

Revenue Recognition and Oracle Receivables

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Agenda

- ◆ What Is Revenue Recognition?
- ◆ Revenue Recognition “Rules” and Advisories
- ◆ Key Concepts
- ◆ Factors That Impact Ability to Recognize Revenue - Questions
- ◆ Oracle and Revenue Recognition
 - Setups
 - Accounting for Deferred Revenue
 - Revenue Recognition Wizard

What is Revenue Recognition?

- ◆ Accounting for Income (Revenue) Earned as a Result of Sales to Customers
- ◆ Proper Revenue Recognition
 - Account for Revenue and Cost of Goods Sold in Accordance with the “Rules” and Advisories
 - Rules Vary by Product, Product Class, Arrangement...
 - ◆ Upon Shipment
 - ◆ Upon Completion of Other Activity
 - Additional Factors Also Impact Ability to Recognize Revenue
- ◆ Restating Revenue Potentially Disastrous for Company
- ◆ Who is Impacted? Everyone!

Revenue Recognition “Rules” and Advisories

- ◆ SAB 101, SAB 104
 - SEC – Staff Accounting Bulletin
- ◆ SOP 97, 98, 97-2
 - AICPA – Statement of Position
- ◆ FASB – Financial Accounting Standards Board
 - EITF – Emerging Issues Task Force

- ◆ IFRS – International Financial Reporting Standards
 - IASB – International Accounting Standards Board

- ◆ Hot Topic!
- ◆ Lots of Scrutiny and Visibility!

History

- ◆ SOP 97 (1997) – Impacted Software Industry Only
- ◆ SAB 101 (1999)– Expanded SOP 97 to Other Industries
- ◆ SOP 97-2, 98 – Update SOP 97
- ◆ SAB 104 (2003) – Update SAB 101
- ◆ IFRS (2006 - Now) – Attempt to Standardize Rules Globally
 - November 2011 – Revised Draft
 - ◆ Proposing a New Revenue Recognition Mode

GAAP vs. IFRS

U.S. GAAP Revenue Recognition	IFRS Revenue Recognition
Conceptual framework offers guidance (major project in process to provide revised standard for revenue recognition based on statement of financial position changes); specific guidance on limited matters (e.g., software development; construction)	Some specific guidance offered under IFRS (a separate standard on revenue recognition exists, unlike U.S. GAAP)
Generally must amortize revenue over service period, no up-front recognition under GAAP	More possibility for up-front revenue recognition when performance has occurred
Revenue recognition deferred on delivered part of multi-element contract if refund would be triggered by failure to deliver remaining elements	Revenue generally recognized on delivered part of multi-element contract even if refund triggered by failure to deliver remaining elements, if delivery is probable
Revenue-cost and gross-profit approaches to percentage-of-completion both allowed for long-term construction contracts; use of completed contract method under certain circumstances is required	If percentage cannot be reliably estimated, use of cost recovery method required; “revenue-cost” approach to percentage of completion mandatory; completed contract method banned
Joint project with IASB, likely will adopt new assets and liabilities approach to revenue recognition	Joint project with FASB, likely will adopt new assets and liabilities approach to revenue recognition

This material is excerpted from *Wiley IFRS 2010: Interpretation and Application of International Financial Reporting Standards*.

Key Concepts

- ◆ “Persuasive Evidence of an Arrangement Exists,
 - *Do You Have a Contract? PO?*
- ◆ Delivery Has Occurred or Services Have Been Rendered,
 - *Have You Shipped the Goods and/or Performed the Services?*

And

- ◆ The Seller's Price To The Buyer Is Fixed Or Determinable,
 - *Do You Utilize Standard Pricing?*
 - *Can't Get Away With Giving Stuff Away to Avoid Deferred Revenue*
- ◆ And Collectibility Is Reasonably Assured”
 - *Will The Customer Pay or Not?*

Sensitive Areas

◆ Deferred Revenue

- Maintenance/Support/Subscriptions
- Items Where Acceptance Is Required
- When You Can't Start Recognition Until Another Activity Occurs

◆ And

- Sales Of Future/Beta Items
- Arrangements (Related Sales)
- Exceptions to Standard Terms
- Return and Refund Policies

Revenue Recognition Questions

- ◆ Do You Have Items Where Revenue Can't Be Recognized Upon "Shipment"?
 - Which Items? Maintenance, Support...
 - Is This A Class Of Items? Individual Items? Or Both?
- ◆ Do You Have Items Where Revenue Can Be Recognized Upon "Shipment"?
 - In The Same Shipment or Bundled With "Deferred" Items?

Bundles and Orders

- ◆ Could You Have Some Deferred Items in a Shipment and Some Items Where Revenue May Be Recognized Immediately?
 - Separate Items?
 - In Bundles?
- ◆ Does The Person Entering The Order Know When The Revenue Should Be Recognized? Should They?

And More...

- ◆ What Determines When Revenue Will Be Recognized?
 - Standard For Certain Items?
 - Upon "Acceptance"?
 - Upon Install?
 - On Attendance of Training Class?
 - Over Passage of Time?
 - ???

When to Recognize?

- ◆ How Do You Know That The Event/Activity That Triggers Recognition (e.g., Acceptance) Has Occurred?
 - How Does This Impact When The Revenue Is Recognized?
 - How Do You Handle This Now?
- ◆ Potential Means of Notification:
 - ◆ Email?
 - ◆ Certificate from Customer? Sales Rep?
 - ◆ Class Attendance List?
 - ◆ Shipping Confirmation?

Terms and Returns

◆ Do You Have Standard Payment Terms?

- What Are They?
- Do You Defer Revenue For Invoices With Longer Terms?

◆ Do You Have A Return Policy? e.g., Full Money Back In 30 Days?

- What Is It?
- How Do You Allow For This Re: Revenue Recognition?

Samples and Beta Products

- ◆ How Do You Deal With Revenue For Invoices That You Don't Expect To be Paid? e.g., Samples, Bad Customer
 - If You Have Already Recognized Revenue?
 - If You Have Not Already Recognized All or Part of The Revenue?
- ◆ Do You Sell "Beta" Or Future Products?
 - Impacts Ability To Recognize Revenue too

And...

◆ Do You Use Standard Pricing?

- How Do You Deal With Variable Pricing and Revenue Recognition? How Will You Estimate Your Standard Price?

◆ How Does The Revenue Recognition Process Impact Your Reporting Of Cost Of Goods Sold?

- How Do You Handle This Now?
- Should be Interconnected

Arrangements/Contracts

- ◆ Do You Have “Arrangements” or Contracts Where Revenue For One Invoice/Order is Tied to Subsequent Shipments/Services? With Other Orders?
- ◆ How do You Control the Interdependencies and Insure that Revenue is Recognized Properly?



Revenue Recognition Setups In Oracle Receivables

Accounting Rules

- ◆ When and How Revenue Will Be Recognized
- ◆ Key Elements
 - Deferred revenue (Checkbox)
 - Number of Periods
 - % By Period
 - Can Specify Dates in Periods e.g., 15th
- ◆ Create As Many Combinations as You Need!!!

Define Items

- ◆ Assign Accounting Rules to Applicable Items
 - Accounting Tab – Accounting Rule
- ◆ Define Items Based on Revenue Recognition Rules
 - 12 Month Maintenance
 - 18 Month Maintenance
- ◆ Item Committee?

System Options – Revenue Policy Tab

- ◆ Standard Refund Policy (# of Days)
- ◆ Payment Term Threshold (# of Days)
- ◆ Select Credit Classifications for Deferring Revenue (3 Options)
 - e.g., High Risk Customers

(Note: in 11i – no Impact)

Standard Deferred Revenue Example

- Invoicing Rule = Bill in Advance
Invoice for \$3,000.00
Invoice Date 4-DEC-11
GL Date 4-DEC-11
- Accounting Rule:
Type: Accounting, Fixed Duration
Period : Monthly
Number of Periods : 3
For each period : I specified 33.3%
(33.4 for the Last Period)

Accounting Entries

Period	Debit	Credit
December	Accounts Receivable \$3000 Deferred Revenue \$1000	Deferred Revenue \$3000 Revenue \$1000
January	Deferred Revenue \$1000	Revenue \$1000
February	Deferred Revenue \$1000	Revenue \$1000

Manually Control Revenue Recognition

◆ Utilize Revenue Recognition Wizard (11.5.9+)

■ Pros:

- ◆ Flexible
- ◆ Control Future And Past Items (Account for Changes in the Current Period)
- ◆ All Lines or a Single Line at a Time

■ Cons:

- ◆ Single Invoice at a Time
- Can Use to Adjust Sales Credits Too

Revenue Recognition Wizard Example (R11.5.9+)

- ◆ “Revenue Accounting and Sales Credits Screen”
 - Control – Accounting – Revenue Accounting
 - By Invoice!
- ◆ Schedule Revenue
- ◆ Unschedule Revenue
- ◆ Impacts:
 - All Lines or Single Line or Item
 - Adjust All, Amount or Percentage of Revenue
 - Assign a Reason

Potential Uses of Wizard

- ◆ Big Ticket Item Awaiting Acceptance
- ◆ Already Recognized but Issue so Need to Back Out
- ◆ Special Payment Terms
- ◆ No Longer Collectable or Suspect Not

Conclusions

- ◆ Know the Rules and Advisories
- ◆ Policies Re: Recognition Exceptions
- ◆ Verify That Setups are Proper
- ◆ Use Wizard as Needed
- ◆ Watch Changing Rules



◆ Questions?

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