changes will be communicated.

This decision shouldn't be rushed, but it shouldn't be left late either.

How Wilson Partners can help

We work with clients to evaluate both transition approaches, assess the financial and commercial impact, and navigate the practical challenges that come with implementation. Just as importantly, we help ensure alignment between finance teams, auditors and stakeholders, so there are no surprises along the way.

Because how you transition is just as important to ensure you remain compliant

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