High Performance Finance:
Enabling Revenue Oversight through Process and Organizational Excellence
Introduction

With the announcement of the new converged standard on revenue recognition on May 28, 2014, the Financial Accounting Standards Board and the International Accounting Standards Board ("the Boards") have concluded their multi-year effort to streamline and improve this key area of financial reporting.\(^1\) In the process, the Boards have adopted sweeping changes to revenue accounting regulations with significant impacts to a broad spectrum of companies across many industry groups in the jurisdictions under US Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). In light of the new standard, chief financial officers (CFOs) will need to re-evaluate their current revenue accounting processes, organization and systems and assess what changes are required to maintain compliance with the new guidance for annual reporting periods beginning December 15, 2016.\(^1\)
While revisions to accounting guidelines are frequent and companies are typically adept at conforming to new guidance, in our view this particular change is fundamentally different for a number of reasons:

- The scope of the new standard on revenue recognition is significant as it seeks to encapsulate the current complex, detailed and disparate revenue guidelines into one set of guidelines standardizing revenue accounting treatment for economically similar transactions.

- The use of bundled arrangements, complex pricing arrangements and a variety of sales channels result in revenue accounting becoming a highly complex process and affecting many company functions such as finance, information technology, human resources, sales, legal, and supply chain.

- Many enterprise resource planning (ERP) systems currently do not support key aspects of the new guidance. Thus, CFOs may need to explore the potential use of bolt-on and custom technical applications for either a permanent solution or to bridge the gap until ERP vendors have put compliant technology in place.

- The time between the announcement and the effective date of the guidance appears to be deceptively long. This may provide a false sense of security to companies with respect to the time they have to comply with the new guidance. The degree of change required for some companies may be significant and entail fundamental changes to process, organization and technology, so in our view a proactive approach to assessing the implications of this guidance to the business is paramount.

In addition to assessing the impacts of the new guidance on the organization’s end-to-end revenue process and the supporting technologies, we believe CFOs should also be cognizant of:

- The likely need for additional data and analytics to support the greater requirement for estimates and judgments under the new regulations.

- The need to have data and processes which will support and reconcile the external financial reporting view, as required by the new statutes, along with a management view which highlights the economic profit of the transactions.

- The potential benefits of investing some effort to assess current contract governance and standardization in the company.

- The opportunity to assess the current talent and organization and validating the need for a balanced skill-set in technical accounting, contracting, product management and data analytics to support future revenue processes.

Most importantly, though, progressive CFOs will likely see the need of adapting to the change in compliance as a welcome opportunity to explore broader value-generating initiatives beyond the revenue accounting process and thereby leverage the need for compliance into potential cost savings and greater effectiveness in managing the company’s business.
Impacts of New Regulations

The core principle of the new guidance is based on the expected entitlement of consideration in exchange for goods and services, and it needs to be applied uniformly to all companies irrespective of industry affiliation.

At this time, there are a number of publications available from a variety of sources with detailed discussions on the substance and the technical accounting implications of the new guidance. These will provide solid reference points for the specific technical accounting considerations that may be important to companies in their respective industries.
For our purpose, we will simply call out the 5-step model put forth by the Boards to determine revenue recognition for revenue derived from contracts with customers:

1. Identify the contract with a customer.
2. Identify the performance obligations (promises) in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the reporting organization satisfies a performance obligation.

There are three key areas of complexity in this model with the potential to require significant change in terms of revenue accounting processes and technologies:

1. Reliance on estimates and judgment in various stages of the revenue recognition process, such as determining consideration and fair value for the purpose of inclusion in the transaction price.
2. Management of variable consideration — whereas variable consideration such as bonuses, penalties and refunds were often deferred, they will now need to be included as an estimate in the consideration for performance obligations if they are probable.
3. Compliance with a cohesive set of financial disclosure requirements including disclosures for revenue breakouts, contract balances, performance obligations, and significant judgments or changes in judgments made in applying the requirements to contracts.

Based on our broad client experience across industry groups, the impacts of the new standard are far-reaching from an industry perspective and Figure 1 outlines examples of potential impacts.

**Figure 1. Potential Industry Impacts Related to Revenue Recognition Guidance**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Potential Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications</td>
<td>• Elimination of contingent revenue cap&lt;br&gt;• Variable consideration in network access contracts&lt;br&gt;• Additional performance obligations may exist (activation and installation services)</td>
</tr>
<tr>
<td>Technology</td>
<td>• Elimination of software-specific guidance&lt;br&gt;• Elimination of residual method&lt;br&gt;• Variable consideration in SaaS arrangements&lt;br&gt;• 'Right to Use' versus 'Right to Access' software&lt;br&gt;• Additional performance obligations may exist (online video games)</td>
</tr>
<tr>
<td>Pharmaceuticals and Life Sciences</td>
<td>• 'Right to Use' versus 'Right to Access' intellectual property</td>
</tr>
<tr>
<td>Aerospace and Defense</td>
<td>• Treatment of long-term construction and maintenance contracts</td>
</tr>
<tr>
<td>Engineering and Construction</td>
<td>• Revenue recognition based on transfer of control&lt;br&gt;• Variable consideration in milestone arrangements (performance bonuses)</td>
</tr>
<tr>
<td>Retail</td>
<td>• Impacts of customer incentives and loyalty programs</td>
</tr>
</tbody>
</table>

Source: Accenture, based on our experience and analysis of publicly available documents and publications, December 2014

Naturally, the change impact will be dependent on the nature of a company’s revenue arrangements and companies in some industries will experience greater change than others. However, it is our view that all companies will be impacted to some degree, and this by virtue of the new disclosure requirements which may require changes to systems and processes to enable compliance with the new regulations.
Finally, there are also significant cross-functional impacts that should be considered as companies assess the process and organizational change required to comply with the new regulations. Figure 2 gives an indication of the breadth of the affected functional business units and business partners as well as the need to consider corporate policies, contract and data governance, and the adequacy of enabling technologies.

In summary, we see the changes to revenue recognition guidelines as far-reaching not only in terms of the actual scope of the guidelines themselves, but also as they transcend the traditional finance boundaries of the revenue accounting process, and can thus demand a complete examination of the end-to-end revenue process. The goal here is not just compliance but also the transformation of the company’s revenue function through cost optimization, better shareholder stewardship through robust and reliable revenue reporting, and concrete value-generation for the business through extending compliance-mandated capabilities such as analytics to other business functions.
In our view, the key building blocks of a high-performance revenue function include:

- A leading-practices infused process;
- Technology that enables compliance and brings a sophisticated level of automation to the revenue function; and
- An effective organization with a clear mandate of functional stewardship, optimal management of talent, and a clear understanding of roles and responsibilities.

Let us examine each of these building blocks in turn.
Compliance with the new revenue standard can be a very costly and complex endeavor for many companies. This is due primarily to the fact that revenue accounting derives its primary inputs from the “Opportunity to Cash” and “Supply Chain” process areas and then in turn outputs revenue information to numerous other process areas, such as financial reporting, financial planning and analysis, forecasting, and tax and statutory reporting. Developing revenue processes and systems may be straightforward or highly complex depending on the ability of the related process areas to provide and receive the required information.

Revenue accounting is not a standalone process area to be viewed in isolation. As such, Accenture encourages its clients to adopt a transformational approach to revenue accounting compliance projects. In our experience, revenue accounting involves over 20 finance process areas. When you consider that these processes may be supported by disparate systems and data structures, compliance risk can increase exponentially. A broader transformational journey may be required to provide compliance but also to focus attention on driving cost savings through standardization and simplification of other process areas.

Analytics is a common component of an overall revenue solution. This becomes even more critical under the new guidelines. Analytics solutions typically are used to derive the fair value prices of products, services, licenses and other sales transactions. A leading practice in our view is to extend this functionality beyond compliance to predictive models to support go-to-market strategies and customer and profitability analysis. In our experience, a leading practice revenue solution uses analytics not only for compliance but to drive additional value through more informed decision-making.

As a strategic initiative, companies may achieve the following benefits from a revenue accounting solution:

- Reduced risk of non-compliance.
- Improved reporting and transparency.
- Improved Sarbanes-Oxley controls and testing.
- Streamlined and standardized contract, customer, and product information to improve compliance in a cost effective manner.
- Facilitated close process through an integrated end-to-end revenue process.
- Improved and expanded analytics for customer and profitability reporting.

End-to-end Revenue Accounting Process View

Figure 3 provides an illustrative view of an end-to-end revenue accounting process typically seen in companies with high dollar, low volume transactions and highly complex revenue contracts with customers. Many factors complicate the end-to-end view and each company will have a different set of challenges. For example, companies with standardized product and contract data may be able to identify performance obligations and allocate contract price with fewer process steps than companies that have more variability in their data set.

In our view, the process areas in Figure 3 are those typically impacted by the new revenue recognition guidance. We evaluate the impacts by process area, looking for integration and approaches to streamlining, standardizing and simplifying process areas.

Key Process Recommendations

As shown in Figure 4, there are two very simple questions that the revenue process needs to answer: how much revenue can be recognized and when can it be recognized?
Figure 3. End-to-end Revenue Process View – Example

Over 20 processes across Order to Cash, Supply Chain, Revenue Accounting and Record-to-Report are impacted

Figure 4. Revenue Recognition Process Framework

How much revenue can be recognized?

Where can revenue be recognized?

Source: Accenture, December 2014
The complexity of the response is driven by a number of process enablers. They are:

1. Cross-functional revenue contract governance
2. Standardized revenue contracts or revenue contractual terms
3. Standardized product offerings
4. Analytics for variable consideration management
5. Analytics for fair value derivation
6. Revenue recognition automation
7. Disclosure reporting automation
1. Provide cross-functional revenue contract governance:

Complexity in revenue accounting is often directly related to complexity in contracts with customers. Companies can manage this complexity through a contract governance program, with global and cross-functional representation. Leadership of the governance program by a cross-functional Steering Committee is suggested with overall responsibility for contract policies and approval authorities. This cross-functional Steering Committee would have representation from finance (e.g., accounting, tax, and treasury), information technology, human resources, sales, legal, and supply chain.

A strong governance routine can help garner executive and board support early on and avoid unnecessary revenue complexities and unforeseen consequences resulting from non-standard contractual terms and conditions. Strong contract governance helps guard against unnecessary proliferation of non-standard contracts and provides efficiencies in the contracting process by minimizing and streamlining approvals for non-standard terms.

Work flow technologies, integrated with sales opportunity management systems, can support contract drafting, electronic storage of contracts, and automatic routing of contracts for approvals. The technology can also facilitate and control contract approvals. Electronic document storage systems can provide for a repository of legal documents for global access and version control.

2. Standardize contractual terms:

Optimizing the use of standardized contracts is suggested as a leading practice. Consistency in accounting treatment can be improved and the volume of contracts to review is often minimized. In short, standardized contracts help promote process efficiency. This process often works in situations where sales are standard and of high transaction volume.

In situations where contract standardization is not feasible, standardization of contractual clauses may be possible. Some companies flag non-standard clauses with revenue recognition implications for escalation and approval. This process can help streamline the revenue accounting process and focus attention on high dollar deals; however, we suggest care and attention be focused on contractual clauses that could delay revenue recognition.

To align with the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board’s (IASB) process, we suggest that contract lines (or sales order lines) represent one product, service, license or other sales item. Where feasible, providing this specificity to contractual terms may simplify and streamline the revenue accounting processes in two areas. First, by having a contract line represent one performance obligation, additional accounting steps may not be required to separate or combine contractual terms to identify performance obligations. Second, the new guidelines distinguish between the customer contract and a contract for accounting purposes, requiring companies to combine or bifurcate customer contracts for revenue accounting purposes. This process step may be minimized or eliminated through contracting processes.

3. Standardize product offerings:

Another leading practice is to standardize product offerings. These offerings refer to any product, service, license or sales item offered to a customer in the normal course of business. One key requirement of the FASB / IASB guidance is to determine the fair value of all offerings; this may require a company to track the selling price of offerings sold “in similar circumstances and to similar customers.” Standardization enables the streamlining of the fair value process. For example, if products are defined in different systems, then additional processes may be required to analyze product sales data for fair value derivation. If the historical population cannot be combined, then additional steps will be required to help derive fair value for offerings.

Other considerations involve bundles. A bundle is defined as a group of offerings sold to a customer as one offering for customer ordering expediency. It is suggested that bundles not be set-up as a separate product, except in limited situations when two items are almost always sold together and the revenue recognition methodology is the same for both. Separate stock keeping units (SKUs) help support other processes, such as performance reporting and reserve accounting.

4. Manage variable consideration:

Variable consideration is dependent on some future unknown event and is seen in many forms, such as refund rights, bonuses, penalties, value deals and usage-based contracts. For example, the price of a cloud-based offering may be dependent on usage and usage is unknown at time of contracting. It is also commonly seen in milestone projects, including building construction, aerospace and defense projects, and software development, where bonuses are paid for achieving certain milestones.

The guidelines require that variable consideration be included in the overall contract price when a company can predict with 70% to 80% accuracy its outcome. Furthermore, a company is to reassess this probability each period and adjust the revenue accounting processes accordingly. Companies may require accounting policies to define probability metrics by type of variable consideration. These policies can drive consistency and efficiencies in the number of predictive models required for compliance.

Data analytics tools, project systems and workflow tools are examples of technologies that may enable this process step, depending on the type of prediction required, such as:

- SaaS usage
- Milestone delivery achievement
- Rebate estimates
5. Derive fair value using analytics:

The FASB / IASB accounting guidance requires companies to reallocate the contract price to the offerings in the contract based on their relative fair value. Figure 5 depicts this very simple mathematical task.

This requirement exists in US GAAP today and multiple approaches are seen in practice to comply with this regulation. In our experience, analytics tools are used by many companies to derive fair value price ranges. This method performs basic statistical analysis (mean, mode, range, etc.) of a pool of historical transactions. Accounting policy typically determines the timeframe for updating fair value prices, transaction history to consider and procedures for fair value derivation. One company, for example, defines fair value price ranges based on standard deviations from the mean. In our view, this is a recommended approach as it is scalable and offers additional opportunities to use this data for other predictive models.

However, not all companies have high volume transactions where pricing is relatively variable. In such cases, the use of a fixed split approach may be appropriate. This approach typically uses tables, where the percentage split of revenue among the elements in a contract is pre-defined and consistently applied. This approach is recommended where prices are less dynamic, and discounts off list prices may be analyzed to determine fair value prices.

6. Automate revenue recognition:

A company recognizes revenue when it is deemed that all rights to a product or service have been passed to a customer. To apply this principle, several revenue recognition methods are seen in practice and each has its own process and technology considerations. Figure 6 discusses common revenue recognition methods.

In our view, a leading process solution is to automatically support each revenue recognition method and to decouple revenue recognition from invoicing. To clarify, revenue is recognized when earned, and an accounts receivable is recorded at invoicing. These times may be different, giving rise to different balance sheet treatment. Invoicing before revenue recognition gives rise to a liability ‘deferred revenue’ and invoicing after recognition gives rise to an asset ‘earned but unbilled revenue.’

A leading practice solution is to automate the revenue recognition method and to automatically manage the deferred revenue and earned but unbilled revenue balance sheet accounts. In our experience, many companies manage deferred revenue and unearned but unbilled revenue manually. As with any manual process, this is more error prone and thus more risky. Also, a manual process in this area can become unmanageable as transaction volumes grow.

7. Accelerate disclosure preparation with automated reporting:

Comprehensive disclosures, both qualitative and quantitative, are prescribed by the Boards and may impact a company’s reporting systems and financial close processes. Among these disclosures are:

- Disaggregation of revenue, with revenue reported by ‘category’ and by ‘reportable segment.’ When selecting categories, companies are to consider economic factors that impact uncertainty of revenue and cash flows.
- Contract balances, including opening and closing balances of accounts receivable, contract assets and contract liabilities.
- Performance obligations, including both qualitative and quantitative information, and the requirement to report on performance obligations that are unsatisfied at period end.

A leading practice solution is to automate the reporting of quantitative disclosures. Of note, accounting policies will be required to define the reporting content (e.g., disaggregation categories). An initiative may be required to design and implement the reporting, which may be straight-forward or complex depending on data availability.

The volume and complexity of the revenue disclosures may impact the finance close process. A leading practice solution is to access these impacts and update the close processes accordingly. The organizational place of these activities may be centralized or distributed; several factors drive this placement of which close timeliness and accuracy are key.
## Figure 5. Revenue Allocation – Example

**Allocate Revenue**

<table>
<thead>
<tr>
<th>Performance Obligation</th>
<th>Contract Price</th>
<th>Offering Fair Value</th>
<th>Reallocation</th>
<th>Revenue Recognition Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>$1,000,000</td>
<td>$1,500,000</td>
<td>(1500 / 2300) X 1700</td>
<td>$1,109,000</td>
</tr>
<tr>
<td>Maintenance Service</td>
<td>300,000</td>
<td>300,000</td>
<td>(300 / 2300) X 1700</td>
<td>222,000</td>
</tr>
<tr>
<td>Software</td>
<td>400,000</td>
<td>500,000</td>
<td>(500 / 2300) X 1700</td>
<td>369,000</td>
</tr>
<tr>
<td><strong>Total Contract</strong></td>
<td><strong>$1,700,000</strong></td>
<td><strong>$1,700,000</strong></td>
<td></td>
<td><strong>$1,700,000</strong></td>
</tr>
<tr>
<td><strong>Total Fair Value</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$2,300,000</strong></td>
</tr>
</tbody>
</table>

Source: Accenture, December 2014

## Figure 6. Revenue Recognition and Technology Enablement

**Revenue Recognition Methods – Process and Technology Considerations**

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
<th>Process / Technology Considerations</th>
<th>Representative Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event-driven</td>
<td>Revenue is earned when a particular event occurs, such as delivery, shipment, acceptance, and installation</td>
<td>• Operational systems track events, such as eDelivery, service completion, and acceptance</td>
<td>• All industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ideally, event triggers invoicing and revenue recognition at the same time</td>
<td></td>
</tr>
<tr>
<td>Ratable</td>
<td>Revenue is earned over time, typically on straight-line basis</td>
<td>• Ratable arrangements are typically supported by ERP</td>
<td>• Communications, Media and High Tech</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Subscription sub-systems may be required to track subscription offerings</td>
<td>• Financial Services</td>
</tr>
<tr>
<td>Milestone</td>
<td>Revenue is earned when milestones are achieved</td>
<td>• Project systems track milestone achievements and post revenue to general ledger</td>
<td>• Communications, Media and High Tech</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Milestone billing methods may provide required technology support</td>
<td>• Aerospace and Defense</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Products</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Life Science</td>
</tr>
<tr>
<td>Usage-based</td>
<td>Revenue is earned based on consumption, such as transactions supported by cloud offering</td>
<td>• Operational systems track actual usage, required for revenue recognition</td>
<td>• Communications, Media and High Tech</td>
</tr>
<tr>
<td>Proportional Performance</td>
<td>Revenue is earned based on percentage of capability delivered to a client</td>
<td>• Project systems may be required to track performance</td>
<td>• Aerospace and Defense</td>
</tr>
</tbody>
</table>

Source: Accenture analysis, December 2014
Technological Enablement of the Revenue Function

Technology enablement of the revenue function may be managed in many different ways depending on company size, transaction volumes, products and customer contracts. Existing technical infrastructure may also play a role in how companies choose to automate the revenue function. For instance, a company with a significant ERP footprint may gravitate towards finding a revenue accounting solution in the same application family and only consider bolt-on and/or custom solutions for specific functionality gaps. Other companies may find that only significant customization will address their technology needs for revenue accounting.

In short, out-of-the-box, end-to-end revenue technology solutions are rare in practice for revenue recognition and companies typically adopt one or more of the following types of solutions:

- **ERP solutions** – major ERP vendors (such as SAP SE and Oracle Corporation) offer revenue accounting modules designed to help companies manage their revenue accounting requirements as part of their overall ERP suite.

- **Bolt-on applications** – vendor solutions specifically designed for revenue accounting help companies manage revenue accounting requirements and interface with ERP systems.

- **Custom applications** – applications specifically developed in house or by a third party to address specific business requirements. Custom technology can support the entire end-to-end process or supplement existing systems for specific functionality requirements.
ERP Solutions

ERP vendors, such as SAP and Oracle, have or are providing new solutions to address the Boards’ new revenue accounting guidance. We continually evaluate these capabilities and work with these vendors in understanding their respective product offerings.

SAP® Revenue Accounting Capabilities

SAP’s revenue recognition capabilities have continued to evolve. SAP currently has a certain level of maturity with the current revenue recognition rules which support many key revenue processes. At a high level, key capabilities of the current revenue recognition solution include:

- Revenue can be recorded at the time of billing, between specific sets of dates in equal proportions, and on the basis of specific events (e.g. delivery).
- Revenue can be recorded on the basis of the criteria which have been established for the contract or order item; it can be recognized before, during and after billing.
- Real time updates of revenue information to the general ledger (GL) and accounts receivable (AR) sub-ledger.

SAP's current capabilities work well for companies that do not have complex multiple element arrangements where the contract price is to be allocated based on the relative fair value of the elements in the contract.

SAP has recently completed a multi-year effort to develop a new standard SAP® solution, “SAP Revenue Accounting and Reporting 1.0.” This solution is targeted to manage all major processes of revenue recognition required by FASB and the IASB. The new solution is now in ramp up. Customers with current SAP® software ERP Financials maintenance agreements are expected to have access to this solution, scheduled for release in Q1 2015.

This solution decouples operational sales and accounting processes and supports multiple revenue recognition methods. Figure 7 provides a high-level view of the solution. Of note, this capability supports the accounting for multiple element arrangements by leveraging the flexible rules framework. In addition, the solution also provides for revenue accounting analytics and assists with management reporting.

Oracle Revenue Accounting Capabilities

Accenture’s Oracle clients have traditionally been using the capabilities of Oracle® E-Business Suite or other Oracle® solutions with extended capabilities through custom solutions or bolt-on applications to manage their revenue operations. With the evolving revenue standards, Oracle has been working closely with customers to architect an adaptive and comprehensive solution named Oracle Fusion Revenue Management (part of Oracle Fusion Financials). This provides a new capability to clients, preparing them for the new revenue standards.

Oracle supports the adoption of the new revenue standard with Fusion Revenue Management. This provides a centralized and automated revenue management solution that allows companies to accurately recognize revenue from contracts with customers using multiple methods for revenue recognition, e.g. at a point in time or over time, and separately from the billing process. Oracle Revenue Management helps organizations meet the new accounting standards requirements and simplifies the accounting process for revenue recognition. Among other capabilities, the solution uses business rules to efficiently identify and examine contracts, calculate and allocate revenue based on prescribed inputs, and accurately recognize revenue for each deliverable.

The solution co-exists with Oracle’s E-Business Suite (EBS) by using the source systems’ revenue events and reference data. The solution provides a centralized data repository and manages revenue with capabilities that include automatic identification of contracts with multiple element arrangements, calculation and management of fair market value (FMV), and revenue allocation adjustments to comply with FMV.

Customers who already utilize EBS have a clear migration path to the new revenue standards. The solution integrates with EBS using out-of-the-box integration capabilities to extract and import source document lines to perform revenue recognition and revenue compliance activities. As illustrated in Figure 8, some of the EBS applications covered by the integration include order management, service contracts, project billing, costing and accounts receivable.
Operational Systems Finance

Flexible Rules Framework

Finance - General Ledger (FI-GL)

Controlling - Profitability Analysis (CO-PA)

Order Confirmations / Invoice / Delivery

Sales and Distribution

CRM

Consume to Cash

Others such as 3rd party

Figure 7. SAP Revenue Accounting and Reporting Overview

Source: SAP SE

Figure 8. Oracle Revenue Recognition

Revenue Events via Delivered Source Views

EBS Order Management
EBS Service Contracts
EBS Projects
EBS Accounts Receivable
3rd Party

Revenue Data Repository

Manage Compliance

- Support for multiple element arrangements
- Calculate and manage fair market value

Create Schedules

- Separate revenue from billing
- Create ratable, immediate and deferred revenue schedules

Create Accounting

- Generate revenue and deferred revenue entries
- Automatically create compliance adjustment entries

Audit and Analyze

- Seeded revenue reports for compliance reviews and audit
- Ad hoc reporting layer

Customer Acceptance
EBS Order Management

Payment
EBS Accounts Receivable

Revenue
EBS Costing

Accounting
General Ledger

Source: Oracle Release Announcement, Fusion Revenue Management
Bolt-on Applications

There are several bolt-on software options available to facilitate revenue recognition processes and support downstream accounting functions in ERP systems. Typically, bolt-on applications extract data from source systems, execute and manage the revenue accounting processes, and pass information to downstream systems such as the general ledger. Figure 9 identifies some possible bolt-on applications.

Custom Applications

Custom applications are developed in-house or by third party vendors to create tailored solutions that address a company’s specific requirements. Companies with high volume, high variability in their customer contracts are the most common candidates for this approach. Typically very costly, custom applications are uncommon in practice.

Figure 9. Bolt-on Software Considerations

Bolt-on Software Options
- RevPro™ by Leeyo Software Inc.
- RevStream Enterprise Revenue Lifecycle Management by RevStream Inc.
- Workday Revenue Management by Workday, Inc.
- Revenue Recognition Management by NetSuite Inc.
- Z-Billing by Zuora Inc.

Source: Accenture, December 2014
Organizational Impacts

In addition to process and technology, organizational effectiveness is a key ingredient in establishing an overall revenue accounting process able to deal with the increased complexities brought on by this specific guidance. In a broader context, it is also instrumental in providing strong leadership for the end-to-end revenue process across the entire company.

Through its work with a wide variety of clients, Accenture finds that organizational excellence in finance functions in general, and revenue accounting in particular, center around three key items.

**Functional Stewardship**

Creating an end-to-end “Revenue Operations” team responsible for executing all finance-related revenue process work under a single global team is encouraged. This typically facilitates revenue recognition, revenue forecasting alignment and communication while also providing clear ownership of the entire end-to-end function throughout the company. It also provides an appropriate level of control over revenue oversight. Many high-performance finance organizations also extend the notion of “single team for a global process” and incorporate shared services and outsourcing arrangements to further optimize the revenue function. Tangible benefits of strong functional stewardship typically include:

- No duplication of work and few, if any, process redundancies within the revenue process.
- Explicit ownership and governance of the function through Global Process Owners.
- Strong culture of functional leadership and clear communications not only within finance but also to the broader, cross-functional stakeholder community.

**Talent Management / Training**

The continual assessment of staff in highly skill-based revenue functions, especially where regulatory requirements change significantly, can result in the need for new or different skill-sets. Decisions are typically required around the acquisition of right-skilled talent versus training and up-skilling of existing talent. In addition, structured training regimens and curricula must be in place to confirm staff is continually aware of changes in regulations and can react to these changes in a timely manner. Progressive CFOs increasingly choose to deliver talent training through structured and targeted “Finance Academies” – tailored programs developed to specific finance requirements and aimed at developing and supplementing existing skills.

**Roles and Responsibilities**

The clear definition of roles and responsibilities for the entire revenue management cycle across all functions involved is also encouraged. This promotes a clear understanding of hand-offs between functions at process integration points.
Supporting Strategic Decisions—A Leading Practice Finance Organization

Johnson & Johnson is one example of a leading practice finance organization, where core global finance processes are determined centrally, given global authority and provide core expertise. Johnson & Johnson has realized benefits from this approach including:

- Increased service and responsiveness when evaluating large and complex strategic deals.
- Integration timeline and activities compressed in support of M&A activities.
- Single points of contact and accountability to the CFO organization for compliance and technical accounting.
- Highly specialized team with deep accounting skills to provide training across the finance function and the major segments of the enterprise.
- Collaborate with external industry peer companies regularly.

For revenue accounting, the Technical Compliance and Accounting function opines on non-standard contracts in excess of a certain dollar threshold, as well as contracts involving strategic intellectual property. This accounting team reaches beyond the traditional finance function and serves as a strategic partner with the business. In addition, this team provides policies to guide the accounting for routine revenue contracts and transactions of lesser value and training to the extended financial community to support the day-to-day accounting decision-making.

High-performance finance organizations require core capabilities to drive efficiencies across the value chain. Two finance organizational approaches are seen in practice. With the first, certain core global finance functions are housed centrally and are aligned directly to the CFO and support the entire organization, such as that found at Johnson & Johnson. This approach works well in situations that require deep specialized skills and the ability to connect with peer industry companies, to provide critical input into strategic decisions, and where face-to-face interaction is required at the corporate level. With the second, regional finance organizations are established to support varied financial requirements within the region. Regional centers are typically seen when face-to-face interaction on a daily basis is required with regional leadership.

Steve Rivera is the Global Head of Technical Compliance and Accounting at Johnson & Johnson. He points out that “the challenge over the next five years will be to develop practice guidelines to interpret the new revenue standard. There are no bright lines as we often see with the current US GAAP rules as this new standard is principle based.” Steve’s leadership and contribution extend beyond company borders. His external involvement as the Chairman of the Accounting and Reporting Committee for Pharma and Device companies and Post-Implementation Sub-Committee for License Revenue for the Financial Executives International Committee on Corporate Reporting will shape some of the key decisions and judgment calls companies will consider for accounting and reporting revenue under the new standard. Through his efforts to lead these collaborative industry committees and connecting on a regular basis with the major accounting firms and standard setters, practice guidelines can be developed to ensure consistent and compliant accounting and reporting.
In our preceding discussion, we illustrated some of the hallmarks of a high-performance revenue accounting process supported by a viable technological infrastructure and executed by a team of well-skilled and organized professionals. In order to get to that level of functional excellence, CFOs should refrain from just addressing mandated compliance requirements but instead adopt a broader transformational mindset to address compliance, help achieve end-to-end revenue function excellence and leverage the opportunity at hand to identify and capitalize on additional value-generating opportunities. To that end, we believe all successful transformation programs start with an effective assessment that provides a clear enterprise vision, strategy and implementation roadmap. An effective assessment should answer the following questions:

- Do processes need to be redesigned and if so, how?
- Do finance and other functional activities and resources need to be reorganized / realigned and if so, how?
- What are the training needs?
- How will stakeholders be managed and communicated with?
- Do systems need to be redesigned and if so, how?

Figure 10 below illustrates a typical approach to a comprehensive assessment of revenue accounting processes for the purpose of not only identifying regulatory impacts but also efficiently assessing the entire end-to-end revenue accounting function for broader transformation opportunities.
In our view, an effective assessment initiative depends first and foremost on cross-functional involvement of all affected business functions, the internal technical accounting team, the external auditor and the external professional services to manage the overall program effort.

We would expect to see the following work take place as part of the assessment effort:

**Technical Accounting Assessment**
- Identify and assess key revenue recognition differences arising from the new guidance.
- Confirm appropriate financial disclosures required to meet regulatory requirements.

**Technology Impact Assessment**
- Assess impact on current revenue systems.
- Evaluate new data / analytics requirements to support estimates and judgment (i.e., fair value for performance obligations).
- Compile new reports to support disclosures mandated by the new guidance.
- Identify potential chart of accounts / general ledger / sub-system requirements.

**Process Impact Assessment**
- Identify all processes affected by changes in revenue recognition policies – this will likely extend to a number of process areas including contract management, supply chain activities and order to cash.
- Develop process improvement opportunities leveraging leading revenue accounting practices.
- Assess impacts on controls.

**Organizational Impact Assessment**
- Identify key stakeholders – both internal and external.
- Assess training, communications and workforce transition requirements.
- Assess organizational readiness.

**Deployment Strategy Development**
- Lay out potential deployment options for implementation and select optimal deployment strategy.
- Plan deployment with other “in flight” corporate projects and initiatives in mind to provide appropriate focus on this initiative.

**Iterative Reviews**
- Executed through agile and recurrent workshops with the cross-functional team in periodic cycles until a fully integrated solution has been reached.

A thorough and structured assessment effort with full participation from all affected business functions – such as finance, information technology, human resources, sales, legal, and supply chain – can enable stakeholders to understand and endorse the scope of the change impacts. As well, the functional and technical requirements to accommodate the change in the guidance are documented and can form the basis for the planning and design activities in the implementation phase. Finally, at this point, there should be clarity around the time required to implement these changes and a viable implementation plan should be in place.
The favorable completion of a comprehensive and validated assessment initiative is strongly dependent on the following key factors:

- Assemble a cross-functional team to help safeguard that all impacts are identified and all relevant business functions have a stake in the assessment.
- Develop a strong project governance routine – garnering executive and board support early on, creating a cross-functional steering committee including finance, information technology, legal, audit, sales and supply chain, and identifying a global process owner for revenue accounting processes. This can be an effective way to maintain momentum and visibility.
- Consider all end-to-end revenue impacts and be guided by leading practice process and capability principles.
- Move with speed, i.e., do not be misled by the effective date of the guidance as impacts for some companies may be significant and far-reaching, and the time horizon for implementing meaningful change may be significant.
- Collaborate with technical accounting and external auditors.

Based on the outcomes of the assessment effort, the company can then embark on the implementation of required changes to process, technology and organization. The time-frame for assessing change impacts and designing and deploying a compliant solution can be highly variable, but can certainly be a multi-year initiative based on the complexity of the company’s process and technology landscape. Figure 11 illustrates the high-level steps in the journey to compliance. While the time-frames depicted are merely illustrative they are reflective of the time and effort involved in major transformative efforts.

Figure 11. Implementation Timeline – Illustrative

<table>
<thead>
<tr>
<th>Change Impact Assessment and Roadmap</th>
<th>Solution Planning and Design</th>
<th>Solution Build and Test</th>
<th>Solution Deployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-10 Weeks</td>
<td>6-9 Months</td>
<td>10-12 Months</td>
<td>3-6 Months</td>
</tr>
</tbody>
</table>

- Collect and evaluate relevant data
- Assess revenue recognition policy change impacts on:
  - Current systems and data
  - Affected business processes
  - Organization and organizational readiness
  - Financial and management reporting
- Identify value-add opportunities
- Understand key stakeholder needs and secure leadership support
- Develop future, compliant vision
- Develop business case and roadmap for change
- Develop a revenue recognition adoption strategy and deployment plan
- Identify functional and technical requirements
- Design future state processes and internal controls affected by convergence
- Design future state technical architecture
- Design post-convergence organization
- Design and model data models and data governance processes
- Develop comprehensive change and communication plan
- Build technical infrastructure (including performance testing)
- Configure applications; build development objects required for post-convergence functionality
- Define new roles and responsibilities based on future state processes
- Build financial and management reports
- Test all configurations, development objects and reports
- Conduct internal controls and compliance testing
- Develop training plan and materials
- Make go / no-go decision
- Conduct rigorous user training
- Deploy:
  - Accounting and sub-systems per deployment strategy
  - Internal controls
  - Business processes to locations
  - New organizational structure
- Conduct post go-live support through close cycles ensuring compliance to convergence rules and internal controls

Program and Journey / Change / Communication Management

Source: Accenture, December 2014
Conclusion

The new revenue recognition guidelines set out by FASB and IASB demand a proactive and comprehensive examination of a company's end-to-end revenue function and a significant commitment in terms of funds and resources for a potential multi-year effort to assess and implement the required modifications to policies, processes, systems and organizational alignment.

By any measure, regulatory compliance is a powerful incentive to commit significant financial and non-financial resources to remain in step with rules and regulations. While compliance is a laudable and valid goal in itself, it does not typically provide tangible transformational business and strategic value. It does however provide a viable entry-point to affecting truly transformational change, and progressive CFOs will seize the opportunity to leverage the resource commitments of a compliance initiative to investigate, identify and realize tremendous value-generating opportunities for the business and thus truly position the finance function as a strategic partner to the business.
Notes


5. SAP Revenue Accounting and Reporting, Release 1.0, Ramp-up SAP Revenue Accounting and Reporting, SAP Service Marketplace

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