

REVENUE RECOGNITION

Complexity Simplified

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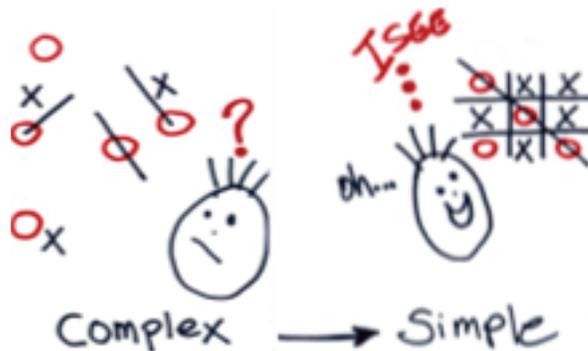
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Read Time: 3 minutes

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If you plan to try and account for revenue recognition (RevRec) under the new accounting standards ASC 605 and ASC 606/IFRS 15 using a spreadsheet, be aware that this is going to introduce more complexity to your financial processes, not less. It's a significant consideration. As finance contends with the new rules, interpretation of the regulatory landscape can be tricky and misstatements can have devastating consequences. But there is hope. New software applications and enhancements to existing ones are offering ways to simplify the complexities associated with the coming RevRec mandates, and in some cases making it almost as easy as accounting for fixed assets.

To achieve systematic compliance with the coming standards for RevRec, the CFO needs to be the one to lead the way in establishing the proper controls and selecting the appropriate application. Choosing the right application to automate the RevRec process can help a company efficiently and effectively manage revenue amidst today's complexities. When you configure the system to fit your business' RevRec requirements, NetSuite's advanced revenue management will systematically automate compliance with industry standards. By focusing on four key areas associated with the new rules, NetSuite provides a roadmap to configure the required functionality.





General Requirements

Single or multiple products or services in equal or varying amounts recognized at fixed or different intervals.

- Planning automation achieved via rules.
- Multi-currency impacts captured each period.
- Balance sheet accounts automatically adjusted.



Performance Obligations

Recognition of bundles of multiple products and/or services, can be met at different intervals or over different periods of time.

- Flexible revenue contracts through attributes.
- Dynamic fair-value pricing leveraging formulas.
- Auto-allocate fair-value prices across elements.



General/Industry-Specific

Companies are required to follow general and industry-specific guidance for revenue-generating activities.

- Percentage of completion method.
- Event driven revenue.
- ASC 605 guidance that spans industries.



Multiple Standards

Multiple-book accounting engine records and posts to all books concurrently eliminating data entry replication and manual intervention

- Specific fair-value prices/rules are posted in real-time.
- Foreign currency gain/loss at the transaction level.
- Real-time revenue management visibility for any book.

In addition to automating complex revenue processes, engaging key functions across the enterprise is essential to successfully addressing the new mandates. There are aspects of the new rules that require those closest to a particular business process or product/service offering to provide their input. For example, companies that bundle upfront payments, subscription payments, services, discounts, rebates, etc., with new *and* existing contracts require strong collaboration between finance, sales, marketing and legal. NetSuite's single platform and user-based roles simplify managing the workflow required as well as the need to balance compliance and efficiency with customer requirements, which are essential to retention and growth. Companies that need to provide these sorts of upfront payments and

discounts for customers need a modern day ERP that balances compliance with efficiency to remain competitive or they will face an increase in administrative costs and possibly non-compliant RevRec.

IP Licensing, Unusual Transaction Types Adds Complexity

The new regulations introduce additional challenges for companies that license their Intellectual Property (IP). Under the new rules, companies must specify whether their existing agreements fall into one of two categories—symbolic or functional. Each category has its unique requirements for RevRec. Finance, development, operations, legal and other functions will need to come together to ensure that the appropriate designation of each IP

agreement is achieved and that revenue is properly accounted for. NetSuite has designed the system to ensure these new requirements can be managed easily and efficiently. Once the rules and requirements are defined, the new IP contracts can be quickly entered into NetSuite with the previously defined parameters. NetSuite automates the entire process, helping to ensure that the current IP contracts are accounted for and revenue is accurately captured.

The new rulings also specify guidance on transaction types that are not considered mainstream, including but not limited to: non-cash consideration, rights of return, supplier repurchase, warranties, non-refundable upfront fees, consignment and bill-and-hold arrangements. In all cases, a company that can define the parameters and then integrate them into NetSuite, will benefit from streamlined and automated RevRec accounting—not unlike what is done for the purchase, addition and depreciation of fixed assets.

While compliance is the objective for the new and evolving RevRec rules and standards, servicing the customer remains paramount. Using traditional systems make *both* compliance and maximizing the customer experience very difficult to do. There are RevRec offerings on the market today, but they are stand alone and require integration with the financial system which only increases complexity. The essence of NetSuite is that all aspects of a business exist on a single platform—allowing any company to ensure RevRec compliance while maintaining customer satisfaction.

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