Revenue reporting and recognition with ASC 606 and IFRS 15

Binary Stream

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.

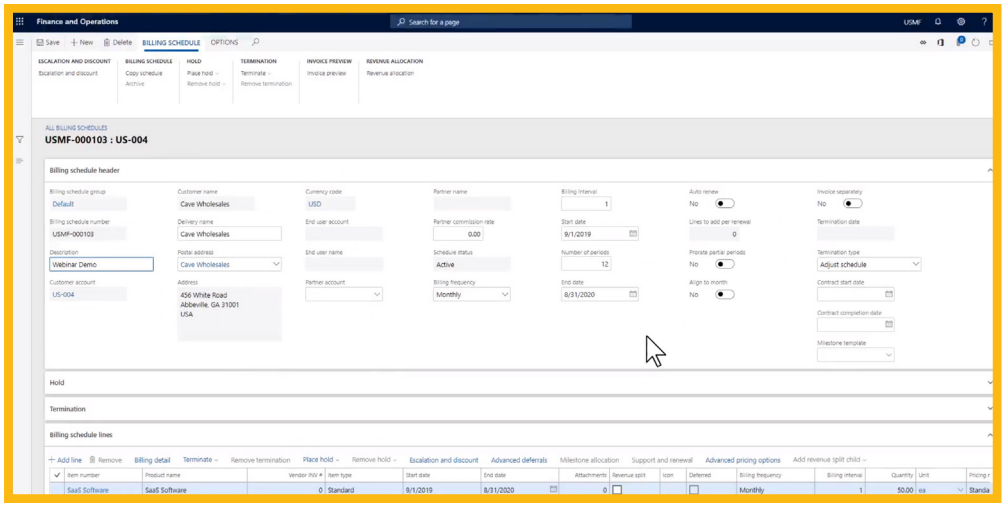
Risks that the global revenue recognition standards solve

- 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.

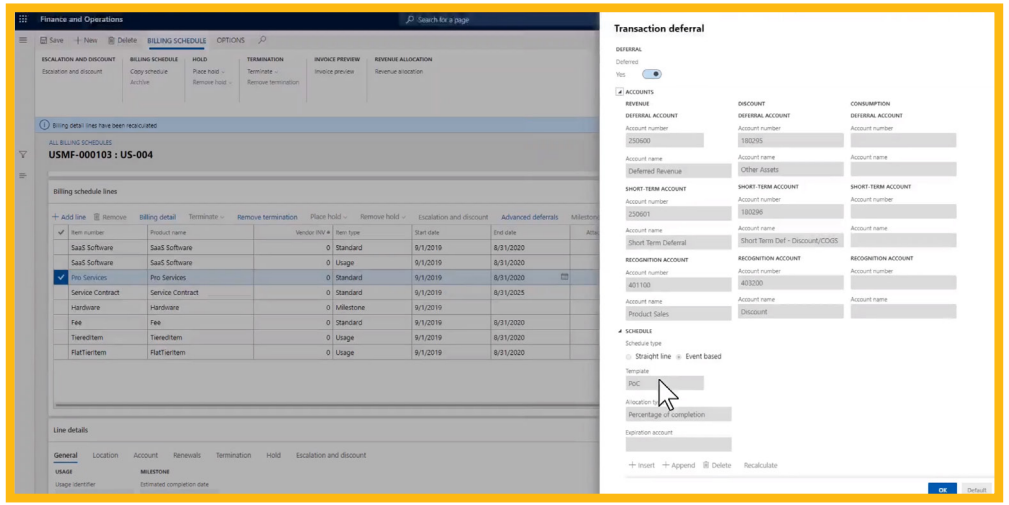
With most out of the box accounting solutions—including Microsoft Dynamics ERPs—the intelligence and flexibility required is missing.

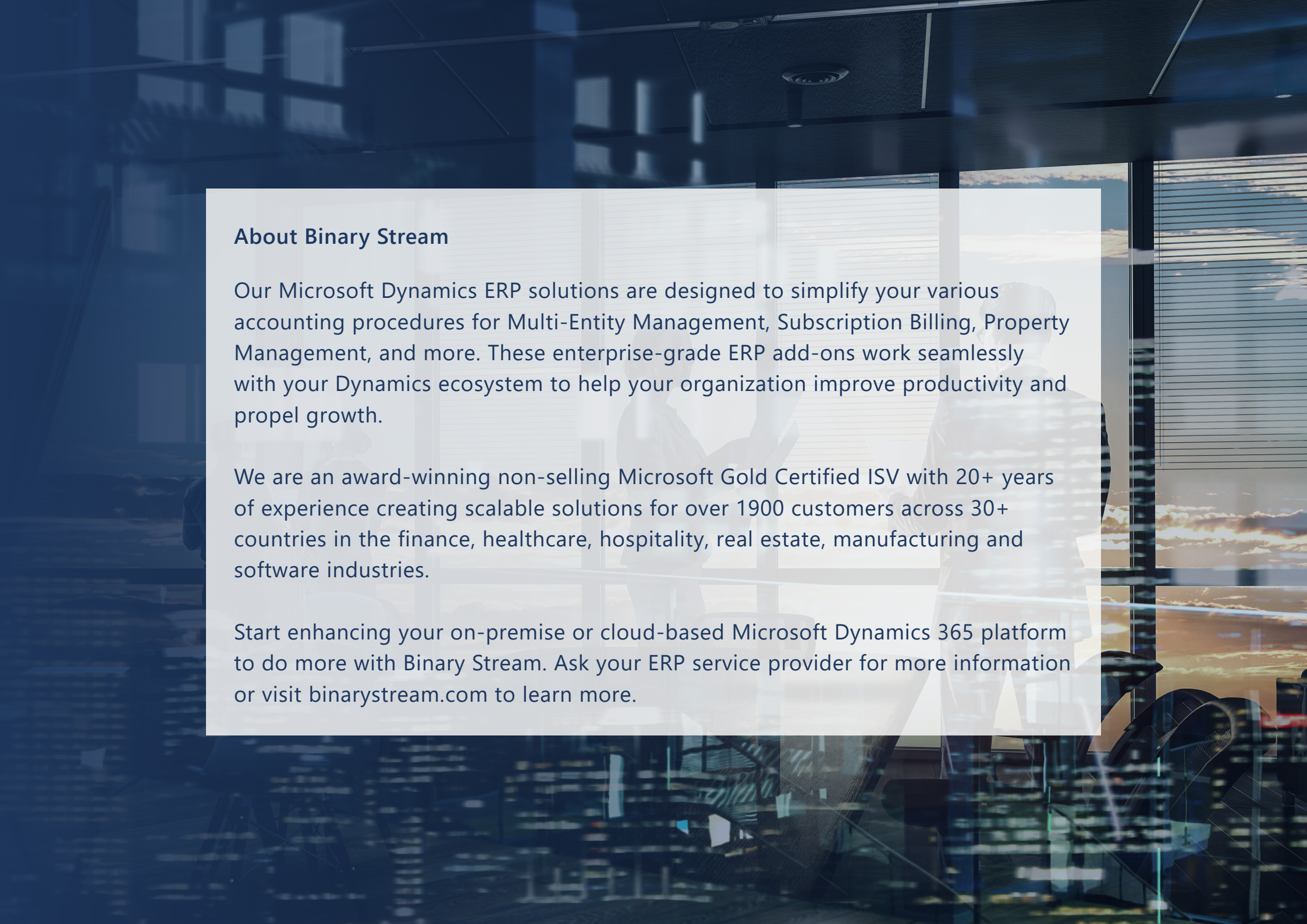


Subscription Billing Suite (SBS)

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.





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

Binary Stream Software inc.
800 - 7300 Edmonds Street
Burnaby, BC V3N-0G8
Canada

+1 604 522 6300
www.binarystream.com
sales@binarystream.com