QAD Enterprise Applications
Enterprise Edition

User Guide

QAD Revenue Recognition User Guide

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Contents

Revenue Recognition User Guide Change Summary

The following table summarizes significant differences between this document and previous versions.

Date/Version	Description	Reference
March 2017	Initial Version	

Chapter 1

Introduction

This section explains what revenue recognition is, what it involves, and how you can implement it.

Revenue Recognition Overview

The revenue recognition standard aims to remove inconsistencies in revenue requirements and provide a more robust framework for addressing revenue issues. The revenue recognition standard contains several core principles.

- Contracts are segmented into performance obligations and revenue allocated to each obligation.
- Revenue is recognized when control of the goods or services in each performance obligation is transferred to the customer and discounted for time value when significant. For example, a software company is not paid for its software until implementation services are complete.
- Revenue is measured net of customer incentives. For example, the invoice price is higher than the actual price paid because the customer benefits from bulk discounts.
- Estimates and judgments are involved in recognizing and measuring revenue. For example, you know that some goods purchased by a customer are always returned. Therefore, you make a reasonable calculation to judge what portion of the invoice that will be.
- More extensive disclosures are required in financial statements, even if there is no change to the numbers.

The Financial Controller and Accounting Manager are responsible for ensuring that payment for goods and services is collected or in ensuring that all the required accounting principles are applied to organization accounts.

Performance Obligations

A performance obligation is a measure of when delivery of goods or services has been completed. Only when a performance obligation is satisfied can you recognize the revenue.

A performance obligation can include the delivery of goods on just a single order. However, you can also collect multiple orders onto a single performance obligation. The delivery of all the orders must then be complete before you can recognize the revenue.

Although performance obligations can cover multiple orders, invoices, and pending invoices, a single performance obligation cannot cover multiple revenue recognition contracts.

QAD Revenue Recognition Solution

The revenue recognition functionality in QAD EE enables you to:

- Define revenue recognition contracts complete with performance obligations.
- Define and work with accrued and deferred revenue accounts. You can create deferred recognition daybooks to enable you to track journal entries and postings to handle the deferral and recognition of revenue.
- Define revenue recognition rules and link them to the performance obligations attached to revenue contracts. This step enables you to automate revenue recognition journal entries based on the following recognition rules:
    - Acceptance - A performance obligation requires a form of acceptance such as proof of delivery.
    - Payment - Revenue is not recognized until payment has been received.

  - Time-based - A performance obligation can be marked as fulfilled after a set time period after goods or services have been delivered.
  - Percentage Complete - Revenue is recognized based on the difference between the amount of the contract invoiced and the amount of work done on the contract.
  - Periodic - Revenue is recognized monthly or periodically, such as for warranties or maintenance contracts.
  - Custom Periodic - Revenue recognition is subject to special considerations. For example, revenue amounts might be split unevenly across financial periods.
- Record revenue recognition data against the performance obligations of a revenue contract.

Revenue Recognition Building Blocks

Obligations are grouped in a revenue contract and are listed as performance obligations. Each performance obligation has a revenue recognition rule that lists the sales order lines, trailer charges, and invoices covered by the performance obligation.

After a revenue contract with performance obligations has been created, the revenue listed on the contract is assessed. Depending on the revenue recognition rule specified on the performance obligation, revenue may be recognized immediately or deferred from the sales revenue accounts and posted to the deferred revenue accounts.

The rules linked to the performance obligations specify when the obligations of the contract have been met. You can recognize the revenue only when the performance obligations have been met. An obligation is met when control of the goods or services been effectively transferred to the customer.

Revenue Recognition Processing

Revenue is recognized when the value of the sales order is booked against the sales and sales discount accounts defined against the sales order line. The booking happens when you post the invoice for the sales order line. It is at this point that the revenue of the sales order, the value booked against the sales account, can be deferred.

You can create the revenue contract manually user using the revenue contract maintenance functions. Alternatively, the revenue contract can be created automatically by using the auto-generate function when the sales order customer has been set up to use the auto-generate function.

Revenue Recognition Accounting

The following examples describe how revenue recognition accounting works.

Accounting Example 1

A sales order has a line material value of $1000, with taxes and a discount. The tax rate is 7% and the discount percentage is 6%.

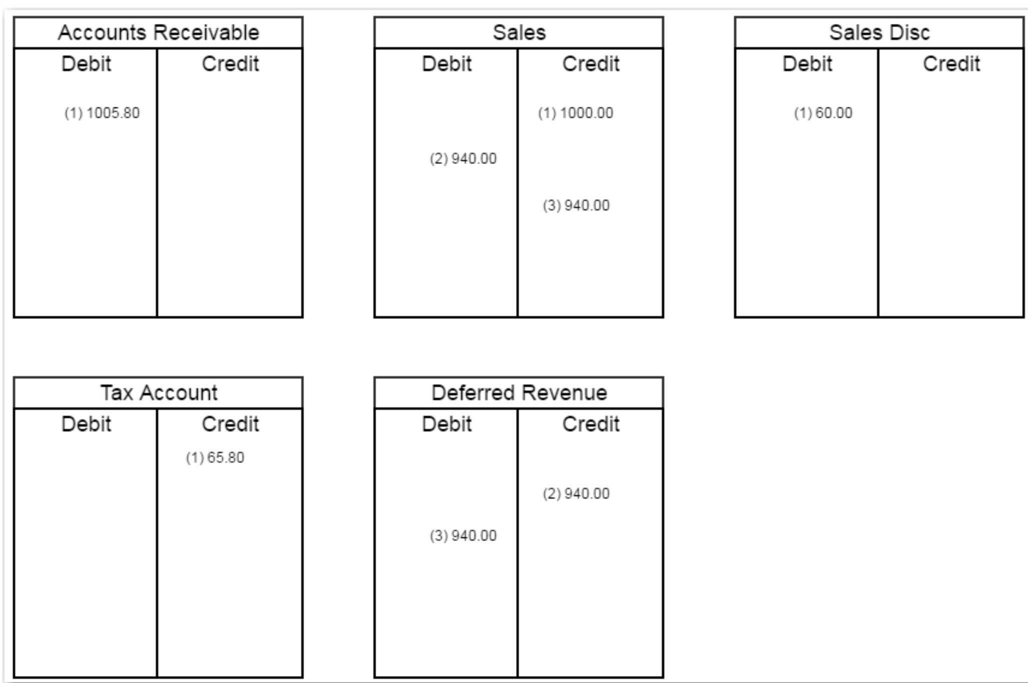
Table 1.1
Sales Order Amounts

Item	Amounts
Line Amount	$1000
Discount Amount	$60
Taxable Amount	$940
Tax Amount	$65.80

Figure 1.1 displays the accounting for this example, including:

1. Creation of the invoice for the sales order
2. Deferring of the sales revenue (net of discount) to the deferred revenue account
3. Recognizing of the revenue to the sales account

Fig. 1.1
Accounting



Accounting Example 2

The sales order has two lines. Each line has $1000, with a 6% discount and a 7% tax. Each line uses a different sales account, but they share the same discount account.

Table 1.2
Sales Order Amounts

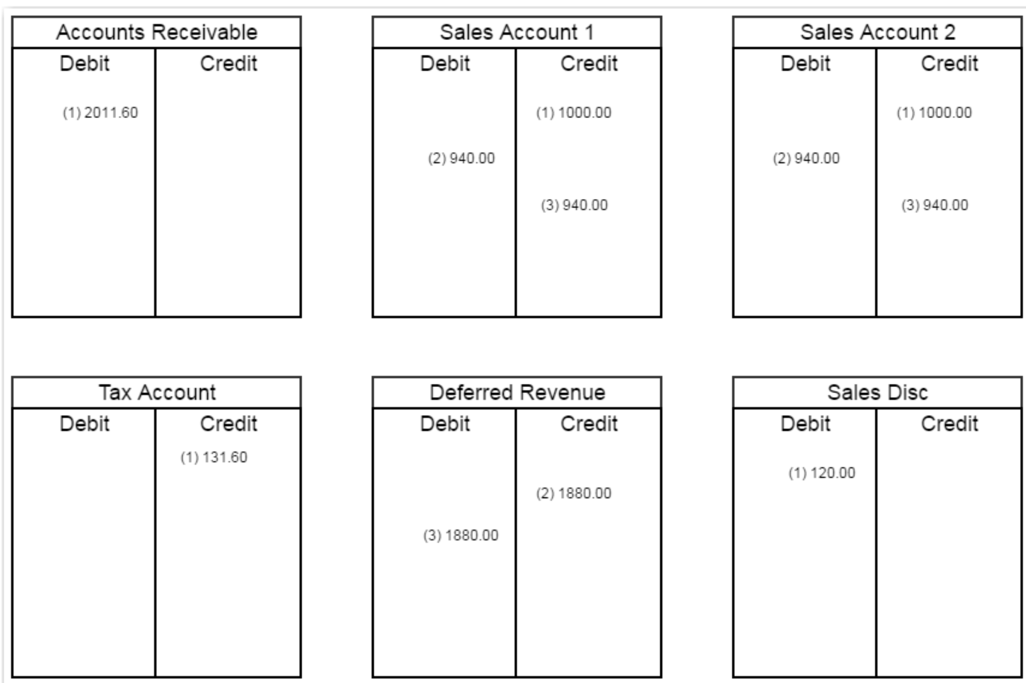
Item	Amounts
Line 1 Amount	$1000
Line 2 Amount	$1000

Item	Amounts
Discount Amount	$120
Taxable Amount	$1880
Tax Amount	$131.60

Figure 1.2 displays the accounting, including:

1. Creation of the invoice for the sales order with the two order lines
2. Deferring of the sales revenue (net of discount) to the deferred revenue account
3. Recognizing of the revenue to the sales account

Fig. 1.2
Accounting



Chapter 2

Setting Up Revenue Recognition

This chapter provides information on how to set up a revenue recognition solution in your system.

Revenue Recognition Setup Overview

Set up revenue recognition as displayed in Figure 2.1.

1 Create one or more revenue recognition daybooks.

2 Assign a default revenue recognition daybook to an entity.

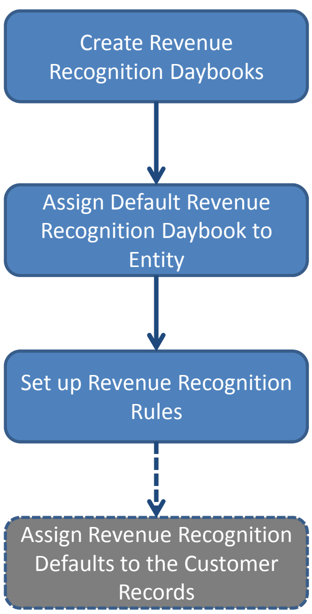
   This step is mandatory when the entity is to be used for revenue recognition.

3 Set up revenue recognition rules. Create at least one revenue recognition rule.

4 Assign default revenue recognition settings to one or more customers.

   This step is mandatory when revenue contracts are to be auto-generated when sales orders are created.

Fig. 2.1
Revenue Recognition Setup Workflow

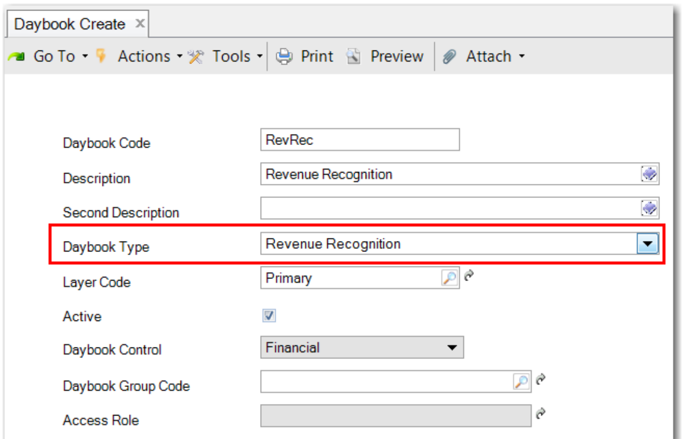


When you have completed the setup, you can define GL account mappings for revenue recognition deferral and accrual postings, depending on the sales account.

Creating Revenue Recognition Daybooks

In Daybook Create (25.8.1.1), define one or more daybooks of type Revenue Recognition. A revenue recognition daybook can use the official or management layers. It is a financial type daybook only.

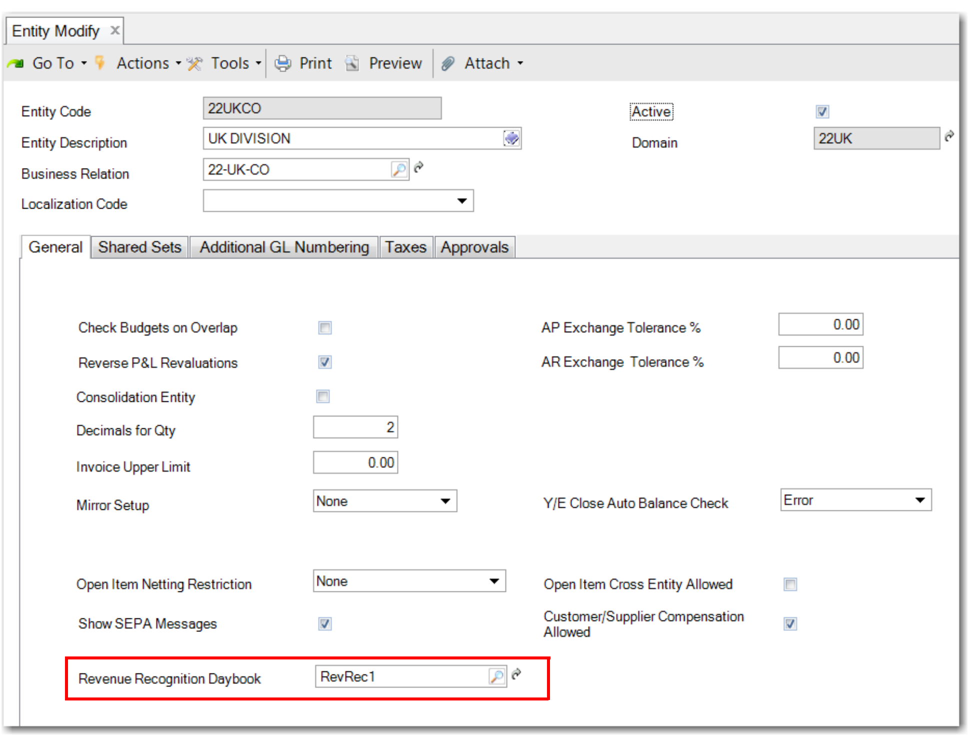
Fig. 2.2
Daybook Create



Specifying Revenue Recognition Daybooks by Entity

To define a default revenue recognition daybook for any entity that you use for revenue recognition purposes, use the Revenue Recognition Daybook field on the Entity menu (36.1.1.2).

Fig. 2.3
Entity Modify Revenue Recognition Daybook Field



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The Revenue Recognition Daybook field is not mandatory, but when it contains a daybook, it must be of type Revenue Recognition. The lookup displays a full list of daybooks available. You can specify the same daybook in multiple entities.

Creating Revenue Recognition Rules

Revenue recognition rules are assigned to the performance obligations on a revenue contract. These rules control when and how to recognize the revenue of orders and invoices. Create revenue recognition rules using the Revenue Recognition Rule menu (37.2). There are different rule types, each based on unique criteria.

Note For more details on performance obligations, see “Revenue Recognition Maintenance Overview” on page 18.

Time-Based

You can set up a time-based rule to allow revenue to be recognized a set number of days after the sales order line has been shipped or invoiced.

Acceptance

You can set up a customer acceptance rule that requires additional information to be recorded on invoice lines of the linked lines on the revenue contract. For example, a proof-of-delivery number can be required for an invoice to be flagged as accepted.

If an invoice is not flagged as accepted, the invoice revenue is always deferred. If the invoice is flagged as accepted, the invoice revenue is always recognized.

The invoice acceptance date is also important because you can set an effective date for the revenue calculation. If you run the revenue calculation before the invoice acceptance date, then even if the invoice is flagged as accepted, the revenue from the invoice is still deferred. Otherwise, the revenue of the invoice is recognized.

Payment

The customer payment rule means that when an invoice has not been settled, the revenue calculation always defers the invoice revenue. If the invoice has been settled in full—not partially settled—the invoice revenue is always recognized.

The invoice payment date is also important because you can set an effective date for the revenue calculation. If you run the revenue calculation before the invoice payment date, then even when the invoice is flagged as settled, the revenue from the invoice is still deferred. Otherwise, the revenue of the invoice is recognized.

Percentage Complete

The percentage complete rule means that revenue is deferred or accrued, depending on the difference between the amount of the contract that has been invoiced and the amount of work done on the contract.

You determine the amount of work done by calculating the percentage of the contract that has been completed, typically by checking how much money has been spent working on the contract. You compare this amount to the amount of the contract that has been invoiced. If the amount invoiced is greater than the amount completed, the difference is deferred. If the amount completed is greater than the amount invoiced, the difference is accrued.

Periodic and Custom Periodic

You can choose from two types of periodic rule:

- Periodic
- Custom Periodic

Both types are set up in the same way. Specify the period type and the point in the period when revenue is to be recognized. Table 2.1 displays the supported period types.

Table 2.1
Supported Period Types

Period Type	Description
Monthly	These standard calendar periods correspond to the 12 months of the year.
GL Period	This period type refers to the GL Periods that have been set up in the system. These periods can be identical to the monthly periods or they can be configured differently. For example, some businesses prefer to have 13 periods in a year, with each period precisely four weeks in length.
Quarterly	There are four periods in a year, each of three months in length.
Bi-annually	There are two periods in a year, each of six months in length.
Annually	There is a single period for the whole year.

Also specify when the revenue deferred for a period can be recognized. Table 2.2 displays the options for recognizing this revenue.

Table 2.2
Recognition Options

Recognition Point	Description
Start	The revenue is recognized at the start of the period. When the revenue contract maintenance program creates the periods for a performance obligation, the recognition date is set to the first day of the period.
End	The revenue is recognized at the end of the period. When the revenue contract maintenance program creates the periods for a performance obligation, the recognition date is set to the last day of the period.
Offset	The revenue is recognized after a set number of days from the start of the period. For the revenue recognition rule being created, you must enter the number of days to offset the recognition point from the start of the period.

Periodic and custom periodic types are set up in the same way, with the same set of parameters controlling how each revenue recognition rule created behaves. The difference between the two types is the level of control allowed in the revenue contract maintenance program in adjusting the periods created for a performance obligation.

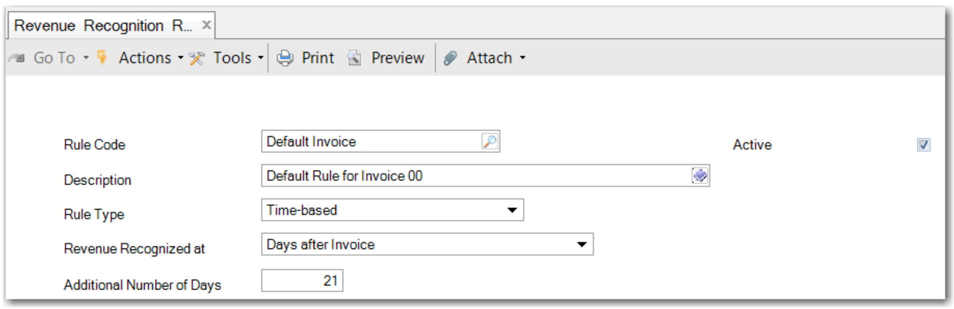
Periodic type rules allow for little modification. You must accept the number of periods generated for the performance obligation. However, you can vary the amount of revenue recognized in each period. By default, the revenue is split evenly across the periods.

Custom periodic type rules offer more flexibility. You can change the revenue split of the periods, and you can also delete or add periods to the period set generated for the performance obligation.

Revenue Recognition Rule Menu

Use the Revenue Recognition Rule menu (37.2) to create revenue recognition rules.

Fig. 2.4
Revenue Recognition Rule Create



The fields displayed depend on the rule type that you select. Figure 2.4 displays the screen when you select a time-based rule.

Rule Code. Enter a meaningful rule code to identify the rule.

Description. Enter a meaningful description that explains the purpose of the rule.

Active. Only active rules can be assigned to active revenue recognition contracts. This field is selected by default.

Rule Type. Select a rule type. You can choose from Acceptance, Payment, Percentage Complete, Time-based, Periodic, or Custom Periodic. For the Payment and Percentage Complete rule types, no further setup is required. However, when you choose another rule type, extra fields are displayed.

Revenue Recognized at. This field is displayed for time-based rules. Choose from Days after Invoice and Days after Shipment. This field enables you to set the revenue recognition criteria to be a set number of days after the sales order line has been invoiced or shipped.

Additional Number of Days. This field is displayed for time-based rules. The field specifies the number of days after the invoicing or shipping—depending on the setting of the Revenue Recognized at field—that the revenue can be recognized.

Proof of Delivery. This field is displayed for rules based on customer acceptance. The field indicates whether a proof-of-delivery number is required to be recorded for an invoice to be flagged as accepted.

Note When Proof of Delivery is selected, more fields become available for all invoice sub-records against the linked lines of the performance obligations. You can then flag an invoice as accepted and add the proof-of-delivery number when required.

Period Type. This field is displayed for periodic or custom periodic based rules. Select the length of the period type. Choose from Annually, Bi-annually, Quarterly, Monthly, or GL Period. By default, the type is GL Period.

Recognition Point. This field is displayed for periodic or custom periodic based rules. Choose to recognize revenue at End of Period, Offset, or Start of Period. By default, the recognition point is at the start of the period. If you select Offset, the Number of Days field is displayed. Use it to specify the offset from the start of the period when the revenue is recognized.

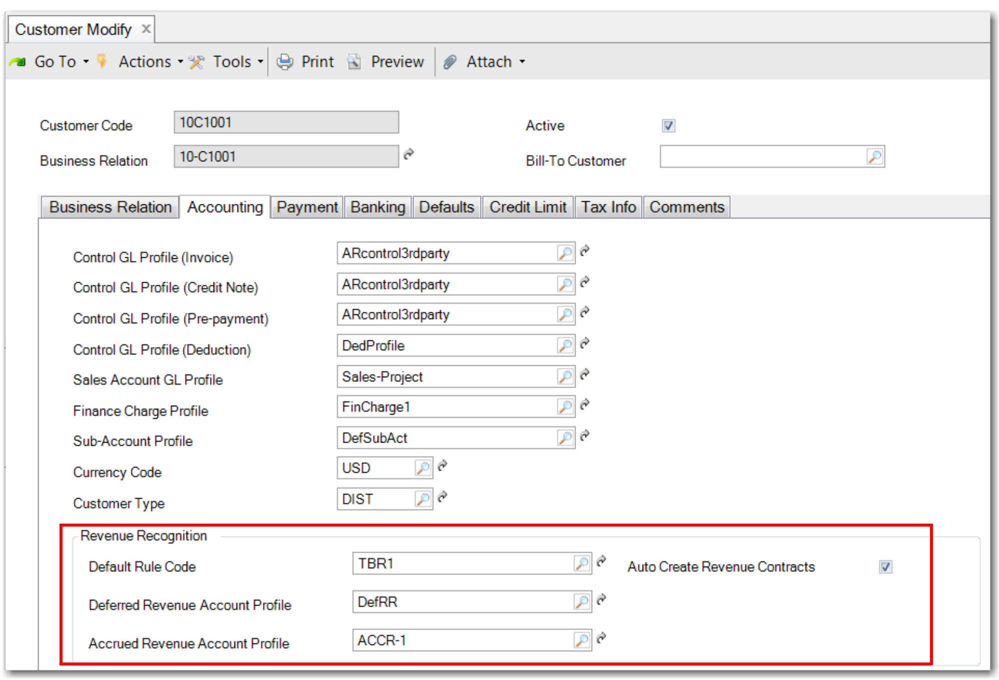
Number of Days. This field is displayed when you select Offset in the Recognition Point field. Enter the number of days from the start of the specified period when the revenue is to be recognized. A warning is displayed when the number of days you enter exceeds the length of the period type defined for the revenue recognition rule.

Revenue Recognition Rule Modify (37.2.2) enables you to modify a rule already in use in the system. However, you can only modify certain fields because the rule has previously been agreed upon with the customer.

Assigning Customer Defaults

For each customer included in revenue recognition, you can set up certain default information, as displayed in Figure 2.5.

Fig. 2.5
Customer Modify - Accounting Tab



The settings you can define are:

- A default revenue recognition rule
- A default deferred revenue account profile
- A default accrued revenue account profile
- Whether to automatically create a revenue contract from a sales order when you run Revenue Contract Autogenerate (37.1.5)

It is not mandatory to set defaults unless revenue contracts are to be auto-generated when a sales order is created. If you select the Auto Create Revenue Contracts field, you must complete the other three fields.

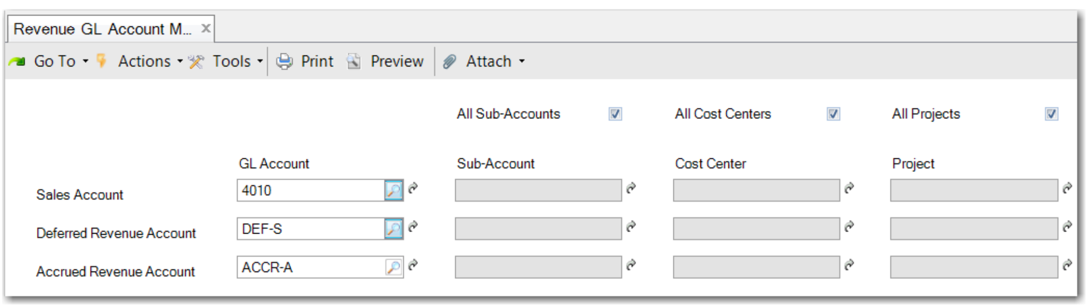
Mapping Revenue GL Accounts

You can specify different GL accounts for revenue recognition deferral and accrual postings, depending on the sales account. This functionality enables you to separate the revenue recognition postings according to the needs of your organization—by product line, for example. You can map the sales account and a related deferred revenue account and accrued revenue account to the relevant GL accounts using Revenue GL Account Mapping (37.4). You must map each of these accounts to a separate GL account.

The simplest type of mapping maps a sales account to a pair of GL accounts for all analysis types; all sub-accounts, cost centers, and projects. This scenario is displayed in Figure 2.6.

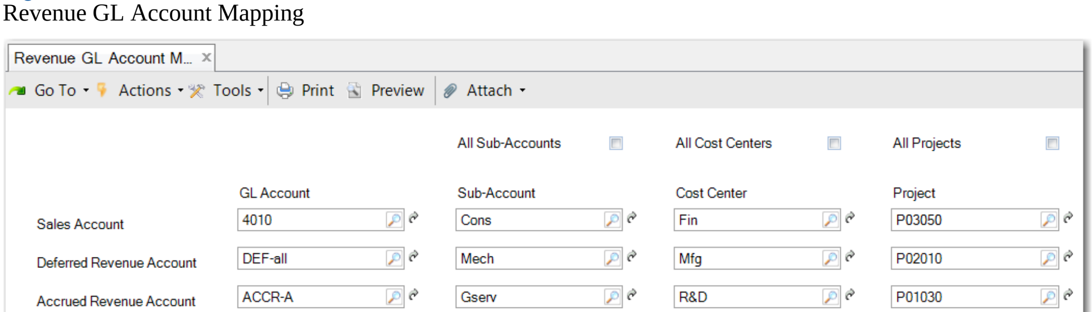
Any sub-account, cost center, and project analysis used on the sales account posting line is then copied and used for the deferred or accrued revenue account posting lines, provided such analysis can be used with those accounts. This depends on the analysis setup of the GL accounts.

Fig. 2.6
Simple Revenue GL Account Mapping



The most complex type of mapping maps a specific sales account, sub-account, cost center, and project combination to a pair of revenue recognition GL accounts. The deferred revenue and accrued revenue account each use a specific sub-account, cost center, and project combination. This scenario is displayed in Figure 2.7.

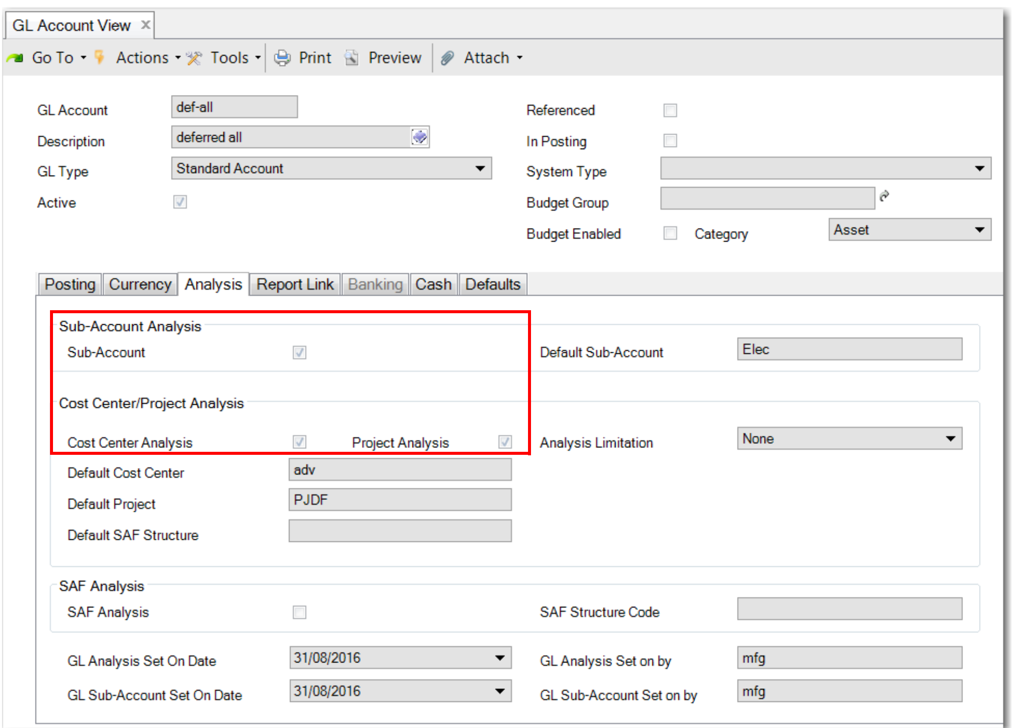
Fig. 2.7
Revenue GL Account Mapping



A mapping must conform to how a GL account has been set up to handle analysis. For example, in one scenario, a mapping is created to not map all sub-accounts, cost centers, and projects. However, a deferred revenue account is set up to only use sub-account analysis. In this case, you are only permitted to enter a sub-account. The cost center and project fields for the account are disabled.

In another scenario, a mapping uses a sales account with no analysis. It is set to map all sub-accounts, cost centers, and projects to the deferred and accrued revenue accounts. However, the deferred and accrued revenue accounts are set up to use analysis. Figure 2.8 displays the deferred revenue GL account setup. In this case, there are no sub-accounts, cost centers, and project codes on the posting line for the sales account to copy over to deferred and accrued revenue posting lines. Therefore, the deferred and accrued revenue accounts must be set up to have default values. Otherwise, you cannot save the mapping and an error message is displayed.

Fig. 2.8
GL Account Create



Revenue GL Account Mapping Menu

The fields to complete in Revenue GL Account Mapping Create (37.4.1) are:

All Sub-Accounts. This field is selected by default. It means that the mapping includes all sub-accounts for the chosen sales, deferred revenue, and accrued revenue GL accounts. When you clear this field, you can specify a particular sub-account to map to for one or more of the GL accounts.

All Cost Centers. This field is selected by default. It means that the mapping includes all cost centers for the chosen sales, deferred revenue, and accrued revenue GL accounts. When you clear this field, you can specify a particular cost center to map to for one or more of the GL accounts.

All Projects. This field is selected by default. It means that the mapping includes all projects for the chosen sales, deferred revenue, and accrued revenue GL accounts. When you clear this field, you can specify a particular project to map to for one or more of the GL accounts.

Sales Account. Enter the sales GL account that you want to map. You can also specify a particular sub-account, cost center, and project by clearing the fields at the top of the screen. The account fields available depend on the GL account setup.

Deferred Revenue Account. Enter the deferred revenue account that you want to map to. You can also specify a particular sub-account, cost center, and project by clearing the fields at the top of the screen. The account fields available depend on the GL account setup.

Accrued Revenue Account. Enter the accrued revenue account that you want to map to. You can also specify a particular sub-account, cost center, and project by clearing the fields at the top of the screen. The account fields available depend on the GL account setup.

When you have completed the sales account mapping, click Save.

To speed up the process of creating similar account mappings, you can copy existing mappings and edit them using Revenue GL Account Mapping Copy (37.4.5).

Searching for Revenue GL Account Mappings

When a mapping is required, the system must find a suitable mapping depending on the sales account and analysis used on the sales order line. If an exact match can be found, then this mapping is used. However, because revenue GL account mappings can be set up to match against all possible sub-accounts, cost centers, and projects, an exact match is not always possible. In such cases, the system finds the best possible match using the search hierarchy in Table 2.3.

Table 2.3
System Search Sequence for Revenue GL Account Mappings

Search Step	Sales GL	Sales Sub-Account	Sales Cost Center	Sales Project	All Sub-Accounts	All Cost Centers	All Projects
1	4100	Mech	Adm	Pr1	No	No	No
2	4100	N/A	Adm	Pr1	Yes	No	No
3	4100	Mech	N/A	Pr1	No	Yes	No
4	4100	Mech	Adm	N/A	No	No	Yes
5	4100	N/A	N/A	Pr1	Yes	Yes	No
6	4100	N/A	Adm	N/A	Yes	No	Yes
7	4100	Mech	N/A	N/A	No	Yes	Yes
8	4100	N/A	N/A	N/A	Yes	Yes	Yes

Note When a revenue GL account mapping has been set up to map all analysis codes to the deferred and accrued revenue account, the analysis codes are taken from the sales account analysis defined on the revenue contract.

Chapter 3

Maintaining Revenue Recognition Contracts

The following topics describe how to create and maintain revenue recognition contracts.

Revenue Recognition Maintenance Overview

Revenue contracts are made up of performance obligations. Customers orders are grouped and attached to a revenue contract using these performance obligations. Each performance obligation is assigned a recognition rule that governs how and when the order revenue is recognized. Each performance obligation has only one revenue recognition rule, but can have one or more order lines assigned to it.

When creating a revenue contract, it is your decision how many performance obligations a contract has and how many order lines are grouped under a single performance obligation. Assess the different order lines and determine whether the order line itself represents a single performance obligation. If so, create a performance obligation and assign the order line to it.

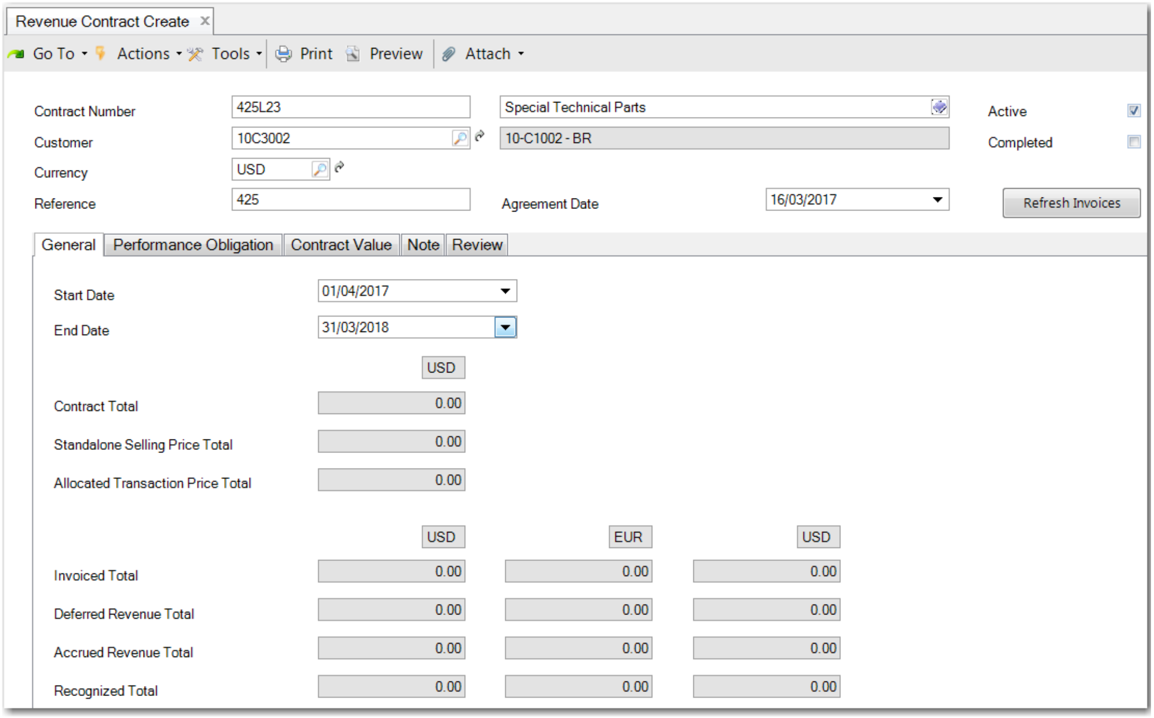
However, if an order line is linked to another order line—possibly on another sales order—the two order lines must be combined under a single performance obligation. In this case, you create a performance obligation and assign the two order lines to it. The performance obligation only ever has a single revenue recognition rule and both order lines must fulfill the rule for the revenue to be recognized.

Important Revenue contracts are created at domain level. Therefore, you can create a revenue contract in one entity of a domain, but modify or delete the contract in another entity of the same domain. You can also attach sales orders, trailer charges, and pending invoices from multiple entities in the domain to the performance obligations of a single revenue contract.

Creating Revenue Contracts Manually

The Revenue Contract Menu (37.1) enables you to create and maintain revenue contracts, as displayed in Figure 3.1. The header fields store key revenue contract information.

Fig. 3.1
Revenue Contract Create



Contract Number. This number must be a unique identifier of the revenue contract. You can also enter a short description for the revenue contract in the adjacent field.

Customer. Enter the customer code or select from the lookup. The customer name is populated according to the code.

Currency. Enter the currency code for this revenue contract. The default currency for the selected customer is displayed by default in this field.

Reference. You can enter a pertinent reference number to the revenue contract in this field, such as a customer reference number.

Agreement Date. Specify the date on which the contract was agreed to with the customer or other stakeholders.

Active. Select this field to make the revenue contract active.

The revenue calculation cannot process an inactive revenue contract. Therefore, no deferral or recognition postings can be created for it. An inactive revenue contract does not need to have performance obligations or order lines linked to the performance obligations. You can make a revenue contract inactive to allow you time to verify that it is correctly constructed, with the correct performance obligations and linked lines.

Making a revenue contract active means that the revenue calculation processes the contract and potentially creates deferral and recognition postings. After postings have been created, it is not possible to make the revenue contract inactive again. You can only make an active revenue contract inactive when the contract has not been processed and there are no revenue recognition postings. An active revenue contract must have performance obligations and linked lines.

Completed. Select this field to indicate that the revenue contract has been completed.

The Refresh Invoices button enables you to refresh the status of any invoices that are added to the revenue contract. The tabs display additional information, including information about performance obligations and other parameters that define the scope of the revenue contract.

Note You can also provide supporting documentation for the revenue contract by adding attachments at header level. You can also add attachments at obligation line level. For more details, see “Attachments” on page 35.

Under the header, contract details are presented on tabs on the Revenue Contract screen.

General Tab

The General tab displays information about the revenue contract start and end date and the various totals on the contract. The totals on the General tab are automatically calculated from the data on the Performance Obligation tab. Except for Start Date and End Date, the fields are read-only.

Start Date/End Date. Enter a start and end date for the contract.

Contract Value TC. This field displays the contract value in transaction currency.

Standalone Selling Price Total. This field displays the total value of the contract based on the stand-alone selling prices of the performance obligation lines.

Allocated Transaction Price. This field displays the total value of the contract based on the allocated transaction prices of the performance obligation lines.

Invoiced Total. This field displays the amount of the revenue contract that has been invoiced in transaction, base, and statutory currency.

Deferred Revenue Total. This field displays the amount of the revenue contract that has been deferred in transaction, base, and statutory currency.

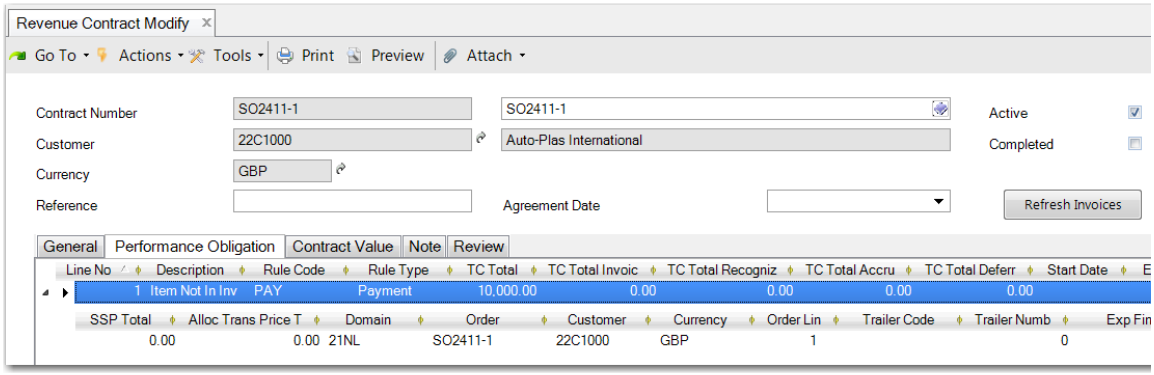
Accrued Revenue Total. This field displays the amount of the revenue contract that has been accrued in transaction, base, and statutory currency.

Recognized Total. This field displays the amount of the revenue contract that has been recognized in transaction, base, and statutory currency.

Performance Obligations Tab

The Performance Obligation tab records all performance obligations on the revenue contract, complete with any linked lines. You can create a performance obligation on the Performance Obligation tab using the context menu. Linked lines allow for sales order lines and trailer charges linked to the performance obligations.

Fig. 3.2
Revenue Contract Modify - Performance Obligation Tab



The columns on a performance obligation line contain important information about the obligation.

Table 3.1
Performance Obligation Tab Columns

Column	Description
Line No	Performance obligation line number.
Description	Description of the performance obligation.
On Hold	Indicates whether the performance obligation is on hold.
Rule Code	Revenue recognition rule used on the performance obligation.
Rule Type	The type of revenue recognition rule used on the performance obligation.
Complete	Indicates whether the performance obligation has been completed.
Exp Final Rec Date	The expected final recognition date for the performance obligation.
Actual Final Rec Date	The actual final recognition date for the performance obligation.
TC Total	The total amount of the performance obligation in transaction currency.
TC SSP Total	The stand-alone selling price total in transaction currency.
TC/BC/SC Total Invoiced	The total invoiced on the performance obligation in transaction, base, and statutory currency.
TC/BC/SC Total Deferred	The total deferred on the performance obligation in transaction, base, and statutory currency.
TC/BC/SC Total Accrued	The total accrued on the performance obligation in transaction, base, and statutory currency.
TC/BC/SC Total Recognized	The total recognized on the performance obligation in transaction, base, and statutory currency.
% Complete	The percentage of the performance obligation that has been completed.
% Complete Change Date	The date at which the percentage complete value was updated.
% Complete Value	The value of the percentage that is complete.

Some of the fields on the performance obligation are calculated from the data stored on the performance obligation lines, including:

- The total amount of the performance obligation
- The amount of the performance obligation line invoiced
- The amount of the performance obligation line deferred, accrued, and recognized

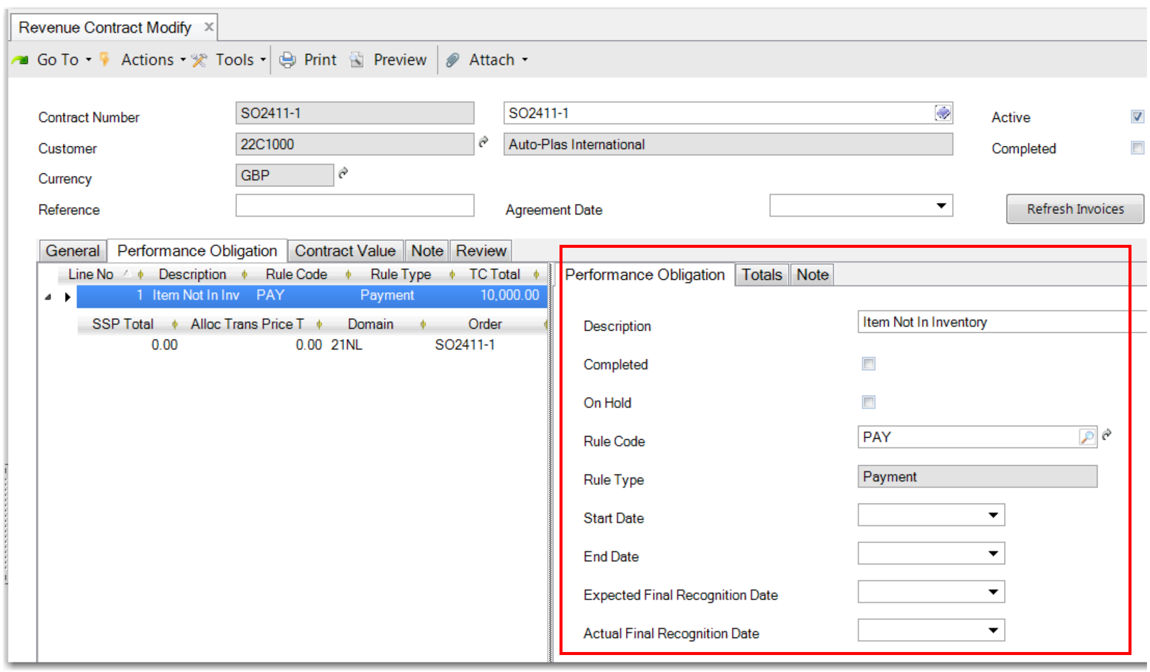
History

A history record is created each day that you edit the % Complete field on the performance obligation. If you change this field more than one time in a day, the history record for that day is updated. The revenue calculation uses history records to ensure that the revenue is correctly calculated for the effective date that you run the revenue calculation.

Performance Obligation Form View

By default, you view all performance obligations defined against the revenue contract in a grid. However, you can also open a form that displays details of a performance obligation in tab format. You display the form view by opening the context menu on any performance obligation and choosing View Detail. The form view is overlaid on the grid view of the Performance Obligation tab, as displayed in Figure 3.3.

Fig. 3.3
Performance Obligation Tab – Form View



The form view displays several tabs.

Performance Obligation Tab

The Performance Obligation tab displays the:

- Description
- Completed and On Hold fields
- Rule code and type
- Start and end dates
- Expected and actual final recognition dates

Totals Tab

The Totals tab displays the performance obligation total information, including:

- Performance obligation value in transaction currency
- Stand-alone selling price—calculated from the standalone selling prices of the performance obligation lines—in transaction currency
- Allocated transaction price—calculated from the allocated transaction prices of the performance obligation lines—in transaction currency
- Invoice value in transaction, base, and statutory currency
- Deferred value in transaction, base, and statutory currency
- Accrued value in transaction, base, and statutory currency
- Recognized value in transaction, base, and statutory currency
- Exchange rate information for base currency and statutory currency

Notes Tab

The Notes tab enables you to enter a note on the selected performance obligation line.

Note Depending on the type of revenue recognition rule on the performance obligation, other tabs can also be displayed. For example, when you create a performance obligation using a rule of type periodic or custom periodic, the Periods tab is also displayed as in Figure 3.4. The tab displays a breakdown of how the revenue is recognized across the periods. For more information, see Periodic and Custom Periodic Revenue Recognition Rules.

Fig. 3.4
Performance Obligation Tab – Form View Periods

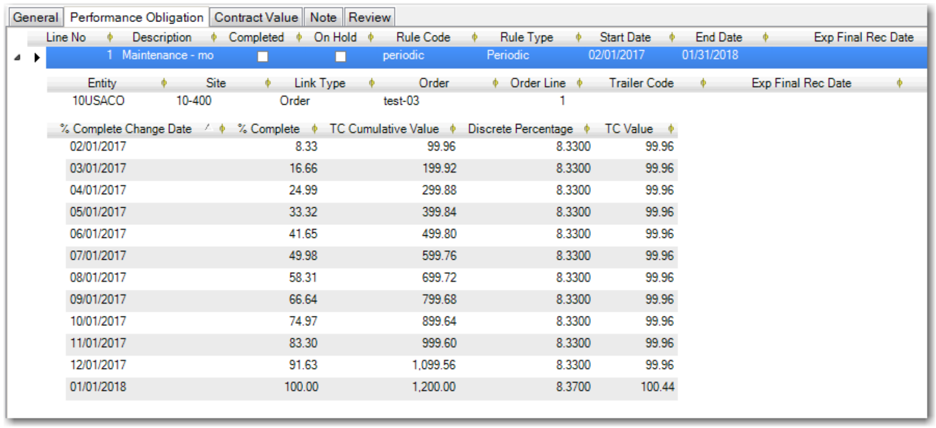
Performance Obligation | Totals | Note | Periods

% Complete Change Date	% Complete	TC Cumulative Value	Discrete Percentage	TC Value
02/01/2017	8.33	99.96	8.3300	99.96
03/01/2017	16.66	199.92	8.3300	99.96
04/01/2017	24.99	299.88	8.3300	99.96
05/01/2017	33.32	399.84	8.3300	99.96
06/01/2017	41.65	499.80	8.3300	99.96
07/01/2017	49.98	599.76	8.3300	99.96
08/01/2017	58.31	699.72	8.3300	99.96
09/01/2017	66.64	799.68	8.3300	99.96
10/01/2017	74.97	899.64	8.3300	99.96
11/01/2017	83.30	999.60	8.3300	99.96
12/01/2017	91.63	1,099.56	8.3300	99.96
01/01/2018	100.00	1,200.00	8.3700	100.44

Periodic and Custom Periodic Revenue Recognition Rules

When you create a performance obligation and specify a rule of type Periodic or Custom Periodic, a set of period records is automatically generated when you specify a start and end date. This date range is the time frame over which the revenue of the performance obligation is to be recognized.

Fig. 3.5
Revenue Contract Period Creation



General | Performance Obligation | Contract Value | Note | Review

Line No	Description	Completed	On Hold	Rule Code	Rule Type	Start Date	End Date	Exp Final Rec Date
1	Maintenance - mo	☐	☐	periodic	Periodic	02/01/2017	01/31/2018	

Entity	Site	Link Type	Order	Order Line	Trailer Code	Exp Final Rec Date
10USACO	10-400	Order	test-03	1		

% Complete Change Date	% Complete	TC Cumulative Value	Discrete Percentage	TC Value
02/01/2017	8.33	99.96	8.3300	99.96
03/01/2017	16.66	199.92	8.3300	99.96
04/01/2017	24.99	299.88	8.3300	99.96
05/01/2017	33.32	399.84	8.3300	99.96
06/01/2017	41.65	499.80	8.3300	99.96
07/01/2017	49.98	599.76	8.3300	99.96
08/01/2017	58.31	699.72	8.3300	99.96
09/01/2017	66.64	799.68	8.3300	99.96
10/01/2017	74.97	899.64	8.3300	99.96
11/01/2017	83.30	999.60	8.3300	99.96
12/01/2017	91.63	1,099.56	8.3300	99.96
01/01/2018	100.00	1,200.00	8.3700	100.44

The number of periods generated depends on the period type defined on the revenue recognition rule and the date range you specify. For each generated period, a recognition percentage and recognition value are calculated and stored. These values are derived from the total value of the performance obligation and the number of periods generated.

Example Ten periods are generated. The performance obligation has a value of $1000. Therefore, each period has a recognition percentage of 10% and a recognition value of $100.

Each period has a recognition date. This date is calculated based on the setting in the Recognition Point field in Revenue Recognition Rule (37.2.1). If the setting is Start of Period, the recognition date is set to be the first day of each period. If the setting is End of Period, the recognition point is set to be the last day of each period. If the rule uses an offset recognition point, the recognition date is set to the first date of the period plus the number of offset days.

There are special exceptions for the first and last periods generated for the performance obligation. For example, the rule uses the start of the period as the recognition point. However, the start date of the performance obligation has been set afterward. In this case, the first period recognition date is set to the start date of the performance obligation.

A similar situation arises when the rule uses the last date of the period as the recognition point and the end date of the performance obligation is before the last day of the last period. In this situation, the recognition date is set to the end date of the performance obligation. This recognition logic is displayed in Table 3.2.

Table 3.2
Recognition Logic Example

Recognition Point	Start of Performance Obligation	End of Performance Obligation	Recognition Date for First Period	Recognition Date for Last Period
Start	January 15, 2016	December 15, 2016	January 15, 2016	December 1, 2016
End	January 15, 2016	December 15, 2016	January 31, 2016	December 15, 2016

When the period or custom period rule uses GL periods, the periods created for the performance obligation are defined to fit the GL periods set up in the software.

GL Period Example

Example A contract is created with a performance obligation to be recognized over a year-long period. The performance obligation has a start date of January 18, 2017, and an end date of January 17, 2018. The Period Type is set to GL Period in Revenue Recognition Rule. The total recognition value is $1000.

During this period, the customer likely receives 12 invoices for the services covered by the performance obligation. However, on the revenue contract, 13 periods are created against the performance obligation, as displayed in Table 3.3.

Table 3.3
Period Type of GL Period

GL Period	Start	End	% Recognized	Recognition Value
1	January 18, 2017	January 31, 2017	3.73	$37.30
2	February 1, 2017	February 28, 2017	8.34	$83.40
3	March 1, 2017	March 31, 2017	8.34	$83.40
4	April 1, 2017	April 30, 2017	8.34	$83.40
5	May 1, 2017	May 31, 2017	8.34	$83.40
6	June 1, 2017	June 30, 2017	8.34	$83.40
7	July 1, 2017	July 31, 2017	8.34	$83.40
8	August 1, 2017	August 31, 2017	8.34	$83.40
9	September 1, 2017	September 30, 2017	8.34	$83.40
10	October 1, 2017	October 31, 2017	8.34	$83.40
11	November 1, 2017	November 30, 2017	8.34	$83.40
12	December 1, 2017	December 31, 2017	8.34	$83.40
13	January 1, 2018	January 17, 2018	4.53	$45.30

13 periods are created because revenue contract performance obligation periods are calculated to fit in with the GL periods set up on the system. The contract starts and finishes in the middle of the January periods in 2017 and 2018. Therefore, one of the 12 invoices for the service is split between the 1st and 13th periods on the performance obligation.

The percentage and value of the performance obligation is calculated by working out the percentage of revenue to be recognized daily. This percentage is based on the number of days in the revenue contract period. From this figure, you can calculate the percentage of revenue to be recognized in the first and last periods of the performance obligation.

To simplify accounting, for the remaining periods, the remaining revenue is split evenly across these whole GL periods. However, to split the revenue based on the number of days in each period on the performance obligation, you can change the recognition percentage and value of the difference periods.

Monthly Period Example

If the revenue recognition rule uses a period type other than GL periods, performance obligation periods are calculated differently.

Example As in the previous example, a contract is created with a performance obligation to be recognized over a year-long period. The performance obligation has a start date of January 18, 2017, and an end date of January 17, 2018. The Period Type is set to Monthly in Revenue Recognition Rule.

This time, only 12 periods are created, as displayed in Table 3.4.

Table 3.4
Period Type of Monthly

GL Period	Start	End
1	January 18, 2017	February 17, 2017
2	February 18, 2017	March 17, 2017
3	March 18, 2017	April 17, 2017
4	April 18, 2017	May 17, 2017
5	May 18, 2017	June 17, 2017
6	June 18, 2017	July 17, 2017
7	July 18, 2017	August 17, 2017
8	August 18, 2017	September 17, 2017
9	September 18, 2017	October 17, 2017
10	October 18, 2017	November 17, 2017
11	November 18, 2017	December 17, 2017
12	December 18, 2017	January 17, 2018

This time, the performance obligation periods are not tied to the GL periods of the system and are calculated from the start date of the performance obligation. The start date of the performance obligation is January 18, 2017 and the period extends one month into February, meaning the end date of the period is the February 17, 2017.

The value of the performance obligation is split evenly across the performance obligation periods. However, you can choose to change the recognition percentages and values.

The other revenue recognition rule period types—quarterly, bi-annually, and annually—work in a similar way to the monthly period type.

Performance Obligation Lines

You can link sales order lines to a performance obligation regardless of the shipped or invoiced status of the lines. However, you can only link a sales order line to one performance obligation. If you attempt to link a sales order line that has already been added to a performance obligation on an existing revenue contract, you receive an error.

You can also link sales order trailer charges to a single performance obligation. As with sales order lines, you can only link a sales order trailer charge to a single performance obligation. If you attempt to link a sales order trailer charge that has already been added to a performance obligation on an existing revenue contract, you receive an error.

A performance obligation consists of a line number, a description, and a revenue recognition rule. The rule defines how and when the revenue contained in the orders attached to the performance obligation can be recognized.

A performance obligation must always have a description. If the Description field is left blank, the software sets the description to the first order line description linked to the performance obligation.

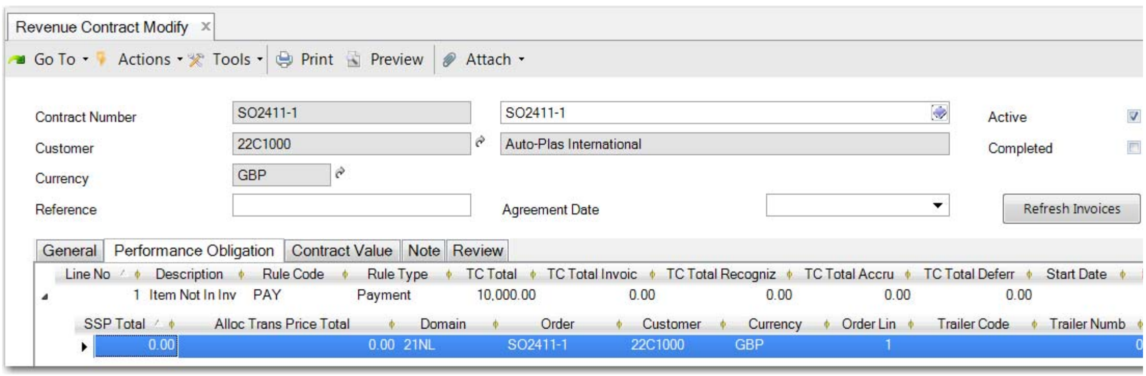
For each performance obligation, you can attach one or more sales order lines. Each order line displays columns with important information, as displayed in Table 3.5.

Table 3.5
Performance Obligation Order Line Columns

Column	Description
Domain	The domain in which the sales order is created.
Customer	The customer for this sales order.
Currency	The currency of the sales order.
Order	The sales order number.
Order Line	The line of the sales order number.
Trailer Code/Number	The trailer code and number of the sales order trailer charge.
Link Type	The type of document being linked to the performance obligation.
TC/SC/BC Invoiced	The invoiced amount of the sales order line in transaction, statutory, and base currency.
TC/SC/BC Deferred	The deferred amount of the sales order line in transaction, statutory, and base currency.
TC/SC/BC Recognized	The recognized amount of the sales order line in transaction, statutory, and base currency.
TC/SC/BC Accrued	The accrued amount of the sales order line in transaction, statutory, and base currency.
Order Value TC	The order value of the sales order line in transaction currency.
Net Price	The order price of the item.
List Price	The list price of the item.
Discount	The discount that has been applied to the sales order line.
Site	The site from which the sales order line was shipped.
Entity	The entity of the sales order line.
Item Number/Description	The item code and description.
Order UOM	The unit of measure used on the order.
Order Qty	The quantity ordered on the order line.
Sales Account/Description	The GL sales account code and its description.
Sales Sub-account	The sales sub-account code.
Sales Cost Center/Project	The sales cost center and project codes.
SSP Lower/Upper Limit	The SSP upper and lower limits.
Deferred Revenue Account/Description	The GL deferred account code and its description.
Deferred Revenue Sub-account/Cost Center/Project	The deferred revenue sub-account, cost center, and project codes.
Accrued Revenue Account/Description	The GL accrued account code and its description.
Accrued Revenue Sub-account/Cost Center/Project	The accrued revenue sub-account, cost center, and project codes.
Exp Final Recognition Date	The expected date by which all the revenue for the line is recognized.
Actual Final Recognition Date	The actual date on which all the revenue for the line was recognized.

Column	Description
SSP	The stand-alone selling price for the line. It is used in variable consideration calculations.
Allocated Trans Price	The allocated transaction price for the line item. It is used in variable consideration calculations.
SSP Total	The stand-alone selling price total.
Allocated Trans Price Total	The allocated transaction price total.

Fig. 3.6
Revenue Contract Performance Obligation Order Line



GL Accounts and Analysis

For each sales order line or trailer charge attached to the performance obligation, three sets of GL accounts and analysis codes are defined:

- Sales revenue
- Deferred revenue
- Accrued revenue

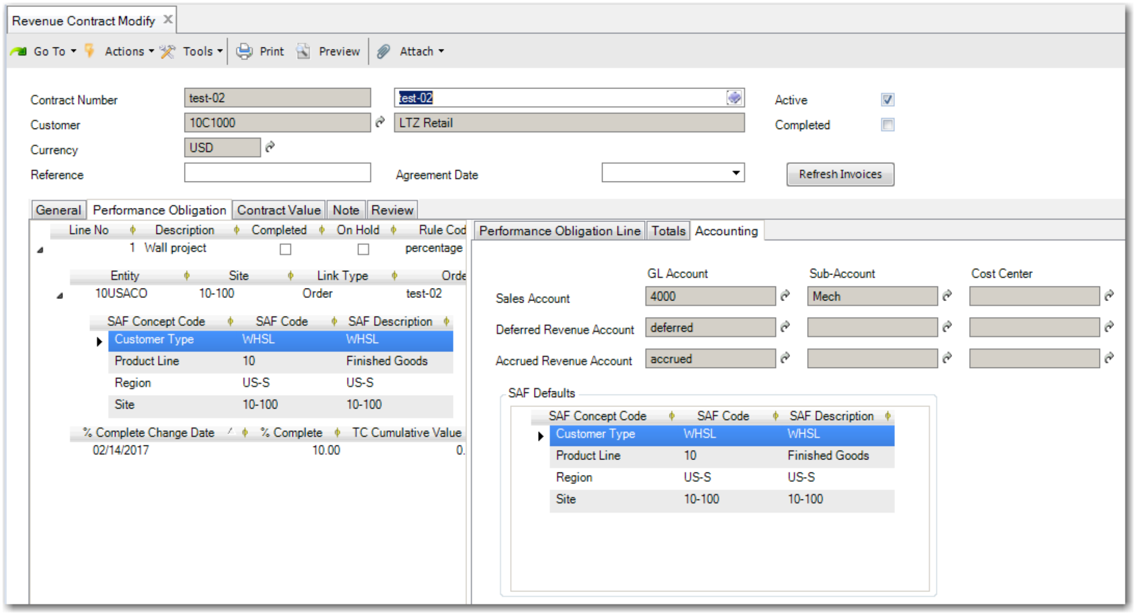
You can only view the GL accounts and analysis codes. The fields are read-only and default based on the sales revenue account and analysis set up on the sales order line or against the definition of the trailer charge. From this sales revenue account, the deferred and accrued revenue GL accounts and analysis are set according to the revenue GL account mappings you have set up. For more details, see “Mapping Revenue GL Accounts” on page 14.

If a matching GL account mapping record cannot be found, the system uses the deferred and accrued revenue account profiles defined for the customer to set the deferred and accrued revenue accounts and analysis. For more details, see “Assigning Customer Defaults” on page 13.

Performance Obligation Line Form View

You can also choose to view and maintain the performance obligation linked lines using form view. Display form view by double-clicking a performance obligation line or by using the context menu. The form is displayed over the right-hand portion of the grid, as shown in Figure 3.7.

Fig. 3.7
Revenue Contract Performance Obligation Order Line Form View



The form displays various tabs.

Performance Obligation Line Tab

The Performance Obligation Line tab contains the following information:

- Link type
- Order
- Order line
- Trailer
- Entity and site information
- Expected and actual final recognition dates
- Item, quantity, and price information

Totals Tab

The Totals tab holds the total information:

- Performance obligation value
- Stand-alone selling price
- Allocated transaction price
- Invoice value in transaction currency, base currency, and statutory currency
- Deferred value in transaction currency, base currency, and statutory currency
- Accrued value in transaction currency, base currency, and statutory currency
- Recognized value in transaction currency, base currency, and statutory currency

Accounting Tab

The Accounting displays GL account information and the SAF Defaults. Three sets of accounts and analysis are displayed.

- Sales account
- Deferred revenue account
- Accrual revenue account

The sales account and its analysis—division, cost center, and project—are gathered from different places depending on the line type. When the type is a sales order line, the details are gathered from the line itself and from the trailer code details for the trailer charge line.

The SAF defaults section contains the SAF concepts, values, and descriptions used on the performance obligation line, which are reused in the revenue recognition postings and calculation. The SAFs can be either:

- System SAFs, which are retrieved for sales order lines or trailer charges based on the SAF structures linked to the sales GL, cost center, or project. You cannot update or delete system SAFs.
- SAFs that you enter manually. You can update or delete manually entered SAFs.

History Tab

You can view updates to the SSP and allocated transaction prices on the performance obligation lines. The tab displays the SSP and allocated transaction price history and the effective date for each change. For more details, see “History Record”.

Acceptance Tab

You can also view and maintain invoice sub-records in form view on the Acceptance tab. It displays the invoices created from the sales order line linked against the performance obligation line. For more details, see “Invoices”.

History Record

A history of changes to certain fields is kept for the performance obligation line. These history records are created each time you edit the Standalone Selling Price or Allocated Transaction Price fields.

A history record is kept each day. If you make more than one change to either field on any day, the history record for that day is updated. The revenue calculation uses the history records to ensure that the revenue is correctly calculated for the effective date that you run the revenue calculation.

Invoices

If the performance obligation uses a rule defined as being a customer acceptance rule, you can view more invoice information in the form of sub-records to the linked lines of the performance obligation, as displayed in Table 3.6.

Table 3.6
Invoice Sub-records

Column	Description
Invoice Accepted	When selected, this column indicates that the invoice has been accepted by the customer.
Accepted Date	The date when the customer accepted the invoice.
POD Reference	The proof of delivery reference—a 40-character field to hold tracking numbers from the carrier.
Year	The year the invoice was created.
Daybook	The daybook used for the invoice.
Voucher	The invoice voucher number.

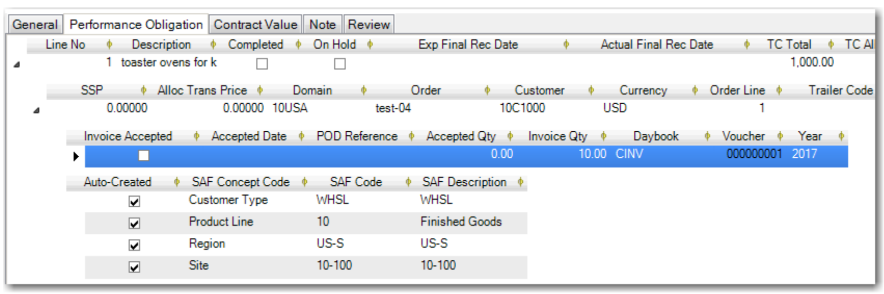


Fig. 3.8
Revenue Contract Modify – Invoice Accepted Field

If you select the Invoice Accepted field, it indicates that the invoice revenue can be recognized. When you run the revenue calculation process for the contract, recognition postings are created.

If the customer acceptance revenue recognition rule also uses of proof of delivery, you must enter a value in the POD Reference field. This field records the delivery number from the commercial shipment company handling the delivery of the goods to the customer. If you leave the field blank and select the Invoice Selected field, you receive an error stating that the Proof of Delivery field must contain a value. However, the system does not validate any value entered in the Proof of Delivery field.

When the Invoice Accepted field is not selected, the revenue calculation defers the revenue of the invoice to the deferred revenue GL account you defined on the linked line record of the performance obligation.

Net Prices and Deferred and Recognized Amounts

All currency values—invoiced, deferred, accrued, and recognized—are net values. Therefore, these values are net of taxes, both excluded and included.

The net price of a linked line on a performance obligation can change over the lifetime of the revenue contract because an order line assigned to a performance obligation can be delivered in multiple shipments and multiple invoices. The prices charged for the goods can vary over time and tax rates can also change, affecting the calculated net price.

For a partially shipped invoice, the net price is calculated from the sales order line. However, after the sales order has been fully shipped and invoiced, the net price is calculated from the final invoice generated for the sales order line.

GL Accounts

For each order line linked to the performance obligation, there must be:

- A sales account
- A deferred revenue account
- An accrued revenue account

The sales account and analysis defaults to the sales account and analysis defined on the order line.

The deferred revenue and the accrued revenue accounts default as follows:

1. The system checks whether there is a GL account mapping available, based on the sales account and the sales analysis. If a mapping exists, the deferred and accrued revenue account and analysis defined on the mapping are used.
2. When no GL account mapping is available, the default deferred and accrued revenue account profiles are used to find GL accounts. The analysis fields are populated using the default values defined in the GL accounts used.
3. When no default account profiles are set for the customer, the accounts remain blank and you must enter GL accounts and analysis manually.

You cannot save the revenue contract until the deferred revenue account has been set. You can use any standard GL account defined in the system. The only restriction is that the deferred revenue account cannot be set to use the same GL as the sales account.

The accrued revenue account is also mandatory. As with the deferred revenue account, it must be an active standard GL account and it cannot be set to use the same GL account as the sales account. In addition, it cannot be set to the same GL account as the deferred revenue account.

Note The usual restrictions on the use of analysis codes apply when creating and modifying revenue contracts. Analysis codes must be active and available for use in the current entity. All analysis codes are validated against defined COA masks.

Adding Obligations by Order

Instead of creating performance obligations and their associated order lines manually, you can create performance obligations by order using the context menu. Click the context menu item Add Obligations by Order, which displays a browse that enables you to select sales orders. When you select a sales order, a performance obligation is created for each sales order line. The rule of the performance obligation is set as the default rule on the customer record.

Note The revenue recognition calculation creates transactions when deferring and recognizing revenue. These transactions are created when the orders and shipments have been invoiced. You can also use the context menu to view these transactions and invoices.

Contract Value Tab

The Contract Value tab records the total value of the revenue contract. Although you record the performance obligations and their associated sales order and trailer charges on the Performance Obligation tab, the Contract Value tab contains the necessary details for calculating the value of the contract.

The Contract Value tab records estimate and non-estimate valuation lines.

- An estimate line is used when there is not enough information to precisely determine the quantity and invoice value of a particular item on the revenue contract.
- A non-estimate line is used to mirror the value of a particular item listed on a sales order or trailer charge attached to a performance obligation.

In either case, the following information is recorded on a valuation line, which displays the columns in Table 3.7.

Table 3.7
Contract Value Tab Columns

Field	Description
Explicit Estimate	Logical field. Yes indicates that the valuation line is an estimate.
Item	The item number for the valuation line.
UOM	Unit of measure for the item.
Description	The item description.
Trailer Code	The trailer code for the valuation line.
Estimated Item Qty/Price	The quantity and price of the item.
Standalone selling price	The price of the item that would be used in an arms-length transaction.
SSP Upper/Lower limit	The upper or lower SSP price limit to be used in determining whether to calculate a distributed allocated transaction price.
Allocated transaction price	The allocated transaction price of the line.
TC estimated item total	The total value of the valuation line based on the item total price.
TC Item Total by SSP	The total value of the valuation line based on the stand-alone selling price.
TC item total by Alloc Trans Price	The total value of the valuation line based on the allocated transaction price.

The allocated transaction price of the line is calculated based on all valuation lines entered to ensure that the revenue of the revenue contract is distributed fairly across all valuation lines.

For example, a revenue contract has been raised for a customer to cover the purchase of an electrical generator for a factory. The price also includes one year of maintenance and training to help the customer to install and run the electrical generator. The example is displayed in Table 3.8.

Table 3.8
Contract Value Example

Performance Obligation	Rev Rec Rule	Item	Quantity	Order Price	Invoiced Amount	SSP	Allocated Transaction Price
Deliver and install power generator	Invoice + 15 days	1 electrical generator	1	$1,000,000	$1,000,000	$1,000,000	$896,309.31
1 year of maintenance	Periodic	Maintenance - 1 year	1	0	0	$120,000	$107,557.12
2 weeks of consultancy	Customer Acceptance	Initial training	10	$2,000	$20,000	$18,000	$16,133.57

The three performance obligations on the contract each require a valuation line on the Contract Value tab. There is one line for the electrical generator, one line for the maintenance, and one line for the training.

The total stand-alone selling price for the contract is $1,138,000.00. This price is based on each of three items being sold separately in an arms-length transaction. The total invoice value of this contract is $1,020,000.00.

The expected revenue from the customer must be distributed across all three lines because maintenance has been included in the invoice price and the customer has, in effect, not been charged for it. However, revenue is being generated from this maintenance activity. Therefore, part of the money received from the customer has to be considered maintenance revenue. The distribution is displayed in the Allocated Transaction Price column in Table 3.8.

The distribution calculation formula is:

*(SSP for the valuation line / total SSP for all the valuation lines) * total invoice amount for all the valuation lines*

So for the first line, the electrical generator, the allocated transaction price is:

*(1,000,000.00 / 1,1138,000.00) * 1,020,000.00 = £896,309.31*

The other two lines are calculated similarly, resulting in the allocated transaction prices for the three lines as displayed in Table 3.8.

Review Tab

The Review tab allows you to create records that document the review of the revenue contract. The review process is an important feature during the lifetime of the revenue contract. The review record contains the following fields in form view, which you can open by double-clicking the review line.

Review Date. Enter the date the review was created and carried out.

User ID. Enter the ID of the user carrying out the review.

User Name. Enter your user name.

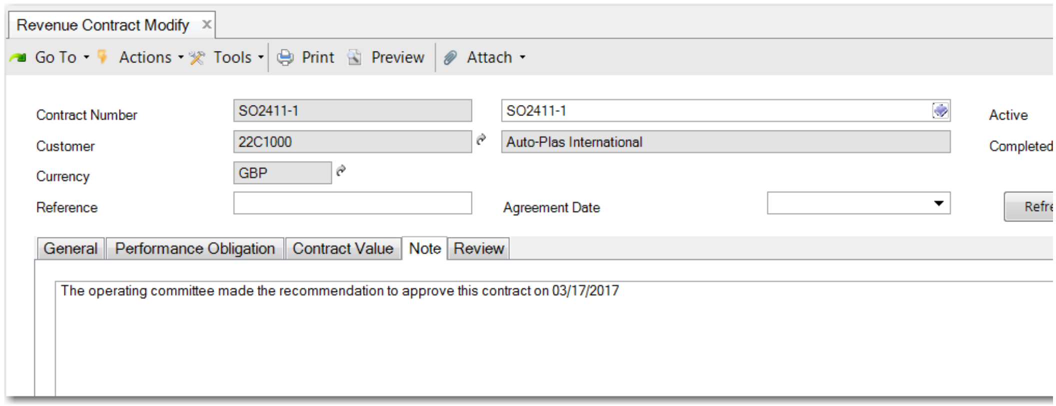
Review Result. Enter the outcome of the review.

Notes. Enter any general notes that support the outcome of the review.

Note Tab

The Note tab enables you to make notes on the contract. You can enter details of any review processes or provide information concerning any documents that you have attached to the contract.

Fig. 3.9
Revenue Contract Modify – Note Tab



Attachments

To help accounting staff to document revenue contract reviews, you can attach extra documentation to the contract by using the:

- Attach menu
- Attachments panel
- Context menu on a performance obligation line

Viewing Revenue Contracts

The revenue recognition calculation creates transactions when deferring and recognizing revenue. These transactions are created when the orders and shipments have been invoiced. You can view these transactions and invoices in Revenue Contract View (37.1.3) using the right-click context menu. This menu enables you to open the Revenue Contract Transaction browse and the Revenue Contract Invoice browse. For more information on revenue calculations, see “Revenue Recognition Postings” on page 37.

Deleting Revenue Contacts

When no revenue has been deferred or recognized on a contract, you can delete the revenue contract and its associated performance obligations and linked lines in Revenue Contract Delete (37.1.4). However, deleting all the linked lines of a performance obligation on an active revenue contract results in an error because you cannot have a performance obligation with no linked lines.

To delete the contract and the performance obligation, you must either mark the revenue contract as inactive or delete the performance obligation line.

When the revenue calculation has run and revenue has been deferred or recognized on a contract, you cannot delete the revenue contract, the performance obligations on the contract, or the linked lines of the performance obligations.

Adding an Order Line to an Existing Performance Obligation

You can add an order line to a performance obligation that is already linked to existing order lines. However, this can affect the deferred and recognized revenue of the performance obligation.

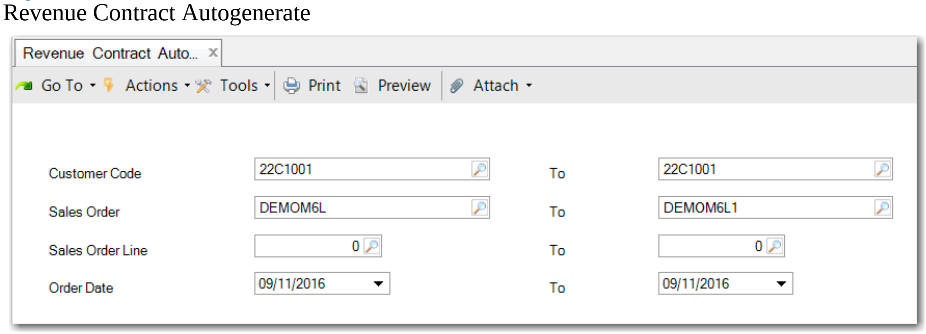
Example A contract exists with a performance obligation with an order line linked to the obligation. The order revenue has been recognized and posted to the sales account. You add another order line that has been invoiced already but you cannot recognize the revenue for another six months. When the revenue recognition process is run, the revenue of the new order line is deferred and a posting moves the revenue from the sales account to the deferred revenue account. However, the revenue recognition process also defers the revenue for the original order line that has already been recognized because the revenue of the performance obligation must be deferred and recognized as a whole. In this case, you have changed the overall conditions of the performance obligation by adding the new order line.

Auto-generating Revenue Recognition Contracts

Revenue Contract Autogenerate (37.1.5) enables the auto-creation of revenue contracts based on a set of parameters. You can use this menu to generate multiple revenue contracts simultaneously.

Based on the selection criteria, one or more contracts are generated for all sales order lines and invoice history records that are eligible for revenue contract creation. The auto-generate program creates a single revenue contract for each sales order processed, with each sales order line creating its own performance obligation line.

Fig. 3.10
Revenue Contract Autogenerate



Note You enable auto-generation of revenue contracts at customer level on the Customer menu (27.20.1). In the customer record header, make sure that the customer is active. On the Accounting tab, make sure that Auto Create Revenue Contracts is selected.

The fields in Revenue Contract Autogenerate are as follows:

Customer Code. Enter a customer code range. The range can comprise one or more customers.

Sales Order . Enter a sales order range. The range can comprise one or more sales orders.

Sales Order Line. Enter a sales order line range. This field is only relevant when you have entered a single sales order. Where there are multiple sales orders, you cannot select individual sales order lines.

Order Date. Enter an order date range. By default, the Order Date From and To field is populated with the system date. When you click Generate and one or both dates in the order date range are blank, a warning is displayed to indicate that there may be a large data set to process.

When you click Generate, a revenue contract or contracts are created for the sales order and order lines. Each order line is processed individually. If a contract exists for a sales order, a message is displayed to indicate that a contract has already been created for these order lines.

Revenue Recognition Postings

Revenue recognition postings are split into the following types:

- Deferral postings to the deferred revenue account
- Recognition postings to the sales revenue account
- Recognition postings to the accrued revenue account

Deferral postings are intended to move the revenue from the sales account to the deferred revenue account. Deferral postings are created when the revenue for an order on a performance obligation cannot be recognized because the rule on the performance obligation does not allow it.

Recognition postings are intended to recognize revenue. Sometimes, these postings recognize revenue that has previously been deferred to a deferred revenue account. The recognition posting moves the revenue back to the sales revenue account. In other cases, revenue can be immediately recognized but the customer has not yet been invoiced, so revenue is recognized to an accrued revenue account.

Entity Security

Revenue recognition postings are only created at entity level. Therefore, when you run a revenue calculation, revenue recognition postings are created for order lines, trailer charges, and invoices assigned to the current entity.

For example, in Table 3.9, there are two revenue contracts involving three entities. You log in to 10USACO and run the automated revenue calculation against Contract A and Contract B. However, this action only creates revenue recognition postings in entity 10USACO because the revenue recognition calculation only ever creates postings for the current entity. Therefore, to complete the revenue postings for Contract A, you must also run the revenue calculation in 11CANCO. Postings for Contract B are complete when you run the revenue calculation in 21NLCO.

Note The entity of the sales order is derived from the site code attached to the sales order header and the sales order lines of the sales order.

Table 3.9
Revenue Contract Example

Revenue Contract	Performance Obligation	Order	Order Line	Entity
Contract A	Obligation 1	SO1	1	10USACO
	Obligation 2	SO1	2	11CANCO
Contract B	Obligation 1	SO2	1	21NLCO
	Obligation 2	SO2	2	21NLCO

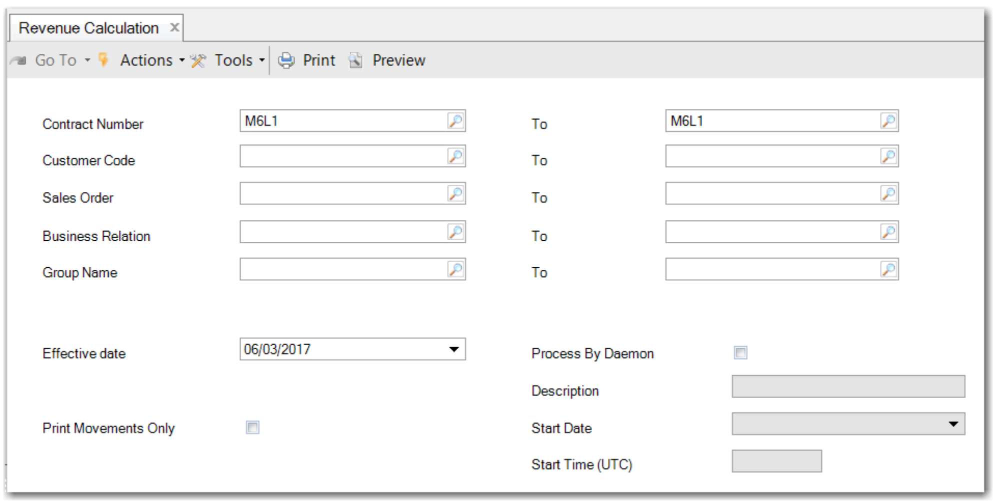
Running Revenue Calculations

You can defer or recognize revenue using the API solution, enabling you to generate revenue recognition postings by creating custom programs and interfaces that trigger the API to run.

However, you can also manually run revenue recognition calculations to create revenue recognition postings in Revenue Calculation (37.3.1). You can specify the revenue calculations to run using the filter criteria, as displayed in Figure 3.11.

You can also choose to create a revenue calculation run that can be scheduled to be processed by the batch daemon. When the batch reaches the target date and time, the system begins to process the batch records and postings are triggered. A new batch is made available for the next day. For more information, see "Processing by Batch Daemon" on page 48.

Fig. 3.11
Revenue Calculation



The fields on the Revenue Calculation menu are:

Contract Number. Enter the contract number range that you want to process. You can specify one or multiple contracts.

Customer Code. Enter a customer code range. If you leave the Customer Code field blank, the system automatically generates a number for the record based on the sequence defined in Customer Autonumber Create.

Sales Order. Enter a sales order range.

Business Relation. Enter a business relation range. If you leave this field blank, the system automatically generates a number for the record based on the sequence defined in Business Relation Autonumber Create.

Group Name. Enter a group name range containing corporate groups.

Effective Date. This field enables you to specify an effective date for the calculation run. By default, the field is set to the current system date. You can choose a future or past date.

However, running the revenue calculation on a date before existing calculated transactions creates new transactions on the specified date. The new transactions can potentially invalidate any existing transactions dated after the new ones. In this case, the revenue calculation must make reversal and correction postings for the contracts being processed.

The field is not active when you select the Use Daemon field.

Print Movements Only. This field enables you to control how much revenue contract information is printed on the report. When the field is clear, all the performance obligations of a revenue contract are printed, even if there are no deferred or recognized amounts. When you select this field, only performance obligations with deferred or recognized amounts are printed.

Process By Daemon. Select this field to use the batch daemon to automatically perform the revenue calculation at a specified time each day.

Description. Enter a description that is visible in Batch Daemon Monitor when the calculation is queued for processing. This field is only active when you select Process By Daemon.

Start Date. Specify a start date of today or sometime in the future for this revenue calculation. The batch daemon daily run starts on this date. When you do not enter a start date, the system date is used. This field is only active when you select Process By Daemon.

Start Time (UTC). Specify the time when you want the daemon to run the revenue calculation each day. When you do not enter a start time, the default time 0:00 (UTC) is used. This field is only active when you select Process By Daemon.

Note To run a calculation more than once daily, create a similar revenue calculation record and change the start time.

To run the revenue calculation based on your selected criteria, click Calculate.

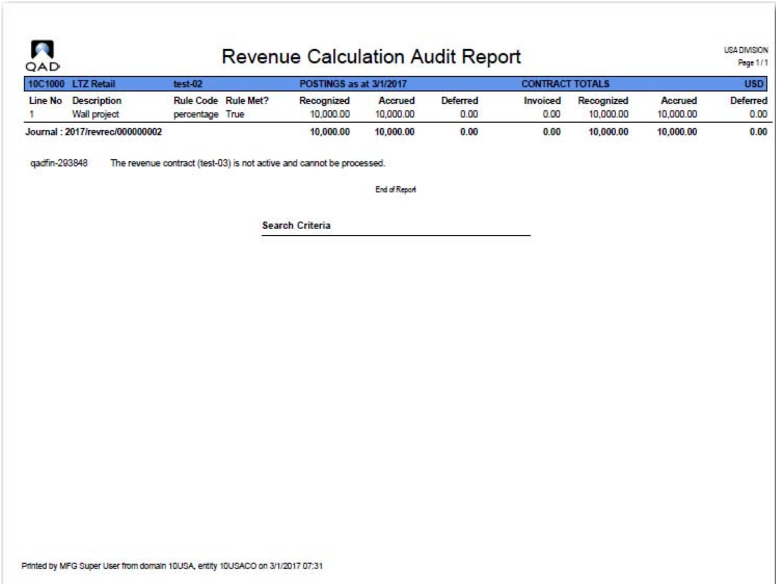
Revenue Calculation Audit Report

When you click Calculate, Revenue Calculation finds the revenue contracts that fall into the user-defined criteria and runs the revenue calculation for the contracts. The revenue calculation then automatically produces a report that details the results of the run, as displayed in Figure 3.12.

The report displays the revenue contracts that have had revenue deferred and contracts that have had revenue recognized. The report also displays the amounts of each performance obligation line, including the invoice, deferred amounts, and recognized amounts, and whether the performance obligation was met. Where the report displays deferred or recognized amounts, the journal entry reference number is also printed. If a revenue calculation fails, the report lists the revenue contract along with the reason for the failure.

Important The Revenue Calculation program processes revenue contracts as a whole. Therefore, you can run the program for a specific sales order and then find that revenue recognition postings have been created for other sales orders because they are linked to the same contract.

Fig. 3.12
Audit Report



Revenue Calculation Audit Report

USA DIVISION
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10C1000	LTZ Retail	test-02		POSTINGS as at 3/1/2017			CONTRACT TOTALS			USD
Line No	Description	Rule Code	Rule Met?	Recognized	Accrued	Deferred	Invoiced	Recognized	Accrued	Deferred
1	Wall project	percentage	True	10,000.00	10,000.00	0.00	0.00	10,000.00	10,000.00	0.00
Journal : 2017/revrec/000000002				**10,000.00**	**10,000.00**	**0.00**	**0.00**	**10,000.00**	**10,000.00**	**0.00**

qadfin-293848 The revenue contract (test-03) is not active and cannot be processed.

End of Report

Search Criteria

Printed by MFG Super User from domain 10USA, entity 10USACO on 3/1/2017 07:31

Deferral Postings

Deferral postings move revenue from the sales account—the one specified on the revenue contract—to a deferred revenue account. A deferral posting is created when the conditions of the revenue recognition rule are not met when the revenue calculation is run.

Individual posting lines are created for each invoice or credit note of the linked line of the performance obligation. When a linked line refers to a sales order line, it is possible that there are multiple invoices or credit notes. In this case, the revenue calculation creates a set of posting lines for each invoice or credit note.

When credit notes are linked to a performance obligation, the postings created for the deferral of revenue result in positive values on the postings lines.

Accrual Postings

Accrual postings are postings that move revenue from the sales account—as specified on the revenue contract—to an accrued revenue account. Accrual postings are only created if the performance obligation uses a percentage complete, periodic, or custom periodic rule and the conditions of the revenue recognition rule are not met when the revenue calculation is run.

Recognition Postings

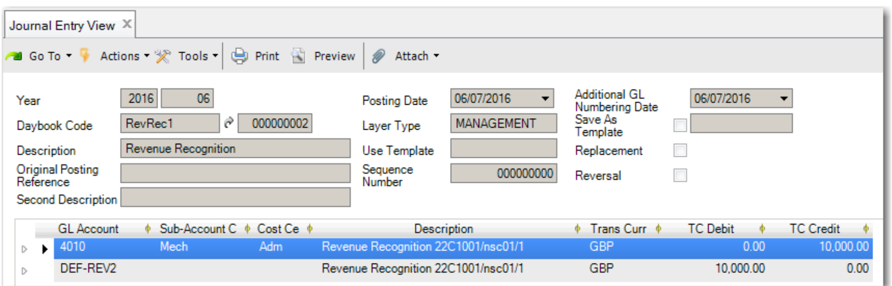
Recognition postings move revenue from the deferred revenue account back to the sales account. These postings happen when the conditions of the revenue recognition rule defined on the performance obligation have been met.

Revenue cannot be recognized until all orders linked to a performance obligation meet the conditions defined by the revenue recognition rule. Therefore, when even one order linked to a performance obligation does not meet the conditions of the revenue recognition rule, the revenue as a whole must remain deferred.

As with deferral postings, individual posting lines are created for each invoice or credit note of the linked line of the performance obligation. When a linked line refers to a sales order line, it is possible that there are multiple invoices or credit notes. In this case, the revenue calculation creates a set of posting lines for each invoice or credit note. Figure 3.13 displays the recognition postings for an invoice.

As with deferral postings, when the revenue of credit notes linked to performance obligations is recognized, the resulting postings contain positive values on the posting lines.

Fig. 3.13
Journal Entry View – Invoice Recognition Postings



Running the Revenue Calculation for Other Dates

By default, the effective date for the calculation run is the current system date. You can also choose to run the calculation for a future date or a historical date. Running the revenue calculation on a date in the past creates new transactions on the specified date. However, the new transactions can potentially invalidate any existing calculated transactions dated after the new ones. In this case, the revenue calculation must make reversal and correction postings for the contracts being processed.

Example 1: Time-Based Rule

- A sales order is created for $100. This sales order is attached to a performance obligation on a revenue contract and is then shipped and invoiced. The revenue recognition rule is set to be time-based, with revenue being recognized five days after invoice.
- The date of the invoice is June 29.
- The revenue calculation is run on July 6, which is more than five days after the invoice. No transactions are created and the sales revenue remains on the sales revenue GL account. Revenue recognition sub-ledger records are created.
- You then realize that the revenue calculation should have been run on June 30. The revenue calculation is run for this date and the revenue recognition rule is not met. The calculation creates a deferral posting for the revenue, moving the sales revenue for the invoice to the deferral GL account.

- However, this run of the revenue calculation is not the latest one. There are revenue recognition sub-ledger records of the later run on July 6. Therefore, the revenue calculation also creates another transaction dated on July 6 (the date of the first revenue calculation) that recognizes the revenue, moving the sales revenue from the deferral GL account to the sales revenue GL account.
- You then decide to run a revenue calculation dated July 5. With this date, the revenue recognition rule on the performance obligation is met. The revenue must be recognized and a transaction created.
- However, this transaction is identical to the transaction that was created with a date of July 6, except it is dated the day before. There are now two recognition postings, one with a date of July 6 and one for July 5. Therefore, the transaction with a date of July 6 must be reversed. This reversal posting is created automatically by the revenue calculation.
- The final result is that the revenue is deferred on June 30 and then recognized on July 5.

Example 2: Payment Acceptance Rule

- A revenue contract has been created with a single performance obligation. The performance obligation uses a payment acceptance rule, which means that revenue can only be recognized once the invoice has been fully paid and settled.
- A sales order line is linked to the performance obligation and shipped and invoiced on June 30.
- A payment for the invoice is processed on July 31 and pays the invoice in full. The invoice is considered settled as of this date.
- On August 5, you run the revenue calculation using an effective date of July 28. The revenue calculation creates deferral postings for the invoice revenue because on July 28, the invoice was still outstanding.
- If you run the revenue calculation again with the current date as the effective date—August 28—the revenue calculation creates recognition postings.

Example 3: Customer Acceptance Rule

- A revenue contract has been created with a single performance obligation. The performance obligation uses a customer acceptance rule, which means that revenue can only be recognized when the customer has accepted the shipment and provided notification.
- A sales order line is linked to the performance obligation and shipped and invoiced on June 30.
- The customer then informs you that the shipment has been accepted. On the revenue contract screen, you mark the invoice as accepted on July 31.
- On August 5, you run the revenue calculation, but with an effective date of July 28. The revenue calculation creates deferral postings for the invoice revenue because on July 28 the invoice was considered not accepted by the customer.
- If you run the revenue calculation again with the current date as the effective date—August 5— the revenue calculation creates recognition postings.

Revenue Calculation: Percentage Complete Performance Obligations

When the revenue recognition rule on a performance obligation is percentage complete, the revenue calculation can produce accrual postings along with the deferral and recognition postings. Accrual postings move revenue from the sales revenue account to the accrued revenue GL account defined on the performance obligation line of the revenue contract. Analysis codes are also taken from the performance obligation line.

Any accrual postings use the revenue calculation effective date to find any necessary exchange rates; for example, the statutory currency exchange rate. When the accrued revenue is later recognized, the reversal posting uses the exchange rate of the original accrual posting.

When using the percentage complete recognition rule, you must assess what percentage of a performance obligation has been completed. The revenue calculation then takes the percentage completed and compares it to the amount of the performance obligation that has been invoiced. The revenue calculation then creates deferral, accrual, and recognition postings based on this comparison.

- Invoiced amounts up to the completed amount are recognized and recognition postings are created, moving revenue to the sales revenue account.
- Invoiced amounts over the completed value are deferred and deferral postings are created, moving revenue to the deferred revenue account.
- Amounts that have been completed above the invoiced amounts are recognized and accrued and postings are created, moving the revenue to the accrued revenue account.
- When the performance obligation has been fully invoiced and marked as fully complete, all revenue is then recognized and the accrued revenue and deferred revenue accounts are cleared.

In cases where there is more than one performance obligation line on a performance obligation, percentage completed value is apportioned across the performance obligation lines.

Percentage Complete Examples

Example A performance obligation is created on a revenue contract, as displayed in Table 3.10. The sales order line is for $14,000. The performance obligation is marked as being 80% completed. The sales order line is then fully invoiced. However, because only 80% has been completed, only $11,200 can be recognized. The remaining $2,800 is deferred.

Table 3.10
Percentage Complete – Fully Invoiced

Performance Obligation	Sales Order Line
Total Value	14000
Percentage Complete	80%
Percentage Invoiced	100%
Value Recognized	11200 (80%)
Value Deferred	2800 (20%)

Example Again, a performance obligation is created on a revenue contract, as displayed in Table 3.11. The sales order line is for $14,000. The performance obligation is marked as being 80% completed. The value completed is $11,200. The sales order line is then partially invoiced at 50%. Because 50% has been invoiced, only 50% can be recognized to the sales revenue account.

Because 80% of the contract has been completed, the other 30% (80% - 50%) of the revenue is recognized to the accrued revenue account. The remaining 20% cannot be deferred because only 50% of the sales order line has been invoiced.

Table 3.11
Percentage Complete – Partially Invoiced

Performance Obligation	Sales Order Line
Total Value	14000
Percentage Complete	80%
Percentage Invoiced	50%
Value Recognized	7000 (50%)
Value Accrued	4200 (30%)

A performance obligation is created on a revenue contract and there are three sales order lines, as displayed in Table 3.12. The total value of the performance obligation is $14,000 and it is marked at 80% complete. The performance obligation is then fully invoiced. The percentage completed value is recognized and apportioned across the performance obligation lines.

Table 3.12
Percentage Complete – Fully Invoiced with Multiple Sales Order Lines

Performance Obligation	Total	Sales Order Line 1	Sales Order Line 2	Sales Order Line 3
Total Value	14000	9000	4000	1000
Percentage Complete	80%			
Percentage Invoiced	100%			
Value Recognized	11200 (80%)	7200	3200	800
Value Deferred	2800 (20%)	1800	800	200

Revenue Calculation: Periodic Performance Obligations

The revenue recognition postings created for performance obligation using periodic or custom periodic revenue recognition rules are similar to the postings created for percentage complete revenue recognition rules. The amount of revenue available to recognize increases with each period of the contract. The postings created for such performance obligations can recognize, defer, or accrue the revenue. As with the other revenue recognition rules, the accounts used for these postings are defined on the linked lines of the performance obligation.

When a performance obligation uses a periodic or custom periodic rule, the revenue of the performance obligation is handled on a period-by-period basis. The periods are defined against the performance obligation and store the percentage and value in discrete and cumulative forms. Each time the revenue calculation is run during the lifetime of the contract, the revenue of the performance obligation is deferred, accrued, or recognized, depending on whether the recognition date of a period has been reached and whether revenue has been invoiced:

- Where the cumulative available-to-recognize value is less than the invoiced amount of the performance obligation, the available-to-recognize value is recognized to the sales revenue account. The remaining invoiced amount is deferred to the deferred revenue account.
- Where the cumulative available-to-recognize value is greater than the invoiced amount of the performance obligation, the invoiced amount is recognized to the sales revenue account. The remainder of the available-to-recognize value is recognized to the accrued revenue account.

- Where the cumulative available-to-recognize value is equal to the invoiced amount of the performance obligation, the invoiced amount is recognized to the sales revenue account.

Example A revenue contract has been created with a single performance obligation using a periodic rule. There are 12 periods corresponding to the calendar months. The amount on the performance obligation is $1200.00. The periods created for the performance obligation are displayed in Table 3.13. Invoices are generated at the start of each period, with the revenue being available to recognize at the end of each period.

Table 3.13
Periodic Recognition Rule – Invoice Monthly

Period	%	Cumulative %	Value	Cumulative Value	Period Start Date	Period End Date	Invoice At	Recognize At
1	8.33	8.33	S100	$100	January 1	January 31	January 1	January 31
2	8.33	15.67	S100	$200	February 1	February 28	February 1	February 28
3	8.33	25	S100	$300	March 1	March 31	March 1	March 31
4	8.33	33.33	S100	$400	April 1	April 30	April 1	April 30
5	8.33	41.67	$100	$500	May 1	May 31	May 1	May 31
6	8.33	50	$100	$600	June 1	June 30	June 1	June 30
7	8.33	58.33	$100	$700	July 1	July 31	July 1	July 31
8	8.33	66.67	$100	$800	August 1	August 31	August 1	August 31
9	8.33	75	$100	$900	September 1	September 30	September 1	September 30
10	8.33	83.33	$100	$1000	October 1	October 30	October 1	October 30
11	8.33	91.67	$100	$1100	November 1	November 30	November 1	November 30
12	8.33	100	$100	$1200	December 1	December 31	December 1	December 31

The revenue calculation is run twice a month. Table 3.14 displays the steps during the first three periods of this performance obligation. More than a single month of revenue is never deferred. Therefore, at no point is revenue accrued. The revenue is transferred from deferred revenue into sales revenue.

Table 3.14
Periodic Recognition Rule – Invoice Monthly Revenue Calculations

Step Description	Effective Date	Deferred Revenue to Date	Sales Revenue to Date	Recognized Amount to Date	Invoiced Amount to Date
January invoice for $100	January 1				
Run revenue calculation	January 15	100			
Run end of period revenue calculation	January 31		100	100	100
February invoice for $100	February 1		100	100	100
Run revenue calculation	February 15	100	100	100	100
Run end of period revenue calculation	February 28		200	200	200
March invoice for $100	March 1		200	200	200
Run revenue calculation	March 15	100	200	200	200
Run end of period revenue calculation	March 31		300	300	300

Example A revenue contract has been created with a single performance obligation using a periodic rule. There are 12 periods corresponding to the calendar months. The amount on the performance obligation is $1200.00. The periods created for the performance obligation are displayed in Table 3.15. Invoices are generated every quarter. However, it has been decided to still recognize the revenue on a monthly basis.

Table 3.15
Periodic Recognition Rule – Invoice Quarterly

Period	%	Cumulative %	Value	Cumulative Value	Period Start Date	Period End Date	Invoice At	Recognize At
1	8.33	8.33	S100	$100	January 1	January 31	March 1	January 31
2	8.33	15.67	S100	$200	February 1	February 28	March 1	February 28
3	8.33	25	S100	$300	March 1	March 31	March 1	March 31
4	8.33	33.33	S100	$400	April 1	April 30	June 1	April 30
5	8.33	41.67	$100	$500	May 1	May 31	June 1	May 31
6	8.33	50	$100	$600	June 1	June 30	June 1	June 30
7	8.33	58.33	$100	$700	July 1	July 31	September 1	July 31
8	8.33	66.67	$100	$800	August 1	August 31	September 1	August 31
9	8.33	75	$100	$900	September 1	September 30	September 1	September 30
10	8.33	83.33	$100	$1000	October 1	October 30	December 1	October 30
11	8.33	91.67	$100	$1100	November 1	November 30	December 1	November 30
12	8.33	100	$100	$1200	December 1	December 31	December 1	December 31

Again, the revenue calculation is run twice a month. Table 3.16 displays the steps during the first three periods of this performance obligation. In the first two months, no revenue is deferred because no invoice has been created. Running revenue recognition at the end of each period triggers revenue to be recognized. However, it is not recognized to the sales revenue account, but to the accrued revenue account.

At the beginning of the third month of the quarter, you send an invoice for the quarter. The accrued revenue can now be transferred to sales revenue. The transfer happens on the first run of the revenue calculation in the month. However, the revenue for the third month cannot be recognized until the end of the month so it is deferred. At the end of the month, the revenue is moved from the deferred revenue account and is recognized.

Table 3.16
Periodic Recognition Rule – Invoice Quarterly Revenue Calculations

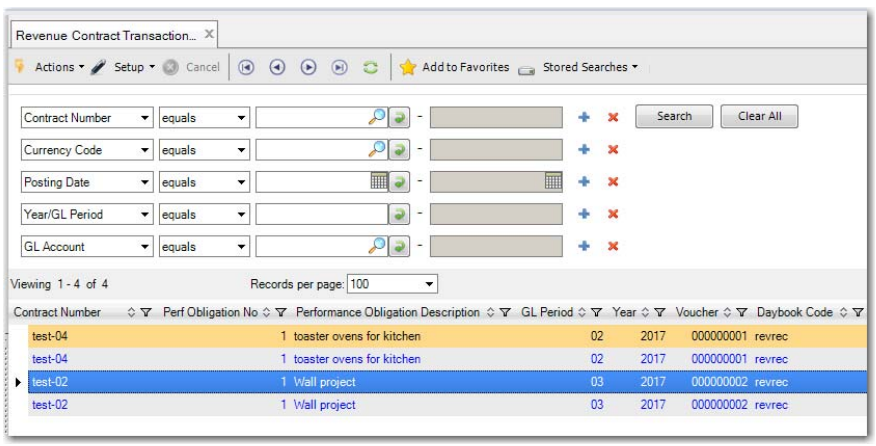
Step Description	Effective Date	Deferred Revenue to Date	Accrued Revenue to Date	Sales Revenue to Date	Recognized Amount to Date	Invoiced Amount to Date
Run revenue calculation	January 15					
Run end of period revenue calculation	January 31		100		100	
Run revenue calculation	February 15		100		100	
Run end of period revenue calculation	February 28		200		200	
March invoice for $300	March 1		200		200	300
Run revenue calculation	March 15	100		200	200	300
Run end of period revenue calculation	March 31			300	300	300

Revenue Recognition Transaction View

Revenue Recognition Transaction View (37.1.20) enables you to see a sub-ledger transaction view of revenue contracts. You can search for transactions using the filters. The filters correspond to some of the column fields in the browse. For example, the transaction lines in the browse grid contain columns with information such as:

- Revenue contract number
- Performance obligation number
- Performance obligation description
- GL Account and other analysis
- Debit and credit amounts in base, transaction, and statutory currencies
- Revenue recognition daybook information
- Transaction posting date and GL year and period information

Fig. 3.14
Revenue Contract Transaction View



Revenue Contract Invoice View

Revenue Contract Invoice View (37.1.21) allows you to view the invoices created for orders linked to revenue contracts. You can search for transactions using the filters. The filters correspond to some of the column fields in the browse. Each line in the grid displays information concerning the invoices and how the invoices are linked to the performance obligations on the revenue contract, such as:

- Revenue contract number
- Year, daybook code, and voucher number for the invoice
- Domain code
- Customer code

Note You can right-click an invoice line and select Revenue Contract Transaction View to display the revenue recognition transactions that have been created for the revenue contract.

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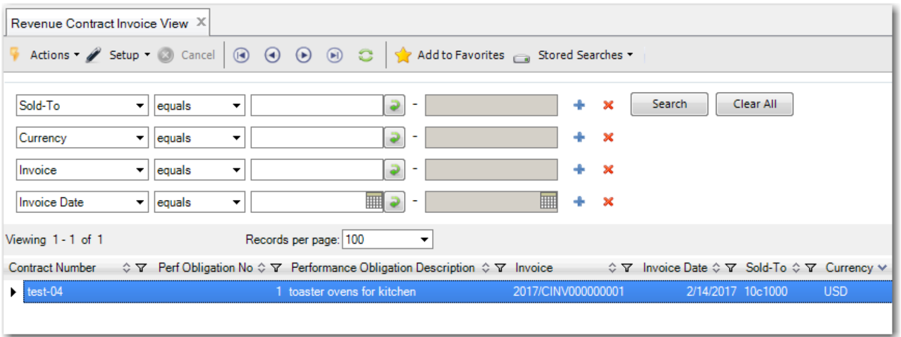
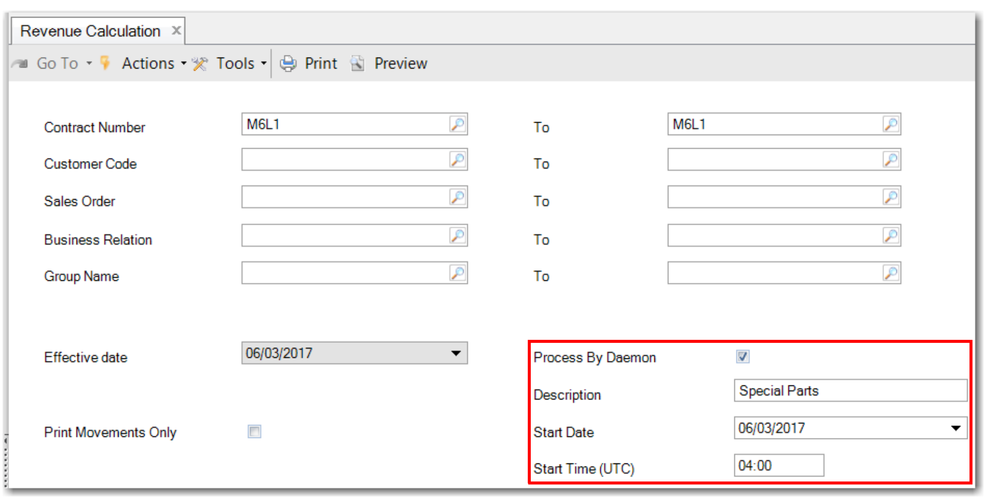
Fig. 3.15
Revenue Contract Invoice View



Processing by Batch Daemon

When you run Revenue Calculation (37.3.1), postings are generated to or from a deferred or sales account when the right conditions are met. You can use the batch daemon to generate these postings manually. Alternatively, you can choose to schedule the batch daemon to generate postings for a revenue contract or contracts at a specific time each day, as displayed in Figure 3.16. For more detail, see “Running Revenue Calculations” on page 38.

Fig. 3.16
Revenue Calculation Using Batch Daemon

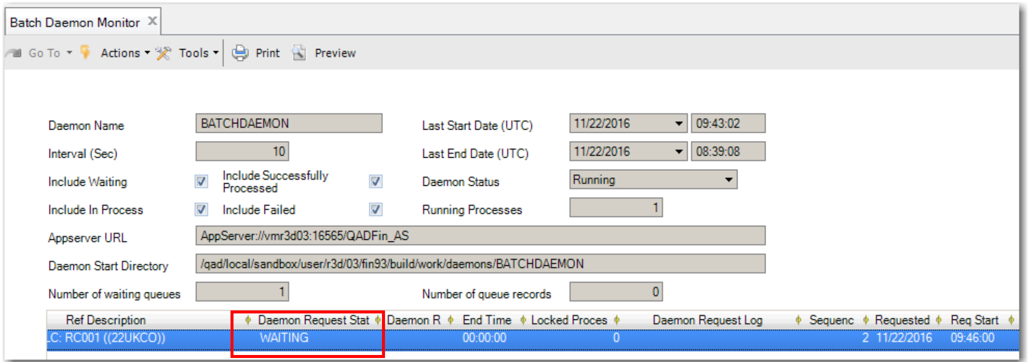


When you click Calculate in Revenue Calculation, a batch record is created and made available in the Batch Daemon Monitor (36.14.16.19.3).

Note The batch daemon must be running.

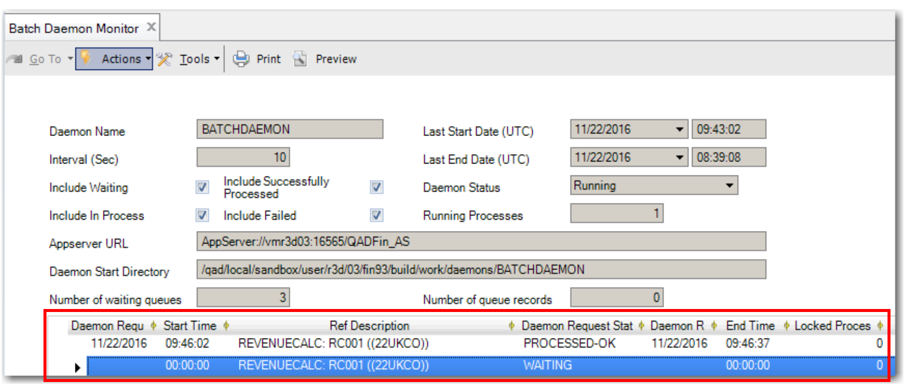
Until the start time is reached, the batch has the status WAITING, as displayed in Figure 3.17.

Fig. 3.17
Batch Daemon Monitor



In the example in Figure 3.18, the batch daemon starts processing the queue record at UTC time 09:46:00. When the record is processed, a new record with the same parameters is automatically created for the next day at the same time.

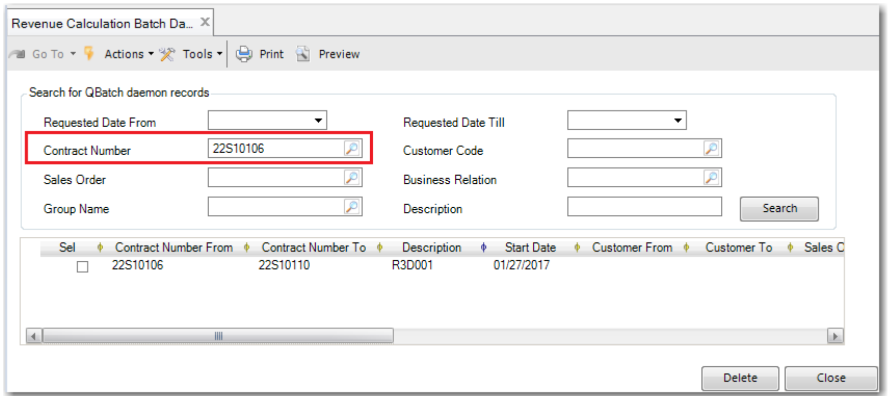
Fig. 3.18
Batch Daemon Monitor Example



Revenue Calculation Batch Daemon Delete

When you no longer need a queue record—for example, a revenue contract has ended—you can delete it using Revenue Calculation Batch Daemon Delete (37.3.2). You can search for queue records using the filters. For example, you can specify a contract number and click Search, as displayed in Figure 3.19.

Fig. 3.19
Revenue Calculation Batch Daemon Delete



To delete a record, select the Select field and click Delete. The record is permanently deleted.

Product Information Resources

QAD offers a number of online resources to help you get more information about using QAD products.

QAD Forums (community.qad.com)
Ask questions and share information with other members of the user community, including QAD experts.

QAD Knowledgebase (knowledgebase.qad.com)*
Search for answers, tips, or solutions related to any QAD product or topic.

QAD Document Library (documentlibrary.qad.com)
Get browser-based access to user guides, release notes, training guides, and so on; use powerful search features to find the document you want, then read online, or download and print PDF.

QAD Learning Center (learning.qad.com)*
Visit QAD's one-stop destination for all courses and training materials.

*Log-in required