

Revenue reporting and recognition with ASC 606 and IFRS 15



ASC 606 and IFRS 15 overview

The Financial Accounting Standards Board (FASB) and its international counterpart—the International Accounting Standards Board (IASB)—introduced ASC 606 and IFRS 15 to ensure that revenue recognition standards were consistent across different industries, geographies, and markets. As these standards apply to “revenue from contracts with customers”, entities in virtually all industries will be significantly affected by the standard.

ASC 606 and IFRS 15 cover sales processes from end-to-end. Dealing with everything from contracts to pricing and quoting, as well as billing, and revenue recognition (its primary focus being revenue recognition). The historical inconsistency in how each company recognized their revenue became more noticeable with the rise of newer models such as subscription-based offerings, and both ASC 606 and IFRS 15 aim to create a globally consistent standard.

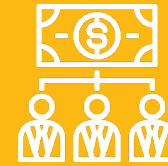




53%

of finance executives believe that streamlining their billing and recognition process will significantly raise their enterprise revenue.

Complying with ASC 606 and IFRS 15 in 5 steps



step 1

Identify the contracts with a customer

step 2

Identify the performance obligations in the contracts

step 3

Determine the transaction price

step 4

Allocate the transaction price to the contract's obligations

step 5

Recognize revenue as the relevant obligations are satisfied

Step 1: identify the contracts with a customer

Using an agreement between two or more parties that creates enforceable rights and obligations, you can associate contracts with the customers they apply to (i.e. not partners). Modifications to a contract may necessitate that a new one is created. If there are multiple contracts dependent on each other, or contracts which are entered at or around the same time, they may be treated as a single contract.

A contract agreement must have:

- Commercial substance
- Approval by all parties
- Identifiable rights for goods or services
- Specific payment terms
- A probability of collection



Step 2: identify performance obligations

A performance obligation is a promise (either explicit or implied) in a contract with a customer to transfer goods or services. For contracts containing multiple items, each good or service must be accounted for separately if they are distinct and meet these two conditions:

1. The customer can benefit from the obligation on its own or with the resources readily available.
2. Each obligation is distinct in the contract terms and can be identified separate from the other obligations.

Step 3: determine the transaction price

A transaction's price must be determined at the contract's inception and reassessed every reporting period. According to the standards, the price is defined as the amount of consideration that an entity is entitled to for transferring goods or services to a customer.



Step 4: allocate the transaction price

Allocating the transaction price is done based on the standalone selling price of the specific performance obligation in the contract. A standalone selling price is the price at which the good or service would sell separate from the other goods or services within a contract. In the case that this is not directly observable, an estimate based on either an adjustable market assessment value, cost plus margin, or the residual method can be used.

To calculate the allocated transaction price, the ratio of the obligation's standalone selling price of the total of each item's standalone selling price and then multiplied by the transaction price for non-separate performance obligations such as the example below:

Performance obligation	Standalone selling price	Allocated transaction price
Server	\$3,000	\$2,500 $((\$3,000 / \$6,000) * \$5,000)$
Printer	\$1,200	\$1,100 $((\$1,000 / \$6,000) * \$5,000)$
Maintenance	\$1,800	\$1,500 $((\$1,800 / \$6,000) * \$5,000)$
Total	\$6,000	\$5,000

Step 5: recognize the revenue upon satisfaction

ASC 606 states: "An entity shall recognize revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset."

The obligation may be satisfied at a single point in time or it may be satisfied over a longer period of time and require deferral. An obligation is satisfied over time if performance creates or enhances an asset over time while the customer controls it, or if the obligation's benefits are received as performance takes place.

Some indicators that a customer has control

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.



Risks that the global revenue recognition standards solve



Having different systems for each country or company would lead to longer auditing periods, and higher chances of error.



Without governance, there is a virtually infinite amount of ways to recognize the revenue from each contract, potentially causing malpractice.



Without a unified authority, companies seeking advice will not be able to find a singular true answer to help them allocate revenue properly.



Having one global standard allows accounting software companies to create widely-available tools needed to streamline revenue recognition.



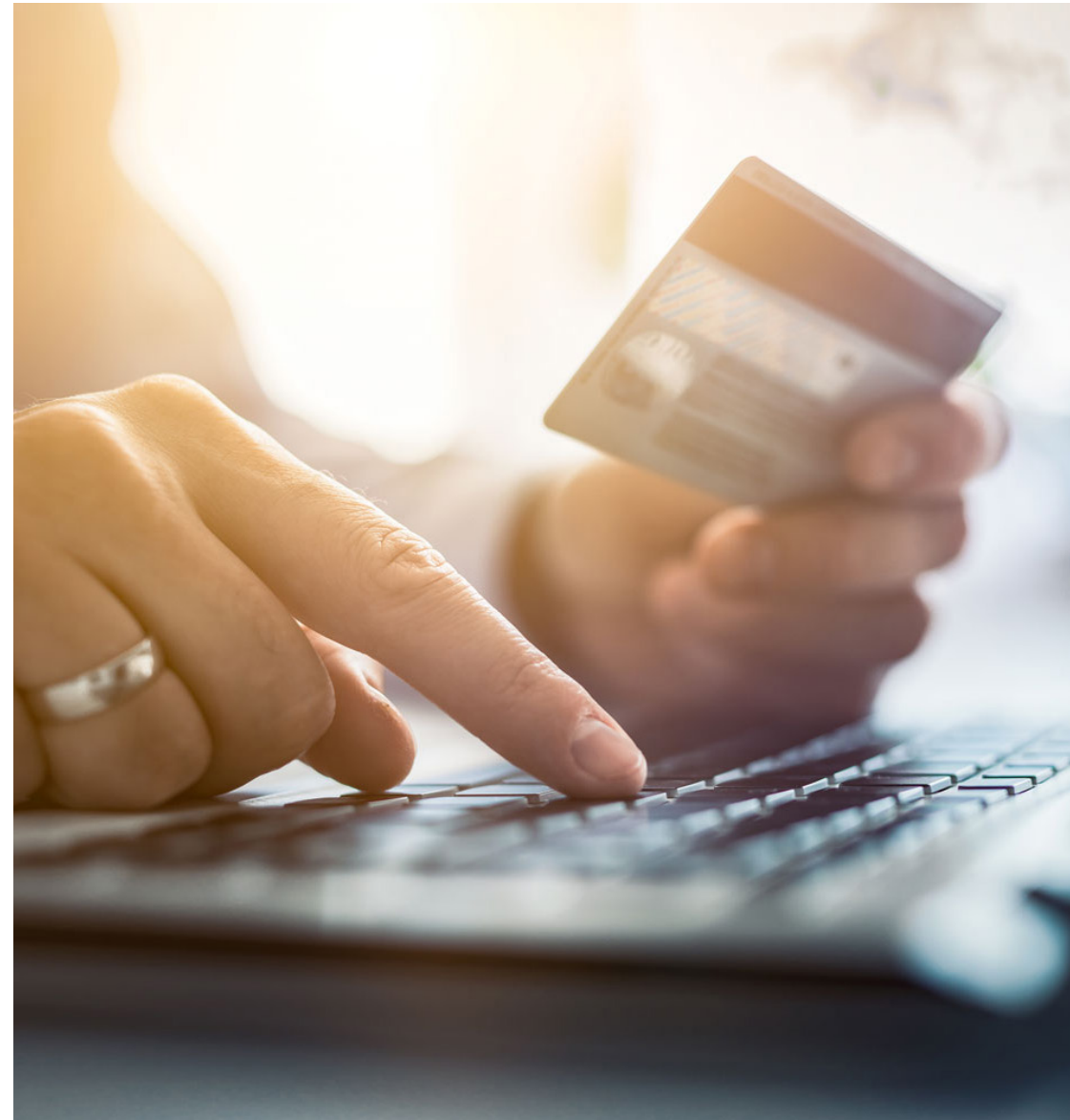
Using Microsoft Dynamics for compliance

Complying with ASC 606 and IFRS 15 is much more challenging without an accounting solution capable of allocating revenues and expenses to different sources.

With most out of the box accounting solutions—including Microsoft Dynamics ERPs—the intelligence and flexibility required is missing.

The screenshot displays the 'Billing schedule' form in the Microsoft Dynamics Finance and Operations application. The form is titled 'Billing schedule header' and contains various fields for configuring a billing schedule. The 'Billing schedule group' is set to 'Default'. The 'Billing schedule number' is 'USMF-000103'. The 'Customer name' is 'Cave Wholesales'. The 'Currency code' is 'USD'. The 'Partner name' is 'Cave Wholesales'. The 'Billing interval' is '1'. The 'Start date' is '9/1/2019'. The 'End date' is '8/31/2020'. The 'Number of periods' is '12'. The 'Billing frequency' is 'Monthly'. The 'Billing schedule status' is 'Active'. The 'Billing schedule description' is 'VADIRAL Demo'. The 'Customer account' is 'US-004'. The 'Address' is '400 White Road, Alhambra, CA 91801, USA'. The 'Billing schedule lines' table at the bottom shows a single line item for 'SaaS Software' with a quantity of 1 and a price of 50.00.

Item number	Product name	Vendor ID	Item type	Start date	End date	Attachments	Revenue rate	Icon	Deferred	Billing frequency	Billing interval	Quantity	Unit	Price
1	SaaS Software		Standard	9/1/2019	8/31/2020		0			Monthly	1	50.00	us	Standard



Subscription Billing Suite (SBS)

Binary Stream's Subscription Billing Suite is a comprehensive solution to billing, deferrals, and recognition that enables compliance with ASC 606 and IFRS 15. While the five step model for compliance is theoretically applicable to all companies, a one-size-fitsall approach does not yield the best results. Subscription Billing Suite is an intelligent solution built with flexibility in mind to ensure that it meets your company's unique needs.

Aside from enabling compliance, it streamlines the entire quote-to-cash process at every step from billing and invoicing to reporting and forecasting. By providing consistent and reliable invoicing for a wide range of pricing models, it allows you to take control of your deferrals process and recognition schedules at the line item level within Microsoft Dynamics 365 Finance, Dynamics 365 Business Central, and Dynamics GP.

The screenshot displays the Subscription Billing Suite (SBS) interface within Microsoft Dynamics 365 Finance. The main window shows a 'Billing schedule lines' table with columns for item number, product name, vendor ID, item type, start date, end date, and advanced deferrals. A 'Transaction deferral' panel on the right allows users to configure deferral settings, including account numbers and schedules.

Item number	Product name	Vendor ID	Item type	Start date	End date	Advanced deferrals
✓ SaaS Software	SaaS Software		0 Standard	9/1/2019	8/31/2020	
✓ SaaS Software	SaaS Software		0 Usage	9/1/2019	8/31/2020	
✓ Pro Services	Pro Services		0 Standard	9/1/2019	8/31/2020	
Service Contract	Service Contract		0 Standard	9/1/2019	8/31/2025	
Hardware	Hardware		0 Milestone	9/1/2019	8/31/2020	
Fee	Fee		0 Standard	9/1/2019	8/31/2020	
TieredItem	TieredItem		0 Usage	9/1/2019	8/31/2020	
FlatTierItem	FlatTierItem		0 Usage	9/1/2019	8/31/2020	

Transaction deferral

Deferral: Yes

ACCOUNTS

REVENUE	DISCOUNT	CONSUMPTION
DEFERRAL ACCOUNT	DEFERRAL ACCOUNT	DEFERRAL ACCOUNT
Account number: 230001	Account number: 180295	Account number: 180295
Account name: Deferred Revenue	Account name: OTHER Assets	Account name: OTHER Assets
SHORT-TERM ACCOUNT	SHORT-TERM ACCOUNT	SHORT-TERM ACCOUNT
Account number: 230001	Account number: 180295	Account number: 180295
Account name: Short Term Deferral	Account name: Short Term Def - Discount/COGS	Account name: Short Term Def - Discount/COGS
RECOGNITION ACCOUNT	RECOGNITION ACCOUNT	RECOGNITION ACCOUNT
Account number: 401100	Account number: 401100	Account number: 401100
Account name: Product Sales	Account name: Discount	Account name: Discount

SCHEDULE

Schedule type: Straight line (selected) Event based

Template: RSC

Allocation type: Percentage of completion

Expiration account: [blank]

Buttons: + Insert + Append - Delete Recalculate

About Binary Stream

Our Microsoft Dynamics ERP solutions are designed to simplify your various accounting procedures for Multi-Entity Management, Subscription Billing, Property Management, and more. These enterprise-grade ERP add-ons work seamlessly with your Dynamics ecosystem to help your organization improve productivity and propel growth.

We are an award-winning non-selling Microsoft Gold Certified ISV with 20+ years of experience creating scalable solutions for over 1900 customers across 30+ countries in the finance, healthcare, hospitality, real estate, manufacturing and software industries.

Start enhancing your on-premise or cloud-based Microsoft Dynamics 365 platform to do more with Binary Stream. Ask your ERP service provider for more information or visit binarystream.com to learn more.



Want to learn more about subscription management?

Read our complete guide for insights into recurring billing, subscription page psychology, and plenty more.

Discover more

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