The IFRS 15 standard is here—that means it’s time for your company to become compliant! SAP Revenue Accounting and Reporting and IFRS 15 contains the foundations of the IFRS 15 standards, the usage and migration process of SAP RAR, and business cases from telecom and high-tech industries. In this sample, explore the foundations of IFRS, the impact of the new standards (IFRS 15), and SAP’s answer: SAP RAR.

“Introduction to IFRS 15 and SAP Revenue Accounting and Reporting”

Contents

Index

The Authors

Dayakar Domala, Koti Tummuru

SAP Revenue Accounting and Reporting and IFRS 15

376 Pages, 2017, $99.95


www.sap-press.com/4206
1 Introduction to IFRS 15 and SAP Revenue Accounting and Reporting

Revenue is one of the most important key performance indicators (KPIs) used by investors when assessing a company’s performance and prospects. Revenue recognition represents one of the highest risks on financial statements, and it is one of the leading causes of restatements. Every publicly traded company has to follow the guidelines set by the Securities and Exchange Commission (SEC) to communicate their financials effectively to investors. Based on the operations in different countries, businesses sometimes need to comply with more than one set of standards.

Most of the companies located in North America or Europe comply with generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Recently, the standards-setters developed new revenue-related standards (IFRS 15 and Accounting Standards Codification [ASC] 606), which ensure clarity and transparency in reporting revenue. These new guidelines require a substantial change in the way currently revenue is being reported compared to the new revenue recognition standards.

The main objective of the new standards (IFRS 15 and ASC 606) is to provide a single, comprehensive revenue recognition model for all customer contracts, improving comparability within and across industries and across capital markets. Initially, when the standards were released on May 28, 2014, all companies were expected to comply by 2017. However, based on the complexities involved and the feedback from major industries around the implementation of the new standards, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) deferred the effective date to 2018.
With the effective date of these new standards approaching, it’s important to understand what challenges your company will face and how SAP Revenue Accounting and Reporting (RAR) can help. In this chapter, we will begin by introducing the concept of the new revenue accounting standards and a brief history of how these new standards have evolved (Section 1.1). We will also touch on the associated business challenges and the impact of the new standards on customers (Section 1.2). We will also discuss the design of the standards for addressing these new standards and how SAP is addressing these requirements. This chapter will outline how SAP RAR handles the IFRS 15 requirements, including a look at its architecture and integration with other applications (Section 1.3).

1.1 Global Accounting Standards

The new IFRS 15 guidelines embody a major shift in how revenue will be recognized in many companies. Therefore, businesses need to perform a thorough analyses of existing business models, company accounting practices, and policies. In this section, we will discover what led to the need for new accounting and reporting standards and specific business challenges that come with these new guidelines.

1.1.1 New Accounting Guidelines

Accounting has a long history; the first formal accounting goes back to the fifteenth century, beginning with double-entry bookkeeping (debits on left and credits on right). In the 1920s, General Motors introduced the first KPI-based accounting, such as the return on investment and the return on equity. In 1934, the SEC was formed to formalize accounting standards. After four decades of effort, in 1973, the FASB formulated standards that govern the preparation of financial statements, as mandated by the SEC for all US capital markets. The IASB was established in 2001 and is the standard-setting body of the IFRS foundation.

Based on the historical evidence, weak or inconsistent accounting standards have negatively impacted the US and global economies. Now more than ever, there is a need for standardized financial reporting as companies become more global in nature. The United States controls fifteen trillion dollars in foreign assets, and companies are expected to supply the market with high-quality financial information—especially in the global economy, which is dynamic and often unpredictable. Overall, US-GAAP is more rule-based in nature, whereas IFRS is more principle-based. Currently, there are many key differences in the way revenue is recognized by businesses using one or the other sets of accounting standards.

In order to address these major concerns, the FASB began working on these issues in 2002. In 2008, the IASB joined the FASB, collaborating to issue a new standard on May 28, 2014. These new standards will harmonize and standardize the revenue recognition process reported in the financial statements for both US-GAAP and IFRS preparers.

This new revenue recognition standard will add additional disclosures about revenue (making it more transparent), provide additional guidance for services and contract modifications (which are not very clear in the current regulations), and provide detailed guidance for multiple-element arrangements. In the US, the new revenue recognition standards will replace more than two hundred specialized, industry-specific revenue recognition requirements. The US-GAAP and IFRS 15 will greatly expand the revenue recognition process in IFRS.

Based on the initial observation, these new standards will have a high impact on the telecommunications, high-tech (software), professional services, automotive, and real estate industries. Now, we’ll look at the business challenges these industries and other companies will face.

1.1.2 Business Challenges

Let’s explore some of the business challenges that may arise when implementing the new IFRS 15 guidelines:

- The implications of new guidelines are far broader than simply changing accounting and reporting methods, although that change itself is highly complex in nature. The new guidelines affect product offerings and how products are sold, related taxes, and commissions.
- Businesses need to go through large change management processes, both on the process side and the system side.
Businesses will also need to change their communication strategy with stakeholders, including suppliers, customers, and investors.

Based on your transition approach (full retrospective or modified retrospective), companies may face challenges to generate data on both accounting standards.

Most organizations’ financial systems are not adequately equipped to handle transition or dual reporting requirements, which requires significant manual effort and time. It is important that organizations upgrade their systems in order to help automate the new revenue guidelines process.

It’s important that businesses choose the right tool to automate revenue guidelines and perform a detailed vendor analysis in the market before finalizing the tool selection. They should consider the new accounting requirements (use cases, revenue scenarios), fit/gap analysis, data migration, and reporting requirements.

It’s important for businesses to onboard key stakeholders from day one of this transformation and transition process.

It’s also important for businesses to assess the new revenue standards and develop an approach plan, and then convert that plan into a strategy to achieve the organization’s final goals.

Now that we’ve explored the involved business challenges, let’s dive deeper into the impact of these new standards, and take a closer look at what IFRS 15 is, its framework, existing tools available to address these new standards, and how SAP is addressing this change.

1.2 IFRS 15

As previously mentioned, prior to the new standards, the revenue recognition guidelines differed between US-GAAP and IFRS. Because the standards were different and businesses were expected to meet these standards within set guidelines, it became increasingly challenging to comply with both standards. Therefore, the FASB and the IASB issued their long-awaited joint standard for revenue recognition in May 2014 via IFRS 15.

Based on FASB’s recent publication (see http://www.fasb.org), the objectives of these new guidelines are as follows:

- Establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers.
- Remove inconsistencies and weaknesses in existing revenue requirements and provide a more robust framework for addressing revenue issues.
- Improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.
- Provide more useful information to users of financial statements through improved disclosure requirements.
- Simplify the preparation of financial statements by reducing the number of requirements to which an organization must refer.

Adopting these new standards can be quite challenging and complex. The regulations are subject to interpretation, because the standards are principles-based and emerging. Based on the IFRS 15 guidelines, the revenue recognition process needs to be adopted in a five-step framework.

In this next section, we’ll discuss what the five-step framework is, the impact this new standard has on industries, how to choose which vendor tool to use in support of the new revenue standard, and how SAP is addressing these new requirements within its own technology.

1.2.1 Five-Step Framework for Revenue Recognition

The five-step framework is the core structure of IFRS 15; it consist of the five different steps for revenue recognition in IFRS paragraph IN-7, (a) through (e).

Figure 1.1 outlines the five-step framework.
In the following subsections, we’ll look at each step in greater depth before discussing how the steps impact current industry practices.

**Step 1: Identify the Contract(s) with the Customer**

In Step 1, companies must identify their contract(s) with a customer. A contract is an agreement between two or more parties that has enforceable rights and obligations. Contracts can be written, oral, or implied by an entity’s customary business practices. Electronic assent constitutes acceptable evidence of a contract.

The practices and processes used to establish contracts with customers may vary across legal jurisdictions and across various industries and entities. They also may vary within the entity, depending, for example, on the nature of the customer or the products and services.

In some cases, IFRS 15 requires an entity to combine contracts and to account for them as one contract in any of the following situations:

- The contracts are entered into at near or the same time with the same customer.
- The contracts are negotiated as a package with a single commercial objective.
- The price of one contract depends on the price or performance of another contract.
- The goods or services of a contract are single performance obligations (POBs).

**Step 2: Identify the Separate Performance Obligations in the Contract(s)**

Now, the POBs in a contract must be identified. A contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are performance obligations and are accounted for separately.

A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and if the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

**Step 3: Determination of Transaction Price**

The next step is to determine the transaction price, the amount of consideration that the seller expects to be entitled to in exchange for transferring the control of goods or services promised in the contract. In this case, the transaction price is not adjusted for credit risk, unless the contract includes a significant financing component, and includes all amounts the seller has the right to under the present contract, payable by any party, that is, not limited to receipts from customers.

The allocable transaction price is the transaction price minus any discounts given to the customer at the time of the contract initiation.

**Step 4: Allocation of Transaction Price**

Step 4 allocates the transaction price to the distinct POBs in a contract. An entity typically allocates the transaction price to each POB based on the relative stand-alone selling prices of each distinct good or service promised in the contract.

If a standalone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, POBs (or distinct goods or services) in the contract.

**Step 5: Recognize Revenue When a Performance Obligation Is Satisfied**

POB satisfaction can be a defined fulfillment event—for example, typically a sales order with hardware or a handset needs to be delivered and goods issued, which can act as a trigger for recognizing the revenue. Goods issued also act as a trigger for recognizing the costs. Similarly, professional services or network services rendered over a period of time can be recognized as the appropriate time passes; for instance, one month of service delivered will trigger the recognition of the related revenue.

For over time POBs, fulfillment can be calculated on a passage of time basis or based on percentage of completion (PoC). For example, for project-related POBs, the PoC can act as a trigger for revenue recognition compared to events-based (goods issued) or time-based recognition. Alternatively, customers can also use manual triggers for recognizing revenue. All these events are triggers for satisfying a POB.
With this understanding of the five-step framework, let’s now look at how the new standards and these steps affect different industries.

1.2.2 Impact of the New Standards

Within IT, often there exists a misconception that reporting requirements are simply a representation of existing data in different dimensions. However, the new revenue recognition and reporting guidelines issued by the IASB and the FASB will significantly impact the way companies operate, store, and report their financials. The new guidelines will impact not only publicly traded companies, but also private and nonprofit organizations that follow the FASB and the IASB standards. The FASB represents US-GAAP, and the IASB represents the IFRS.

Although only some industries are impacted heavily by the new revenue regulations (automotive, financial services, high-tech, entertainment and media, engineering and construction, franchises, professional services, telecommunications, and real estate), almost all other industries are impacted in some manner, as they are expected to comply with expanded disclosure requirements. The new standards are codified in several hundred pages, which are typically interpreted and implemented by businesses based on their operational footprint and guidance from their audit firm. The new standards propose a five-step approach for new revenue recognition processes. The effective date of these new standards is fiscal year 2018. The IASB allows early adoption of the program, but the FASB requires the adoption to be in or after financial year (FY) 2018.

The adoption dates for these programs may appear to be far off, but complying with these standards may require significant changes to business processes and related disclosure requirements. Companies need to start initiating these projects proactively in order to assess the impact on their financial reporting as soon as possible.

To better illustrate how these standards impact different industries, we’ll walk through some industry-specific examples in the following subsections.

Impact on the Telecommunications Industry

First, let’s look at an example telecommunications company. In this example, the contract duration is twenty-four months, and under the current IFRS standards, the revenue is being recognized as amounts are invoiced. Because the company offered its handsets up front at a discounted amount, the handset revenue does not cover the incurred costs until the end of the twenty-four-month period. With the new revenue standards, the handset revenue is recognized immediately at the inception of the contract based on the fair market value (i.e., the standalone selling price [SSP], based on the new revenue standards).

Based on this information, the telecommunications company needs to take the following actions to adopt and transition to the new accounting standards:

- Identify distinct vs. non-distinct POBs (see Step 2 of the Five-Step Framework for Revenue Recognition) and set up multiple POBs.
- Create criteria for determining the transaction price.
- Identify effects of collectability and whether there’s a right of return.
- Identify the standalone selling price (SSP) and the related allocation of the transaction price among POBs.
- Consider the treatment of distinct/non-distinct services, such as installation fees, activation fees, and so on.
- Identify contract costs.

Impact on the Automotive Industry

The automotive industry is another industry that will be heavily impacted by the new IFRS 15 standards. When a dealer sells a car to a customer, the dealer typically includes certain mandatory services and may offer certain discounts on optional services it renders over a period of time. In this example (see Figure 1.2), when a dealer sells a brand-new car, the car transaction price includes free maintenance for thirty-six months (assuming it’s part of the initial offer) and a free bumper-to-bumper warranty up to thirty-six months or thirty-six thousand miles. Also, at the time of sale the customer is offered a special detailing service for ninety dollars for three years, which includes six services. The SSP for detailing may be ninety dollars per service, but new customers are offered a special discount as part of the new customer loyalty program. In this example, the transaction price needs to be allocated among maintenance, warranty, and optional services.
For the next example, let’s look at the high-tech industry—specifically the software industry. For this example (see Figure 1.3), the software license costs are $806,000 for a period of three years. The SSP of the software license is $850,000, and the maintenance is $15,000.

Under the current IFRS, the total amount is recognized immediately. However, with the new IFRS 15 standard, a portion of the transaction price is allocated to maintenance and upgrades. The transaction price allocated to the license can be recognized immediately; that is, 85% of the revenue is recognized immediately. However, 15% of the revenue is deferred and will be recognized ratably over the next twelve months. This may not exactly replicate a typical scenario, but it illustrates the basic effects. In practice, you may have a number of components associated with the contract, such as training vouchers, discounts, commissions, and so on.

### Figure 1.2 Impacted Industries: Automobile Example

**Impact on the High-Tech Industry**

For the next example, let’s look at the high-tech industry—specifically the software industry. For this example (see Figure 1.3), the software license costs are $806,000 for a period of three years. The SSP of the software license is $850,000, and the maintenance is $15,000.

Under the current IFRS, the total amount is recognized immediately. However, with the new IFRS 15 standard, a portion of the transaction price is allocated to maintenance and upgrades. The transaction price allocated to the license can be recognized immediately; that is, 85% of the revenue is recognized immediately. However, 15% of the revenue is deferred and will be recognized ratably over the next twelve months. This may not exactly replicate a typical scenario, but it illustrates the basic effects. In practice, you may have a number of components associated with the contract, such as training vouchers, discounts, commissions, and so on.

### Figure 1.3 Impacted Industries: High-Tech Industry

You now should have a better idea of the impact these new accounting standards will have. However, it’s also important to understand what tools are available to support adoption and transition to the IFRS 15 standards. We’ll address this topic in the next section.

#### 1.2.3 Existing Tools and Vendor Analysis Matrix

Currently, one of the biggest challenges businesses face is to choose the right vendor tool to support and fulfill the revenue automation capabilities needed to transition to the new revenue standard. Companies that currently use SAP ERP Financials can leverage the new SAP RAR solution to address their revenue automation needs.

To capitalize on market needs and fill the new revenue guideline gaps, many vendors have developed new revenue guideline–related packages and are attracting various customers at marketing shows, demos, and sponsorships.

Vendors play a major role in a firm’s performance, and firms use vendor analysis to select the right vendors for their organization. In this section, we’ll look at how...
to perform a vendor analysis and what parameters should be considered to finalize a tool selection.

What Is Vendor Analysis?

A vendor is a firm or an individual that has a product or service for sale. Firms depend on a vendor’s ability to meet their needs in order to efficiently perform the functions of their business. Therefore, it’s important for a firm to choose vendors that can meet their requirements. Firms use a process known as vendor analysis to assess the abilities of existing or prospective vendors.

Vendor analysis identifies the strengths and weaknesses of each vendor, then compares them to find the vendor that best matches the needs of a company. A vendor analysis is conducted whenever a firm needs to find a new vendor or review the performance of its existing vendors. Now, let’s examine the vendor analysis process.

Vendor Analysis Process and Parameters

As part of the vendor capability analysis, companies need to review various parameters and rank or score each vendor. The main parameters a company should consider are as follows:

- **Company profile**
  The size, partner ecosystem, roadmap, and vision should be considered. Is this vendor a world leader in enterprise applications, or are they a smaller, less experienced company?

- **Vision and viability**

- **Functional capabilities for GAAP/IFRS compliance**
  How many of the requirements of GAAP/IFRS does this vendor meet?

- **Master data and reporting capabilities**

- **Technical capabilities**
  These include the vendor’s integration with other systems, architecture, flexibility, and scalability.

- **Operational capabilities**
  These include the vendor’s capability for implementation, security, high availability, and support.

- **Cost**

- **Other customer references and feedback**

As part of the vendor capability analysis, companies can ask various vendors to submit a response for a request for proposal (RFP) based on the previously listed parameters.

It’s important to ask each vendor to provide a tool demo based on an organization’s new guideline requirements.

It’s up to the business team to short-list companies and call for RFPs and demos to rate individual vendors and finalize the supplier selection.

Now that you have an understanding of how to analyze vendors based on predefined parameters, let’s look at how SAP specifically is addressing the new IFRS 15 requirements for their customers.

### 1.2.4 How SAP Is Addressing the New Requirements

SAP took an active role in the standard setting process as the new standards were designed and drafted. The 2008 financial crisis demanded new and transparent regulations that support a sustainable model for ongoing globalization. Both the FASB and the IASB boards developed a framework for reporting revenue with unified requirements. Companies are required to be compliant with the accounting standards to maintain transparency. After six years of collaboration effort both the IASB and the FASB announced the new standards in May 2014 with an effective date of FY 2017.

SAP’s solution not only focused on meeting the regulatory requirements but adapting to upcoming changes from regulations and customers. Some of the important factors include:

- **High performance revenue recognition**
  Due to ongoing globalization and localization, corporations are expected to report with more transparency. In order to facilitate this requirement, companies are expected to provide detailed disclosures, which are clearly auditable. This requirement demands the software be more robust to data handle volumes and facilitate all the requirements pertaining to transparency.
Highly automated processes
When dealing with huge volumes, any performance issues can trigger an unauditability of the numbers. Handling huge data volumes manually is impractical and prone to risks and failure. Software is expected to define flexible rules for automating the revenue recognition process with as less manual intervention as possible.

Decoupling operational transactions from accounting
Currently most of the existing software solutions tightly integrate sales with accounting. However, the upcoming regulations require more details to be stored at a POB and contract level. Also, many customers use legacy systems for processing their sales and exclusively use financial systems for reporting. Not all the necessary details are stored at operational (delivery/invoice) level. There is a greater need to decouple sales from accounting to facilitate the needed details to the contracts. This design will lower overall total cost of ownership (TCO).

Transitioning from existing revenue recognition solutions
Customers may be using existing solutions from various sources. The new software should be able to provide an easy transition to a new release to support dual reporting (supporting multiple GAAPs) without interrupting existing contracts.

SAP is considering these challenges, and is actively pursuing and preparing for this change from several years. At the time of publication, SAP’s new revenue accounting solution been deployed at seven different productive customers as of September 2016 and a number of customers are in the early adoption program. SAP is aggressively scheduling their software releases (four releases since September 2014) to help customers with various demands that are arising as part of the implementation process. Based on the current strategy, the going forward approach for supporting the revenue recognition process is through the new SAP RAR application. This application is built as a common framework, which supports most of the revenue requirements of different industries.

1.2.5 Functionality Overview
Version 1.0 of SAP RAR was released with very limited functionality in September 2015 to ramp up customers. SAP subsequently added more new functionality (but not enough to claim that the product was complete), including prospective contract modification in version 1.1, which was released to customers in late September 2015. The current version (1.2) was released for early adoption customers in early June 2016 and then to all other customers in November 2016.

In this section, we’ll outline the major functionality provided as part of SAP RAR version 1.2, including a brief look at the different releases.

Parallel Accounting
A major area of IFRS 15 is disclosures reporting, and during the transition period to IFRS 15, companies must prepare a dual reporting for multiple years to satisfy the transition requirements.

SAP will support either a parallel ledger approach or an additional accounts approach for parallel accounting. Most customers who use the new General Ledger (G/L) will adopt the parallel ledger approach. Companies not yet using the new G/L will use the additional accounts approach. Both options are completely supported by SAP RAR and are complemented by best practices from the industry.

SAP doesn’t recommend using either a special purpose general ledger or parallel company codes for parallel accounting, as data can be manipulated and may raise audit issues.

SAP RAR is designed to support dual reporting (i.e., existing US-GAAP/IFRS as well as future US-GAAP/IFRS 15). If companies are already using IFRS/US-GAAP in a leading ledger to support the new revenue accounting standards, such companies can adopt either a parallel ledger approach or an additional account approach to accommodate dual reporting. A leading ledger maintains the same accounting principles as consolidated financial statements. If you choose to use a ledger approach, then at the end of the dual reporting period you may need to initiate a new G/L migration project to switch ledgers. The recommended approach is to use the G/L accounts in the leading ledger, use different financial statement versions (FSVs) to represent the postings, and discard the classic G/L accounts at the end of the dual reporting period.

Table 1.1 provides an example of the parallel ledger approach, where 0L represents the leading ledger and 1A is the nonleading ledger. Here, only one FSV represents two years of dual reporting.
Table 1.2 illustrates the parallel accounting accounts approach. This approach uses multiple FSV’s for two dual reporting periods. It involves increasing the chart of accounts. Accounts must be maintained for two FSVs, and at the ending of the dual reporting period, the accounts must be blocked and no additional work is required.

Table 1.1 Parallel Accounting (Ledger Approach)

<table>
<thead>
<tr>
<th></th>
<th>GAAP/IFRS (current revenue)</th>
<th>GAAP/IFRS 15 (new revenue accounting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Range</td>
<td>OL (40000 – 499999)</td>
<td>OL (40000 – 499999)</td>
</tr>
<tr>
<td></td>
<td>0L (FSV1)</td>
<td>1A (FSV1)</td>
</tr>
<tr>
<td></td>
<td>Drop current revenue (may want to keep OL still active for audit purposes)</td>
<td>Switch ledgers to leading ledger (may need new G/L migration)</td>
</tr>
</tbody>
</table>

Table 1.2 Parallel Accounting (Accounts Approach)

<table>
<thead>
<tr>
<th></th>
<th>GAAP/IFRS (current revenue)</th>
<th>GAAP/IFRS 15 (new revenue accounting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account Range</td>
<td>OL/Account group 1</td>
<td>OL/Account group 2</td>
</tr>
<tr>
<td></td>
<td>400000 – 499999</td>
<td>400000 – 499999</td>
</tr>
<tr>
<td></td>
<td>Ledger 0L/Account group 1</td>
<td>Ledger 0L/Account group 2</td>
</tr>
<tr>
<td></td>
<td>(FSV1)</td>
<td>(FSV2)</td>
</tr>
<tr>
<td></td>
<td>Drop current revenue FSV (block accounts for account group 1 so no postings can happen to them)</td>
<td>Use FSV2 for reporting (no migration project required, you may continue to use leading ledger)</td>
</tr>
</tbody>
</table>

Multiple-Element Arrangement

One of the most salient challenges of the adoption of the new standards is the accounting for multiple-element arrangements. It can be a challenge to handle this requirement, because all the data required for accounting the multiple element arrangement may not reside in a single source, and there may be significant time differences between each source. For example, a typical telecommunications company has multiple source systems that store hardware, network services, discount information, and other services offered by companies separately in different source systems. Even companies that are using the sales order process may not have all the information in one spot and may have to connect multiple sources arriving at different times.

Based on the industry and type of business, multiple-element arrangement may include various types of POBs with different transaction prices and different types of allocation processes among these elements. The arrangement can become increasingly complex when the requirements deal with multiple allocation groups and proration with allocations in different periods.
**Proration Functionality**

One of the most common concerns from customers is when contracts begin at different times, they would like to prorate these contracts based on different rules. These proration rules can be set up at a POB level for time-based POBs. SAP has delivered close to seven proration rules; if none of the proration rules meets a customer’s requirements, the customer can define its own rules using a custom Business Add-ins (BAdIs).

This proration functionality is part of the core functionality provided with version 1.2 of SAP RAR, along with other functionalities, such as recognizing capitalized contract costs, cost recognition, automatic order revenue accounting item (RAI) creation from invoices, contract asset/liability determination at a POB level, SAP ERP Project System (PS) integration, CO-PA integration, advanced contract modifications, and so on. We’ll try to address as much as possible with relevant examples throughout the book.

All that said, SAP RAR is still evolving as requirements from customers are emerging. SAP has released three versions of the product (at the time of publication), which now addresses most of the common requirements from customers. However, there are multiple facets of complexity associated with requirements is from various industry solutions, such as multicurrency, intercompany, taxes, time value of money calculations, tight integration with SAP ERP PS, SSP determination, call-off order functionality, and so on, which have yet to be addressed in future releases.

**Contract Management**

There are several elements of contract-related functionality that can be found in SAP RAR. The following sections look at these areas.

**Contract Changes**

A contract modification is a change to a contract in the scope or price (or both) that is approved by the parties of a contract. Contract changes can include the following:

- **Cumulative catch-up/retrospective changes**

  Table 1.3 and Table 1.4 show an example of a cumulative catch-up/retrospective change. To use an example from the telecommunications industry, a customer entered into a 24-month contract for a subsidized device and a service contract, and after one month, the customer is charged with an activation fee.

  **Table 1.3 Contract Modifications: Cumulative Catch-Up (After the First Month)**

<table>
<thead>
<tr>
<th>Period/Month</th>
<th>Contractual Price</th>
<th>SSP Total</th>
<th>Allocated</th>
<th>Quantity</th>
<th>Fulfill Quantity</th>
<th>Recognized Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>April 2015</td>
<td>$139.99</td>
<td>$610.95</td>
<td>$420.35</td>
<td>1 100%</td>
<td>$420.35</td>
</tr>
<tr>
<td>Service</td>
<td>April 2015</td>
<td>$1,080.00</td>
<td>$972.00</td>
<td>$799.64</td>
<td>1 6%</td>
<td>$48.13</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$1,219.99</td>
<td>$1,482.95</td>
<td>$1,219.99</td>
<td></td>
<td>$468.47</td>
</tr>
</tbody>
</table>

  **Table 1.4 Contract Modifications: Cumulative Catch-Up (After the Second Month)**

<table>
<thead>
<tr>
<th>Period/Month</th>
<th>Contractual Price</th>
<th>SSP Total</th>
<th>Allocated</th>
<th>Quantity</th>
<th>Fulfill Quantity</th>
<th>Recognized Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>May 2016</td>
<td>$139.99</td>
<td>$510.95</td>
<td>$432.41</td>
<td>1 100%</td>
<td>$432.41</td>
</tr>
<tr>
<td>Service</td>
<td>May 2016</td>
<td>$1,080.00</td>
<td>$972.00</td>
<td>$822.58</td>
<td>1 6%</td>
<td>$49.51</td>
</tr>
<tr>
<td>Activation Fee</td>
<td>May 2016</td>
<td>$35.00</td>
<td>$0.00</td>
<td>$0.00</td>
<td>1 0%</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$1,254.99</td>
<td>$1,482.95</td>
<td>$1,254.99</td>
<td></td>
<td>$481.91</td>
</tr>
</tbody>
</table>

**Prospective change (contract modification)**

Considering the same example, let’s say that there’s no activation fee, and the customer modifies the contract and adds a payment of $139.99 for a subsidized handset. The customer pays $45.00 per month for service, increasing to $65.00 in the second month and thereafter. Because we already recognized the first month, the contract modification would be as shown in Table 1.5 and Table 1.6 (first month and second month, respectively).
Mixed change (prospective and retrospective change)

Because contracts can be complex, there can be instances in which contracts may have to adopt both prospective and retrospective changes (at the POB level) at the same time. SAP RAR is designed to handle these scenarios based on the defined set of rules simultaneously.

### Table 1.5  Contract Modifications: Prospective Change in First Month

<table>
<thead>
<tr>
<th>Period/Month</th>
<th>Contractual Price</th>
<th>SSP Total</th>
<th>Allocated</th>
<th>Quantity</th>
<th>Fulfilled Quantity</th>
<th>Recognized Revenue</th>
<th>Cumulative Revenue Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>April 2016</td>
<td>$139.99</td>
<td>$510.95</td>
<td>$420.35</td>
<td>1 100%</td>
<td>$420.35</td>
<td>$420.35</td>
</tr>
<tr>
<td>Service (24 month contract)</td>
<td>April 2016</td>
<td>$1,080.00</td>
<td>$972.00</td>
<td>$799.64</td>
<td>1 6%</td>
<td>$48.13</td>
<td>$48.13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$1,219.99</td>
<td>$1,482.95</td>
<td>$1,219.99</td>
<td></td>
<td>$468.47</td>
<td>$468.47</td>
</tr>
</tbody>
</table>

### Table 1.6  Contract Modifications: Prospective Change in Second Month

<table>
<thead>
<tr>
<th>Period/Month</th>
<th>Contractual Price</th>
<th>SSP Total</th>
<th>Allocated</th>
<th>Quantity</th>
<th>Fulfilled Quantity</th>
<th>Recognized Revenue</th>
<th>Cumulative Revenue Recognized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handset</td>
<td>May 2016</td>
<td>$139.99</td>
<td>$510.95</td>
<td>$420.35</td>
<td>1 100%</td>
<td>$420.35</td>
<td>$420.35</td>
</tr>
<tr>
<td>Service (24 month contract)</td>
<td>May 2016</td>
<td>$1,310.00</td>
<td>$1,179.00</td>
<td>$1,029.64</td>
<td>1 8%</td>
<td>$42.07</td>
<td>$90.20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$1,449.99</td>
<td>$1,689.95</td>
<td>$1,449.99</td>
<td></td>
<td>$462.42</td>
<td>$510.55</td>
</tr>
</tbody>
</table>

### Table 1.7  Contract Asset and Liability Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Transaction Price</th>
<th>Contract Asset</th>
<th>Contract Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract value (total transaction price)</td>
<td>$1,724.95</td>
<td>$315.77</td>
<td>0</td>
</tr>
<tr>
<td>Sum of recognized revenue</td>
<td>$578.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sum of all issued invoices</td>
<td>$262.45</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For customers using SAP RAR for their current IFRS, the system can determine the unbillable receivables and deferred revenue amounts rather than contract assets and liabilities (relevant for IFRS 15).

### Note

Depending on the type of transaction and timing associated with the contract(s), there may be a greater need for contracts to be combined. For example, you might have a master contract for licensing with a software vendor and may have subcontracts that originated at different times. Under the current IFRS, these would be treated as separate contracts. But under the new guidelines a single contract and revenue might have to be allocated from the master contract to subcontracts or vice versa. This feature was available in SAP RAR version 1.1, but version 1.2 makes it much more flexible and user friendly.
Deferred Costs/Deferred Revenue
Deferred costs are also referred to as commission assets. Typically, deferred costs are recognized for sales commissions and contact fulfillment costs. Functionalities for deferred costs were introduced in SAP RAR version 1.2.

Figure 1.5 shows the Account Determination in SAP RAR for Deferred Revenue and Unbilled Receivable versus Contract Liability and Contract Asset.

Performance Obligations
There’s a lot of functionality in SAP RAR to consider when it comes to POBs. In the following subsections, we’ll look into these important concepts.

- Leading performance obligations and linked performance obligations
  Often, contracts have to be designed to have a parent-child relationship. For example, if a high-tech company is selling software and provides optional services associated with specific POBs, such as free upgrades, training, consulting support, and so on, then the software contract can be set up as a leading contract, and the other free services can be added as linked POBs.

- Distinct vs. nondistinct and compound performance obligations
  Distinct versus nondistinct and compound POBs is a complex area to explore, and often the attributes distinct and nondistinct can sometimes lead to confusion. A nondistinct POB can’t stand on its own (i.e., it can’t be sold used on its own). For example, the activation fee with a telephone contract is treated as a nondistinct POB. However, in SAP RAR a nondistinct POB is similar to a child in a linked POB. Any POB that’s set up independently is treated as distinct in nature. This is not to be confused with the definition from IFRS (e.g., in the previous example, the activation fee could be set up as distinct or could be added as a condition record in the main contract).

- Fulfillment of performance obligations
  Performance obligations can be fulfilled by the following methods:
  - Event-based (specific occurrence)
  - Time-based (over a period of time)
  - Percentage of completion (percentage of project completion)
  - Manual (recognize revenue manually)

Revenue can be recognized based on the triggers set up in the system. For example, for a network service of a telecom company, time-based revenue recognition may be a good fit; for a handset on a telecom contract, delivery of the device along with activation may be a good trigger; and for a software implementation project, the PoC method makes sense. If for any reason none of these are applicable, the system can be configured to recognize revenue manually (but this option isn’t recommended for high-volume businesses).

- Right of Return
  Right of return is defined at the POB level. Right of return applies in situations in which a company may need to refund all or part of the expected return for a sales item to a customer. In doing so, it’s necessary to specify the percentage of the expected return and post it as a refund liability. Depending on the need, a portion of the revenue can be identified and deferred for the right of return and can be recognized in the future (if the right of return has not been executed).

Posting and Reconciliation Process in SAP RAR
SAP RAR is tightly integrated with the G/L. During month end, when batch jobs are run, postings pertaining to contracts are posted directly to the G/L with all the relevant financial information summarized. All the validations and substitutions and 999-line restrictions are still applicable to these postings from SAP RAR.
Because the G/L contains only the summarized and consolidated account balances (of all contracts), which is used by dual reporting, SAP has built in checks and balances required to reconcile the summarized postings with SAP RAR, and SAP RAR has standard reports that can reconcile the postings at the contract level.

Integration
Some important integrations between SAP RAR and other solutions include the following:

- **SAP Hybris Billing**
  SAP RAR has been compatible with SAP Hybris Billing from SAP RAR version 1.1 onwards. More information on SAP Hybris Billing can be found in Section 1.2.8.

- **SAP BusinessObjects BI/SAP Business Warehouse (SAP BW)**
  As previously mentioned, SAP RAR is treated as a submodule for the main general ledger. All the underlying details reside in the submodule; only the summarized postings reside in the main general ledger. SAP has provided a standard extractor to extract all the revenue details into SAP BusinessObjects BI or SAP Business Warehouse (BW) so that revenue can be sliced and diced for management, disclosure, and audit purposes.

- **Business Rule Framework plus (BRF+)**
  SAP RAR leverages BRF+ functionality for deriving the key attributes for performance obligations. BRF+ is an independent standalone application that’s flexible and dynamic in nature and that can be integrated with SAP RAR application quite easily. BRF+ is a comprehensive API and UI for processing and defining business rules, allowing you to model business rules and reuse them in different applications.

Reporting in SAP RAR
SAP RAR provides basic reporting at the contract or customer level, but the reporting and audit capabilities are limited. However, all the required data, including the change logs, is available in the repository and can be reported easily with custom reporting. All the postings made from SAP RAR will be compliant with dual reporting.

1.2.6 Licensing Options
SAP takes compliance and regulatory requirements seriously and gives the highest priority to all open development requests. SAP puts a lot of emphasis on customer feedback and prioritizes development goals based on customer needs. As part of the standard SAP ERP licensing, SAP offers SAP RAR at no additional license fee. There is a formal process for becoming an early adoption customer, which allows a customer to work with SAP and contribute to product development, including relevant industry-specific requirements. General availability (GA) versions of each release are open for all customers to download and install. Please refer to http://support.sap.com/swdc/ for more information about how to become a ramp-up customer/early adoption customer.

There are some prerequisites for implementing the SAP RAR add-on. Please refer to SAP Note 2175281 for more information on installing the new revenue recognition solution 1.1.

Although SAP RAR itself is covered under the standard license, and SAP also offers comprehensive documentation for configuring SAP RAR, this is a relatively new product with not many implementations, so it’s recommended to get help from SAP or SAP-preferred partners when implementing this solution. It’s essential to work through some background tasks before starting the implementation process; each industry is different and has to comply with different requirements. Refer to Chapter 2 for more information on the project implementation process.

1.2.7 Architecture and Landscape
As previously mentioned, SAP RAR is a decoupled application and is designed to work as a standalone application to meet the new IFRS 15 revenue standards. In this section, we’ll discuss the underlying architecture and how the five-step framework is integrated within SAP RAR architecture.

Basic Architecture
Revenue accounting is a critical piece of the revenue recognition process. All the source systems can be integrated directly into SAP RAR which contain the contracts) through the adapter reuse layer (ARL), in which the business rules are transformed to derive the respective attributes for the corresponding POBs. The
same information is then transferred into SAP RAR. This information is then used later to recognize the revenue according to the defined rules.

In Figure 1.6, notice that source systems such as SAP ERP SD, SAP CRM, SAP Hybris Billing, and third-party applications like Data Hub are integrated with SAP RAR through ARL. The source applications generate RAIs to pass the contract information to SAP RAR. Applications which reside in an SAP ERP environment, such as sales orders from the SD module, can be configured to automatically generate RAIs and can be processed through ARL automatically. Third-party applications can use a normalized approach, like Data Hub, and imitate SD to process the RAIs.

There are typically three stages in RAI processing, but with the integrated approach we can skip a few stages by going to processed status without going through checks and putting the RAI items into a RAW status:

1. RAI0
   This is a raw RAI item; no validations are performed at this stage.

2. RAI2
   This is a processable RAI; all validations are performed in this stage, such as valid master data, appropriate POB, company codes, and so on.

3. RAI4
   This is a processed RAI; at this stage, the revenue accounting contract is successfully created and is linked to the originating order.

There are few BAdIs supplied as part of these processes. Customers not using Data Hub or third-party applications can directly integrate their applications into these corresponding RAI stages to integrate with SAP RAR.

**Business Rule Framework Plus**

The most prominent component in the ARL is the BRF+ application. BRF+ is a standalone application that can derive the attributes relevant for the revenue accounting contract via predefined business rules. BRF+ is a central design tool/rule framework integrated not only with revenue accounting but also with SAP CRM, SAP SRM, custom applications, banking applications, and more.

Figure 1.7 provides a look at the BRF+ framework for processing business rules.

BRF+ acts as an API as well as a UI for defining and processing business rules. The rules can be modeled in an intuitive way and can be reused in different applications.
Example use cases for BRF+ include the following:

- Validating invalid data and correcting the data
- Calculating costs, overhead, and risks
- Identifying the true market value/fair market price (SSP) for a POB
- Identifying proration logic
- Identifying the type of POB (i.e., distinct, nondistinct, compound, etc.)

Major BRF+ components include applications, functions, catalogs, expressions, actions, and data objects, and SAP RAR leverages BRF+ functionality to derive key attributes for performance obligations.

**Five-Step Framework in SAP RAR**

As outlined previously in Section 1.2.1, the five steps associated with the new revenue recognition rules are as follows:

1. **Identify the contracts**
   Identify all contracts that are impacted by the new revenue accounting rules. This step is performed at the RAI item generation level. If an item is passed to SAP RAR without any impact, then that transaction can be a pass-through entry in SAP RAR.

2. **Determine the POBs**
   Identify the POBs in the contract and their true nature. These rules are built into the BRF+ framework application.

3. **Determine the transaction price**
   Determine the transaction price, which is identified at the source contract level and can be adjusted later in the control section based on the proration, timing, and so on.

4. **Allocation of the transaction price**
   When allocating the transaction price, SAP RAR can automatically allocate the price based on the true market value.

5. **Satisfaction of the POB**
   Recognize the revenue in SAP RAR based on the current rules. The engine can be configured to recognize revenue based on time, event, or percentage of completion.

All these steps are facilitated through the embedded architecture of SAP RAR, as illustrated in Figure 1.8. Note that the controls are provided before and after the ARL in order to provide provision for customization.

**Figure 1.8 Integrating Five-Step Process into SAP RAR**

**Components in SAP RAR**

SAP RAR acts as a submodule; all information pertaining to the contracts is stored within SAP RAR, and only the summarized information is sent to SAP ERP Financial Accounting, which is the main reporting ledger.

Figure 1.9 illustrates the SAP RAR architecture. Here, RAI items are processed through the ARL, and the corresponding SAP RAR contracts with POBs are generated. Fulfillment and invoicing events are triggered by the ARL upon the receipt of information, and the triggers are passed to the engine for recognizing the revenue.
As shown in Figure 1.9, the following components are part of SAP RAR:

- **User interface**
  Designed with Web Dynpro ABAP with Floorplan Manager. The personal object work list is used for reviewing and error handling.

- **Contract Management**
  The Contract Management component in SAP RAR calculates price allocation among POBs. Within this component are three subcomponents:
  - Processes Management: This functionality offers manual SAP RAR processing.
  - Invoice Management: Calculates effects from invoices, such as recalculating the contract asset/liability, reducing the POB value, terminating the POB, and so on.
  - Fulfillment Management: Determines revenue to be recognized from fulfillment events.
  Invoice and Fulfillment Management trigger the calculation of contract asset/liability for the posting.

- **Posting Management**
  Creates postings of recognized revenue and invoice corrections. The following areas exist under this component:
  - Accrual Run: Creates aggregated actual postings to G/L and to CO-PA.
  - Reconciliation: Explains the aggregation of posting data per POB into postings.

1.2.8 Integration with Existing Revenue Applications
As a standalone decoupled application, SAP RAR can be integrated with multiple applications to combine information from different systems into a single contract. In this section, we’ll outline some of the standard available integration applications that can be linked to SAP RAR directly.

**Integration with SAP Hybris Billing**
The SAP Hybris Billing solution works with contracts from customers that must be compliant with the new IFRS 15 revenue guidelines. As part of standard support, SAP developed a standard integration between SAP RAR and SAP ERP 6.07 SP09. This new solution is compliant with SAP RAR 1.1 and beyond.

SAP Hybris Billing works with various kinds of orders, such as standard SAP CRM sales orders, Order Management, Convergent Charging (CC), Convergent Invoicing (CD), and Convergent Accounts Receivable and Payable (FI-CA). The standard SAP RAR integration with SAP Hybris Billing creates the relevant RAIs (order, fulfillment, and invoice) directly from the corresponding applications within SAP Hybris Billing (i.e., SAP CRM and non-SAP CRM applications). These RAIs will be created similarly to standard sales order RAI items and will be processed through ARL for setting up the contracts in the SAP RAR system.

Figure 1.10 shows the process flow from the SAP Hybris Billing integration point. Notice that on the left, the SAP order-to-fill (standard sales order) process integrates highly with the SAP RAR solution. On the right side, notice that SAP Hybris Billing is integrated with SAP RAR as well.
SAP RAR version 1.1 is integrated with SAP Hybris Billing for SAP CRM 7.03 SP 09. Figure 1.10 illustrates the integration of different source systems into SAP RAR.

Figure 1.11 shows the process flow from contract to order creation through general ledger postings. Note that none of the processes for SAP Hybris Billing are impacted by any of the settings from SAP RAR. SAP Hybris Billing is integrated, and if there is an exception it’s handled within SAP RAR; the SAP Hybris Billing functionality is untouched and will be processed normally. SAP RAR can be integrated with Hybris Billing and has triggers everywhere that a process is relevant for the SAP RAR application (as shown with checkmarks in the flow through SAP RAR).

Integration with Sales and Distribution-Based and Results Analysis-Based Revenue Recognition

Many SAP ERP customers use the standard delivered revenue recognition solution from the SD module. The SD-based revenue recognition solution is highly integrated with sales, delivery, and invoicing processes within SAP ERP (as seen in Figure 1.12). This solution is designed only with the SD module as an input, and it works, for the most part. The SD module is designed in such a way that when invoices are posted to accounting instead of to a revenue account, they are posted as deferred revenue or unbilled receivables. This process widely depends on the previous balances of recognized revenue from the invoiced amounts.

This module is integrated with delivery and based on the post goods issue, the fulfillment events are triggered from the delivery, and fulfillment can be posted to deferred/unbilled revenue. Service revenue can be recognized directly based on the billing plan information upon invoicing.
Other SAP ERP customers also use results analysis-based revenue recognition (as seen in Figure 1.13). This method mainly targets recognizing revenue based on the percentage of completion of the planned revenue/cost. This approach is prominent with the make-to-order/professional services approach. With this application, the revenue can be recognized based on the planned revenue/cost or actual revenue/cost.

Both SD-based revenue recognition and results analysis-based revenue recognition are robust solutions, but they do have a few limitations, such as the following:

▶ Lack multiple-element arrangement
Allocation among different elements originating from different contracts isn’t possible; recognition is only made on the specific order line item defined in the pricing on the line item.

▶ Lack support for parallel accounting
One of the major requirements for IFRS 15 or migrating from US-GAAP to IFRS is to be able to report in both standards for a defined period of time. Existing solutions are not designed to handle the parallel accounting/reporting requirements. Currently, even with the new G/L, existing solutions such as classic SD-based revenue recognition will always post to the blank ledger group, which is applicable for all ledgers in that group.

▶ Lack cost recognition
Although the existing solutions are capable of recognizing costs, they lack the cost of goods sold synchronization with revenue. They can recognize the costs only at goods issue or at billing time.

▶ Lack disclosure capabilities
The new revenue standards require new comprehensive disclosures, especially in the areas of revenue reconciliation and contract balances. The current solutions are not capable of handling these complex requirements.
Data Hub Approach

Most telecommunications companies don’t use either SD-based or result analysis-based revenue recognition. They currently use the pass-through approach (i.e., they recognize revenue as it comes through, with some manual adjustments at month end for the deferred revenue and with unbilled receivables). Although SAP RAR is decoupled from SD, most of the underlying structures are based on the SD-based architecture.

To overcome such complexities these companies are adopting an intermediate layer of processing—that is, using the Data Hub approach.

In the Data Hub approach, data is gathered from various source systems, staged, and processed in an SAP RAR-compatible language to input the details into the revenue engine directly. In a way, the Data Hub approach acts like a simulated SD environment, in which data is processed when complete information is received from all source systems.

SAP RAR is designed to address all the limitations of SD-based and results analysis-based revenue recognition. This solution is also designed to provide flexibility and user friendliness for recognizing revenue. Because the standards are evolving, the product will become more mature in future versions. The current version of the product meets most of the requirements of the new standards, but there are quite a few requirements still to be met. For example, IFRS 15 includes a special disclosure requirement to distinguish long-term revenue (noncurrent revenue; usually over twelve months) and costs, from short-term revenue (current revenue; usually less than twelve months) and costs, from time value money recognition, and so on. Potentially, many of these requirements will be covered as part of future releases.

1.3 Summary

In this chapter, we introduced you to both the IFRS 15 requirements and the SAP RAR solution. As we discussed, the new revenue regulations impact not only IFRS, but also US-GAAP as well. The new effective date of these regulations is the beginning of the 2018 fiscal year. Although these standards impact most industries, only a handful of industries are heavily impacted. Unlike other regulations, IFRS 15 is not just a reporting requirement; its implementation must be treated as a separate project by nature.
Contents

Foreword .......................................................................................................................... 13

1 Introduction to IFRS 15 and SAP Revenue Accounting and Reporting .......................................................... 15

1.1 Global Accounting Standards .......................................................... 16

1.1.1 New Accounting Guidelines ............................................. 16

1.1.2 Business Challenges ....................................................... 17

1.2 IFRS 15 ........................................................................................ 18

1.2.1 Five-Step Framework for Revenue Recognition .......... 19

1.2.2 Impact of the New Standards .......................................... 22

1.2.3 Existing Tools and Vendor Analysis Matrix ................. 25

1.2.4 How SAP Is Addressing the New Requirements ......... 27

1.2.5 Functionality Overview ................................................... 28

1.2.6 Licensing Options ............................................................ 39

1.2.7 Architecture and Landscape ............................................ 39

1.2.8 Integration with Existing Revenue Applications ......... 45

1.3 Summary ...................................................................................... 50

2 Project Execution Approach ......................................................................................... 53

2.1 Project Management ........................................................................ 53

2.1.1 Agile Methodologies ....................................................... 53

2.1.2 Traditional SAP Implementations (ASAP Methodology) ... 55

2.2 Project Preparation and Scope ...................................................... 57

2.2.1 Project Preparation ......................................................... 57

2.2.2 Defining the Scope .......................................................... 58

2.2.3 Project Organization ....................................................... 59

2.2.4 Project Timelines ............................................................. 61

2.2.5 Change Management Considerations ......................... 63

2.3 Project Blueprinting ...................................................................... 64

2.3.1 Plan and Collect or Develop Use Cases ....................... 64

2.3.2 Organize Business Requirements Workshops .......... 66

2.3.3 Create Business Requirements Document ............... 67

2.3.4 Validate and Get BRD Sign-Off from Business .......... 68

2.4 Project Design and Build .............................................................. 69

2.4.1 Prototype Use Case Solution ........................................... 69
5.2.5 Migration in Cutover Process .......................................... 250
5.2.6 Error Handling during Migration ..................................... 251
5.3 Best Practices in Migration ............................................... 252
5.4 Summary ........................................................................... 253

6 Transition Strategy and Options ............................................. 255

6.1 Possible Effects during Transition ...................................... 257
6.1.1 The Black Hole Effect .................................................. 257
6.1.2 Recycling of Revenues .................................................. 260
6.1.3 Capitalization of Contract Costs .................................... 263
6.2 Full Retrospective Transition Approach ............................. 266
6.3 Modified Retrospective or Cumulative Catch-up Transition Approach ................................................................. 271
6.4 Modified Retrospective Transition Approach with Retrospective Pro Forma (Hybrid Transition Method 1) ....................... 273
6.5 Modified Retrospective Transition Approach with Prospective Pro Forma (Hybrid Transition Method 2) ......................... 274
6.6 Parallel Accounting ......................................................... 278
6.6.1 Account-Based Solution ................................................ 278
6.6.2 Ledger-Based Solution .................................................. 280
6.6.3 Dual Reporting ............................................................ 282
6.7 Transitioning Example (End-to-End Flow) ......................... 283
6.7.1 Current Postings under IFRS (IAS 11/IAS 18) ................. 284
6.7.2 Transition Steps ............................................................ 284
6.8 Transactions Overview ..................................................... 294
6.9 Best Practices ................................................................. 296
6.10 Summary ......................................................................... 297

7 Business Cases: Telecom and High-Tech ................................. 299

7.1 Telecom Industry Business Case ...................................... 300
7.1.1 Use Case Overview ..................................................... 300
7.1.2 Impact of IFRS 15 on the Telecom Industry .................... 300
7.1.3 Challenges for Many Telecom Companies ..................... 302
7.1.4 Implementing SAP RAR in the Telecom Industry ............ 306
7.1.5 Best Practices and Lessons Learned ............................. 324
7.2 High-Tech Industry Business Case .................................... 325
7.2.1 Use Case Overview ..................................................... 325
7.2.2 Impact of IFRS 15 on the High-Tech Industry ............... 326
7.2.3 Challenges for High-Tech Companies ......................... 327

8 Conclusion ............................................................................ 343

8.1 Don’t Take IFRS 15 Projects Lightly .................................. 343
8.1.1 Implementation Date .................................................... 344
8.1.2 Requirements ............................................................ 344
8.1.3 Internalizing the Five-Step Model ................................. 345
8.2 Choose the Right Transition Method .................................. 345
8.2.1 Hybrid Model-I ......................................................... 346
8.2.2 Migration Scenarios ..................................................... 347
8.2.3 Third-Party Systems ..................................................... 348
8.3 Good Project ManagementMakes for Successful Implementation ................................................................. 348
8.3.1 Scope and Milestones .................................................... 349
8.3.2 Big Bang versus Agile ................................................ 349
8.3.3 Resources ................................................................. 349
8.3.4 Prototyping ................................................................. 350
8.3.5 Focus ........................................................................ 350
8.3.6 Roles and Responsibilities in an IFRS 15 Project ............ 350
8.4 Choose the Best Design for Reporting ................................. 352
8.4.1 Considering Both GAAPs ............................................. 353
8.4.2 Ledger versus Account Approach ................................ 353
8.4.3 Meeting Disclosure Reporting ..................................... 354
8.4.4 Reconciliation ............................................................ 354
8.5 Overcome Technology Challenges ..................................... 355
8.5.1 Special Landscaping Requirements ............................. 356
8.5.2 Testing .................................................................... 358
8.6 Links and Additional Information ....................................... 359

Appendices .............................................................................. 361

A SAP RAR Application FAQs ............................................... 361
B The Authors .......................................................................... 369

Index ....................................................................................... 371
Index

A
Account approach, 353
Accounting principles, company codes, 119
Accounting principle-specific settings, 115
Adapter reuse layer, 134
Agile, 53, 349
ALE RFC setup, 88
Allocation effect, 172
Allocation price, 171
Amortization, 163
Application installation, 85
Archival setup, 88
ASAP methodology, 55
project organization, 59
project preparation, 57
scope, 58
ASC 606/IFRS 15, 18
Automotive industry, 23

B
BAdI, 185
FARR_BADI_CONTRACT Combination, 295
FARR_CHANGE_MODE_DETERMINATION, 117
FARRIC_BADI_ORDER, 286, 295
gross posting, 185
net posting, 185
Black hole effect, 257
BRF+, 38, 41, 152
account determination, 146
applications, 127
decision table, 104
decision tables, 146
integration, 142
transport applications, 148
BRF+ applications
FARR_ACC_DETERMINE TEMPLATE, 103
FARR_AP_SD_PROCESS TEMPLATE, 103
BRF+ Rules Engine, 144
BRF+ Rules Repository, 144
BRF+ Workbench, 143
Business case, 299
Business function, FIN-CO-COGM, 108
Business Rules Management System, 143

C
Capitalization of contract costs effect, 264
Change management, 63
CO object setup, 109
Commission asset, 36
Comparative reports, 242
Condition type, 124
roles, 126
Configuration, 94
Configuring SAP RAR, 83
Contract
shift to next period, 196
Contract asset/liability, 35, 332
calculation, 186
postings, 184
Contract balance, 200
Contract categories, 121
Contract combination, 175
manual combination, 178
quick combine, 176
Contract fulfillment, 178
event-based, 179
manual spreading, 180
percentage of completion, 180
time-based, 179
Contract management, 32
contract modification, 32
Contract modification, 115, 231
Contracts, 20
completed, 268
open, 268
Convergent accounting standard classes, 89
CO-PA integration, 198
Cost object controlling, 113, 129
integration, 107
Parallel processing, 157
configuration, 192
Parallel accounting
account-based, 278
ledger-based, 280
Performance obligation, 20, 23, 36
distinct and nondistinct, 20
reference type, 102
satisfaction, 21
transaction price allocation, 21
types, 20
Performance obligation, 20, 152, 163
administration data, 169
distribution data, 165
fulfillment data, 166
general data, 163
number ranges, 120
review reasons, 128
status data, 169
types, 122
update mode, 129
Personal Object Work List, 137
Posting, 184
Price allocation, 171
Program FARR.Reverse_Liab_4.CHG_ACTPR, 238
Project blueprinting, 64
business requirements document, 67
business requirements workshops, 66
use case plan, 64
Project execution, 53
Project initiation document, 57
Project management, 53
Project roles, 350
Project testing, 75
Project timeline, 61
Proration, 32

SAP RAR (Cont.)
CO-PA integration, 106
five-step framework, 42
installation, 86
integration, 45
SAP BW integration, 90
system requirements, 85
UI configuration, 137
Scenario modeling template, 69
SD-based revenue recognition process, 84
SD-based standard classes, 89
Securities and Exchange Commission (SEC), 15
Sell-in, 305
Sell-through, 305
Standalone selling price, 21, 23, 102
System development life cycle, 54
Telecom (Cont.)
historical data availability, 304
impact of IFRS 15/ASC 606, 300
Implementing SAP RAR, 306
prepaid services, 303
second month's invoice, 313
second month-end closing, 314
third month through sixteenth month invoicing, 315
third through twentieth month-end closings, 316
twenty-first month invoicing, 318
twenty-first month-end closing, 319
Test strategy, 75, 249
functional unit testing, 76
technical unit testing, 75
Testing, 219, 358
Testing strategy
regression testing, 77
volume performance testing, 77
Third-party systems, 348
time-based revenue, 188, 240
Transaction
C40, 111
C388, 113, 115
FARR.CALC.TRANS.CATCHUP, 239
FARR.II.CLEANUP, 226
FARR.IDENTITY.CALC, 295
FARR.NEWAC.TRANS.CATCH.UP, 287, 295
FARR.PREAPRED.COMP, 293, 295
FARR.RAI.MON, 235, 294
FARR.RAI.PROC, 159, 295
FARR.RAI.PROC.NEWAC.TRANS, 294
FARR.RAI.TRANS, 156
FARR.REV.POST, 243, 295
FARR.TM.TRANSFER, 240
FARR.TRANS.CATCHUP, 295
FARR.TRANS.REV.UHDR, 292
FARR.TRANS.REV.UHDR, 295
FARRIC.OL.226, 234, 294
KK2, 113, 115
LDP.CUST, 140
RAS, 90
RAS6, 90
SABA, 88
SE18, 135

S
SAP Business Client
roles, 89
setup, 89
SAP BusinessObjects BI, 38
SAP ERP SD revenue recognition, 220
SAP RAR, 15, 16, 218
components, 43
configuration, 94
configuration guide, 96
contract sync, 310

T
Table
| DT_PROCESS_POB, 105 |
| DT_PROCESS_POB, 105 |
| DT_PROCESS_POB_ADD, 105 |
| DT_PROCESS_POB_ADD, 104 |
| DT_PROCESS_ADD, 104 |
| DT_PROCESS_GRP, 104 |
| FARR.BADI.COMB.TRANS_ADD.TRANS, 296 |
| FARR.D_COMP_TRN, 293, 295 |
| FARR.D.LEGACY, 286 |
| FARR.ELEGY, 286 |
| FARR.S.MAPPING, 295 |
| FARR.S.MAPPING_M, 295 |
| FARR.S_POSTING, 287, 288, 295 |
| FARR.S.RECON_KEY, 295 |

Telecom, 22, 299
activation fee, 303
best practices, 324
billing systems, 304
challenges, 302
contract inception, 306
costs, 305
customer service promises, 303
first month's invoice, 309
first month's closing, 311
five-step model, 303

R
RAI class, 97, 154
BRP's applications, 103
Transaction (Cont.)
SE38, 238
SE80, 137
SICF, 88
SLG1, 88
SLG2, 88
SM30, 108, 109
VA03, 234
VA43, 234
WDY_APPLICATION, 160
Transaction price, 20
allocation, 21
Transition, 238, 255
cumulative effect, 268
eexample, 283
sttif, 284

V
Validation, 221
Value-related invoice, 182
Variable amounts, 21
Vendor, 26
Vendor analysis, 26
matrix, 25
process, 26
Version 1.3, 204

W
WBS hierarchy, 109
Web Dynpro Floorplan Manager, 137, 159
Web Dynpro setup, 88

U
Unbilled orders/contracts, 224
Use case prototype, 69
Dayakar Domala is a senior manager for IT and enterprise applications at Service Now, where he has been involved with ramp-up programs for implementing the SAP RAR application with new technologies like SAP S/4HANA. He presented on SAP RAR at the SAPPHIRE/ASUG Annual Conference and the Finance Excellence Forum in 2015.

Koti Tummuru is a platinum FICO consultant at SAP. He has worked as a ramp-up coach for multiple clients implementing SAP RAR to meet the new IFRS requirements, and was involved with the first SAP RAR go-live for version 1.0.