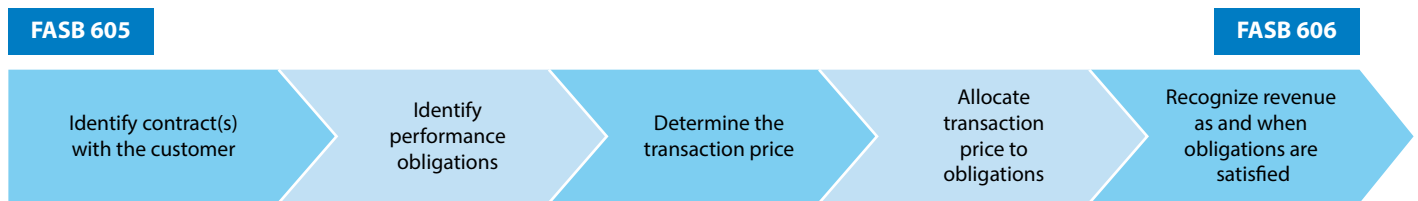# SHIFTING REVENUE RECOGNITION NORMS FOR HIGH-TECH BUSINESSES

As business models have evolved in high-tech organizations to include subscription, hosting, SaaS-managed services, royalty, and usage-based models, the complexity and variations in customer contracts and their associated revenue recognition has grown multifold. The new converged standard guidance from the FASB* and IASB* details how organizations need to recognize revenue in financial statements under both US GAAP* and IFRS*.

The new convergence standard as five-step model:

FASB 605

FASB 606

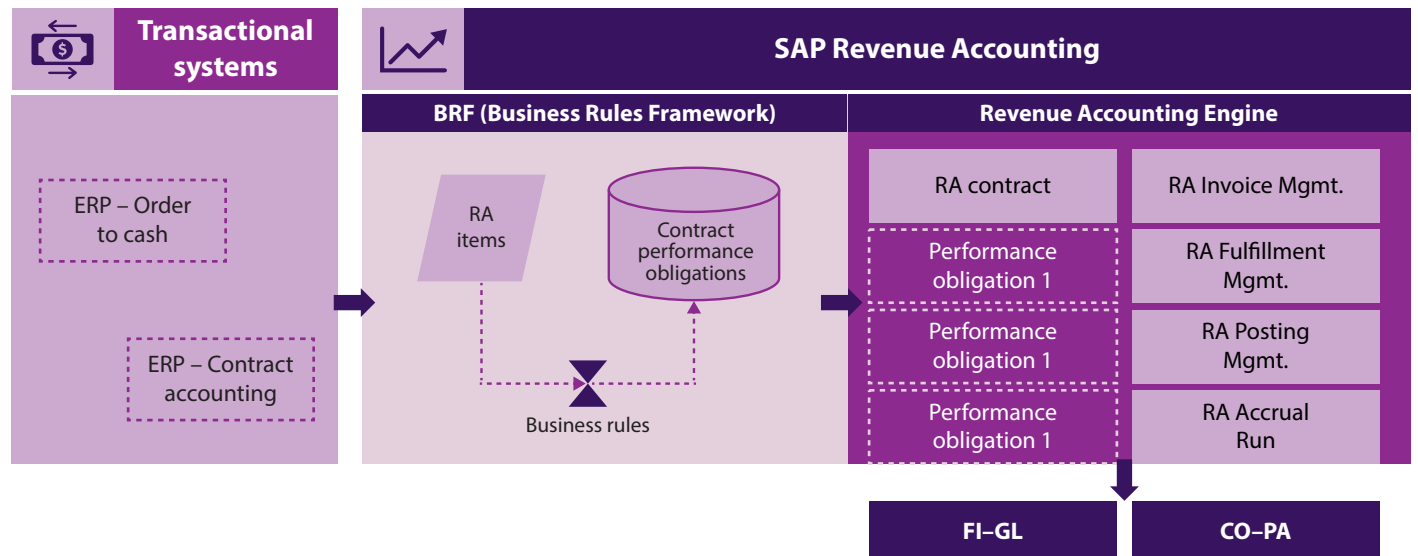| Identify contract(s) with the customer | Identify performance obligations | Determine the transaction price | Allocate transaction price to obligations | Recognize revenue as and when obligations are satisfied |

Handle new convergence standards with the SAP RAR solution

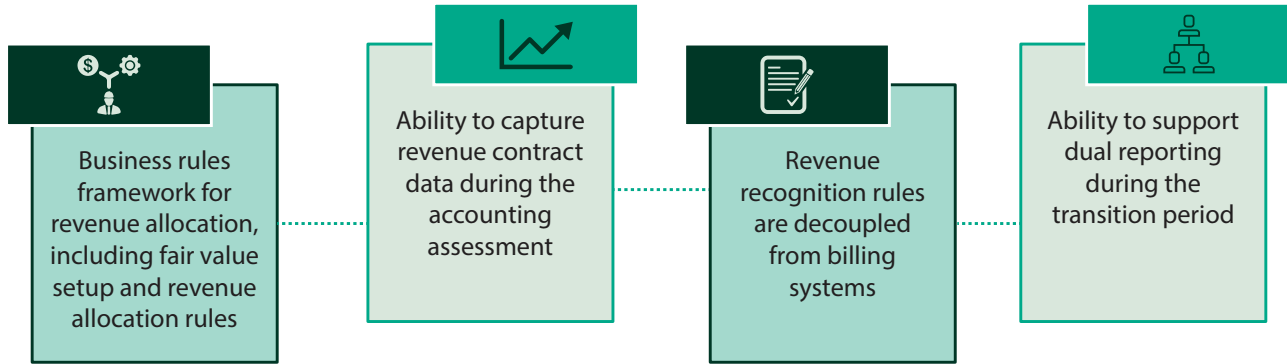The new SAP Revenue Accounting and Reporting (RAR) solution transforms revenue accounting items from the ERP layer to the revenue accounting contracts in the RA engine. This RA engine layers the contracts based on performance obligation, performs price allocation, determines recognized revenue, and posts to FI–GL and CO–PA. It also enables downstream reporting capabilities.

The SAP RAR solution in action

Transactional systems	SAP Revenue Accounting	
	BRF (Business Rules Framework)	**Revenue Accounting Engine**

Transactional systems
- ERP – Order to cash
- ERP – Contract accounting

BRF (Business Rules Framework)
- RA items
- Contract performance obligations
- Business rules

Revenue Accounting Engine
- RA contract
- Performance obligation 1
- Performance obligation 1
- Performance obligation 1
- RA Invoice Mgmt.
- RA Fulfillment Mgmt.
- RA Posting Mgmt.
- RA Accrual Run

FI–GL   CO–PA

Key features and benefits

Business rules framework for revenue allocation, including fair value setup and revenue allocation rules

Ability to capture revenue contract data during the accounting assessment

Revenue recognition rules are decoupled from billing systems

Ability to support dual reporting during the transition period

The Infosys edge

Critical success factors	Infosys solution elements
• Development of short-term deliverables in line with the long-term roadmap for a revenue recognition transformation • Regulatory compliance to GAAP requirements as well as FASB | IASB standards • Agility to support changing reporting needs • Flexible platform compatible with existing platforms and technology	• Colloquium of finance leaders across industry to share their vision and best practices • Preconfigured contract scenarios with associated revenue recognition treatment that can be leveraged for blueprinting • Leveraging IMPACT™ framework to guide the transformation • Leverage Value Realization Method (VRM™) to ensure the project realizes the expected value

Our partnerships

A major security technology company	A Fortune 100 hardware and digital music distributor	A large semiconductor manufacturer
• Process design of the order-to-cash cycle • SAP solution implemented to recognize revenue based on VSOE fair value of software	• Using SAP standard billing and contract functionality • Custom development to create a summary revenue recognition contract for 'after-sales service'	• Implemented consume-to-cash process in SAP ECC using FICA and convergent invoicing • Supports billing and invoicing, and revenue recognition

*Abbreviations:

FASB – Financial Accounting Standards Board
IASB – International Accounting Standards Board

US GAAP – US Generally Accepted Accounting Principles
IFRS – International Financial Reporting Standards

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