SAP Revenue Accounting & Reporting
IFRS 15

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SAP has launched Revenue Accounting & Reporting, an Add-on that has been developed primarily to reflect the requirements driven by a new revenue recognition standard and which acts as a dedicated sub ledger for revenue accounting. The standard IFRS 15 - Revenue from Contracts with Customers - is introduced by the IASB (International Accounting Standards Board) in 2014 and provides accounting requirements for all revenue arising from contracts with customers.

It is meant to replace virtually all existing revenue recognition requirements in IFRS and US GAAP with a single framework which is based on five steps:

(1)   Identify the *contract(s) with the customer*

(2)   Identify the *performance obligations* in the contract

(3)   Determine the *transaction price*

(4)   *Allocate the transaction price* to the performance obligations

(5)   *Recognise revenue* when (or as) each performance obligation is satisfied

IFRS 15 is effective for annual periods beginning on or after 1 January 2018 and is likely to affect the measurement, recognition and disclosure of revenue of all entities that enter into contracts to provide goods or services to their customers. This implies huge change and companies might face difficult challenges in order to prepare and apply the new rules.

• The timing of revenue and profit recognition will hit companies across different industries. For entities dealing with various multiple offerings (i.e. sign up for annual plan and get devices for free), the main challenge will be to split bundled offers into individual performance obligations and allocate the transaction price accordingly.

• A thorough analysis of existing contracts is necessary to conclude whether one or multiple performance obligations exist. Depending on when and under which (organisational) circumstances a contract was made, it might be impossible or very difficult to identify the required information and the result might be fuzzy.

• Judgement is needed when it comes to what revenue recognition pattern is appropriate for entities which apply to recognition methods, such as the percentage-of-completion method. Given contracts that account on a 'macro-promise' level (i.e. to build a road), the main question is whether all of the promises within this contract should be bundled together and revenue recognized over time or if unbundling is needed and single performance obligations should be recognized upon completion.

• Applying the new rules may result in significant changes to the profile of revenue and cost recognition. As a consequence, entities will need to consider implications including changes to key performance indicators, changes to the profile of tax payments as well as changes to compensation and bonus plans.

It is obvious that the search and processing of the relevant information will result in huge efforts and the preparation on the new standard will deeply impact sales support, billing and accounting systems in existing ERP environments, where the relevant business processes and master data are mapped. Therefore, we recommend to define and coordinate the necessary steps and measures promptly.

SAP supports the implementation of these functional challenges with the integrated component Revenue Accounting & Reporting (RAR), which receives operative data from the components integrated with it (i.e. sales orders, invoices and order fulfillments, such as goods issues taken from SD module) and — in a rule-based framework - generates the corresponding accruals, deferrals, expenses and revenue postings, which are then transferred to the modules FI and CO-PA and thus keep these components in sync at any time.

We have implemented the basic configuration and prepared the processes around the SAP Add-On Revenue Accounting & Reporting in order to demonstrate an example with you and to pave your way to a straight implementation of the standards in your SAP system.

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