

PREPARING FOR THE NEW REV REC STANDARD WITH NETSUITE



ORACLE®
NetSuite

www.netsuite.com.au



Grab a seat and enjoy.
Read Time: 10 minutes

PREPARING FOR THE NEW REV REC STANDARD WITH NETSUITE

The new revenue recognition standard, AASB 15, represents the most sweeping change to revenue accounting rules in years. Now is the time for software and high tech companies to ready themselves and begin working toward compliance.

NetSuite's new Advanced Revenue Management solution enables a streamlined revenue accounting function to ensure compliance with current and future IFRS and FASB guidelines.

Advanced Revenue Management (ARM)
NetSuite Advanced Revenue Management (ARM) was built to streamline month-end

processes so companies can close their books faster and be more confident with their revenue numbers. ARM provides point-and-click configuration for customers to handle the complexities of AASB 15.

Users will know that all of their transactions are compliant. This includes managing the lifecycle of multiple elements, and allowing for event-based rules, flexible fair value pricing and real-time analytics.

Fitting With the Model for Revenue Recognition

Shown below is the new five-step model for revenue recognition under AASB 15.

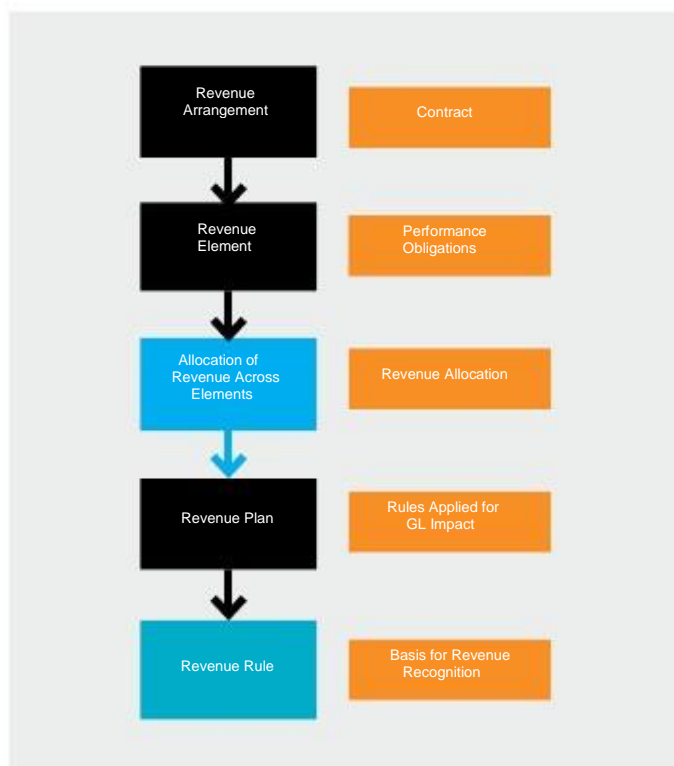
Five-Step Model for Revenue Recognition



In designing the data model for revenue management, NetSuite considered the AASB 15 model to ensure the solutions would be consistent and intuitive.

NetSuite Revenue Accounting

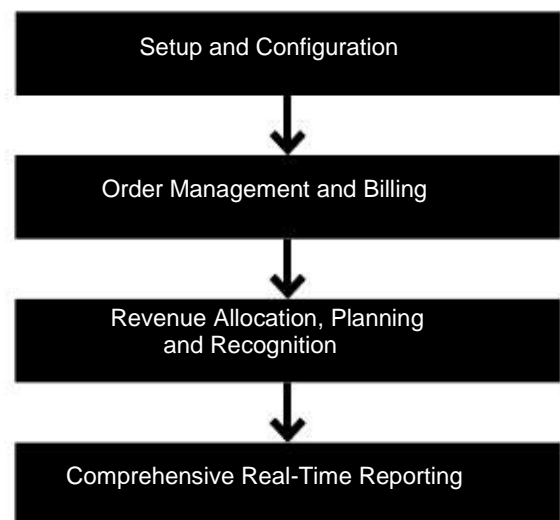
A high-level view of NetSuite Revenue Accounting is shown below.



Revenue is allocated as appropriate between the elements, if the arrangement is identified as a multi-element arrangement. Each element is associated to a revenue plan based on revenue rules, which dictate when the amortisation of revenue can commence and the time frame over which it is amortised.

ARM Components

The main components of ARM are shown below.



These components are:

- **Setup and configuration.** This primarily includes items, fair value prices and the revenue arrangement is the transaction revenue rules. The intention is to set it that represents revenue contracts. Elements under that arrangement represent performance and forget it. If configured correctly, obligations, and the sources of those elements most transactions in ARM will be fully automated. The revenue accountant's could be the sales transaction lines, projects job is to manage exceptions or subscriptions. The transaction price is determined based on the discounted sales amount of the element.

ARM's overall setup is powerful in that it allows companies to accommodate complex, fair value pricing, including dual allocations for companies with hardware plus software deals. NetSuite provides flexibility in rule creation in determining what should drive the revenue plan start and end date, and when the plan should be created. Items have a many-to-many relationship with fair value prices. A single item can have multiple fair value prices broken out by user-defined dimensions. A single fair value price can be associated to multiple items to allow for easier maintenance.

- **Order management and billing.** This refers to the sales processes which feed information to the revenue arrangement. From the user's perspective, ARM's order and billing processes are meant to be entirely separate from the revenue process. This allows sales reps and sales operations to perform their jobs without worrying about revenue process issues holding up transactions. It allows for easy and proper segregation of duties by ensuring that users only have to see and touch transactions within their domain. At the same time, those sources are still able to influence the revenue processes where appropriate.
- **Revenue process.** Revenue processes include contract creation, allocation, planning and recognition of revenue.

The revenue process is all about gaining efficiency, power and insights.

Since the revenue arrangement is separate from order management and billing, this allows companies to have separate approval processes and separate people concentrating on different areas of the business. Beyond the power of fair value pricing and automatic allocation of revenue between elements, NetSuite's Advanced Revenue Management offers the capability to merge arrangements to represent linked orders and provides an easy way to amend revenue plans to accommodate events such as changes in rates, quantities or end dates.

All the while, a company is able to gain real-time insights at the arrangement level, see how revenue amounts for each element are calculated, and see an audit trail of arrangements, elements and plans if things change over time.

- **Reporting.** Information from the previous components feeds into NetSuite's comprehensive suite of real-time reports. This suite assists in month-end processes, as companies need to tie the outstanding detailed deferred revenue to the balance sheet and determine what portion of deferred revenue should be reclassified as long-term deferred.

From a managerial reporting perspective, there are forecast reports that adapt as actual revenues are recognised compared

with planned revenue. All reports have the ability to drill down into detailed reports and ultimately to the transactions themselves.

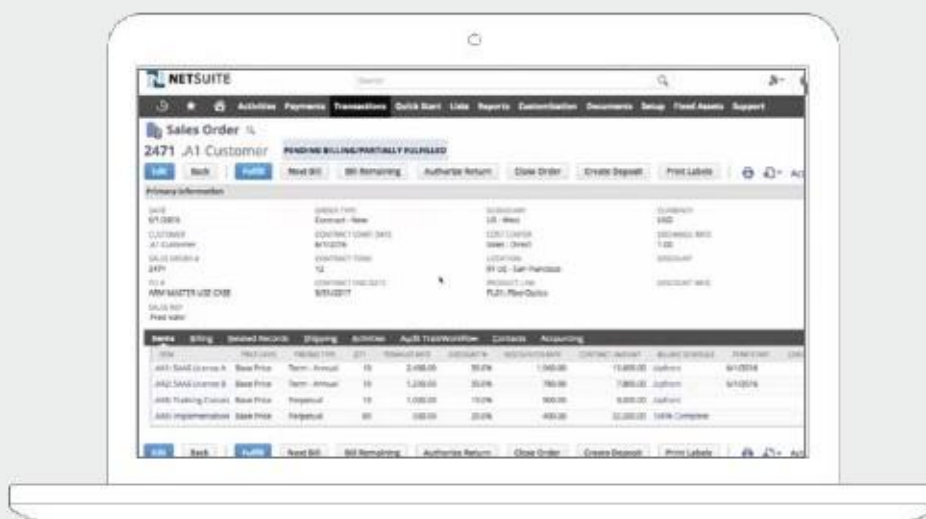
Revenue management works with NetSuite's ARM Multi-Book feature to allow users to record the same transaction in separate books, according to separate rules. This can be useful for companies where a subsidiary might be recording in a primary book according to AUS GAAP, and a secondary book according to local country standards. It will also be useful for companies that want to start looking at their transactions under AASB 15, while continuing to record and report in their primary books IAS 18. This Multi-Book feature increases flexibility and value.

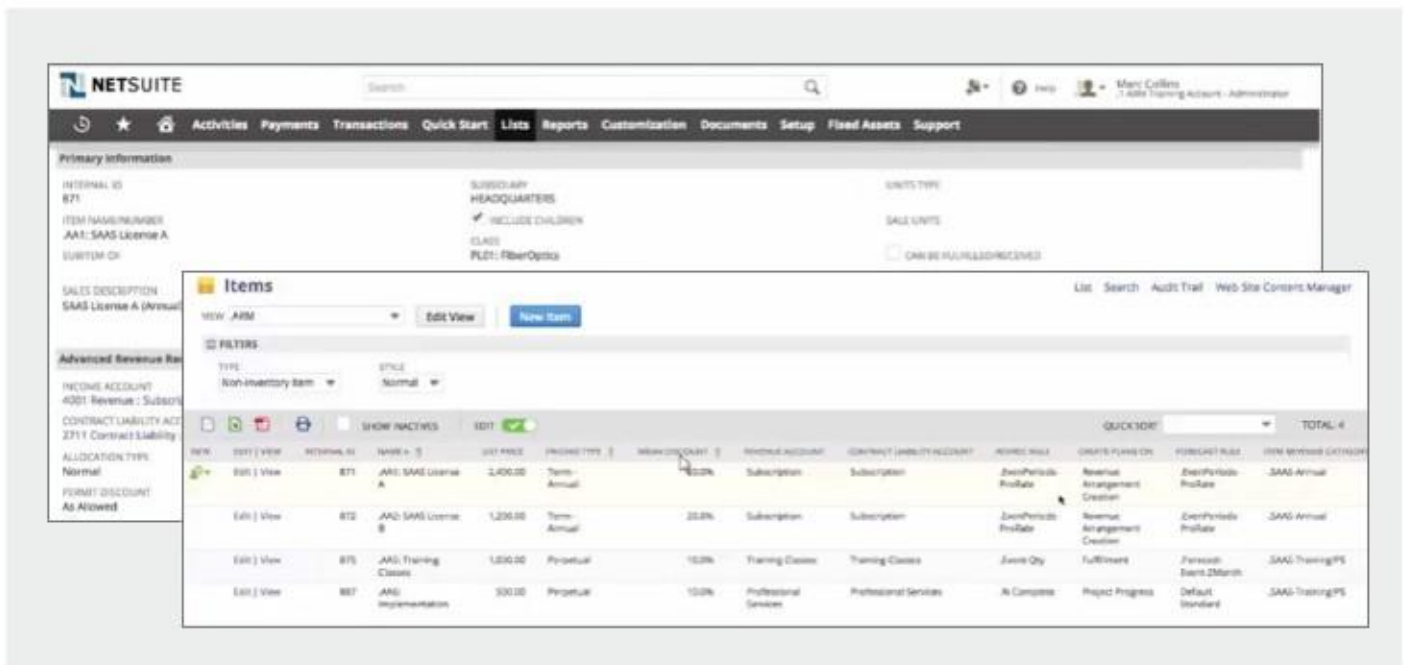
When using ARM, the key from a revenue recognition perspective is to set up three key elements: revenue rules, item or product configurations and fair value prices:

1. **Revenue recognition rules.** These are generic rules that eventually become revenue schedules or plans. A small number of rules can be used over time for many contracts and elements. An example of a rule is “percent complete”. If this rule is used, revenue is going to be recognised based on project completion. There are also event-driven rules, which can be based on event amount and event quantity. Other rules may be based on the amount billed, or a forecast rule, where a forecast Rev Rec schedule is created based on a rule.

“These revenue recognition rules are very powerful and there are a lot of options. They are extremely flexible and we can do a lot of things with them.”

— Joe Friedman, Director, Finance
Centre of Excellence, NetSuite





2. Basic item or product configuration.

The item configuration in ARM is default behaviour, and for every item there are multiple fields to be configured (shown above). The idea is to configure, automate and manage by exception; the rules can easily be changed if necessary.

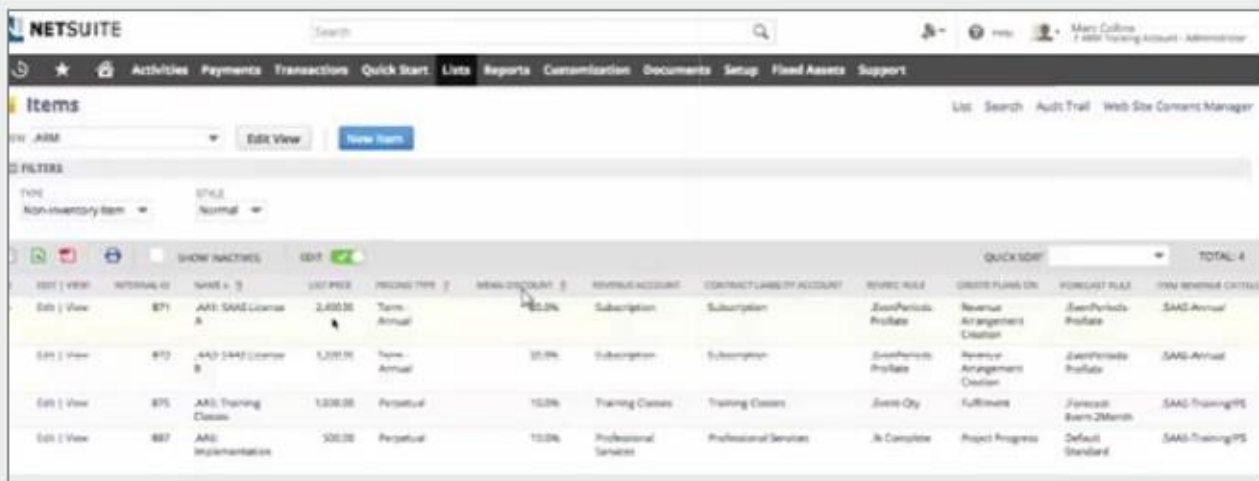
3. Fair value prices. NetSuite has an extremely powerful fair value engine and can create fair value prices in a number of ways. NetSuite can set fair value prices in a one-to-one relationship between a fair value price and a product, or can have multiple fair value prices for one product.

An important area where configuration has great value is pricing (shown on page 7). Shown is the list price, the pricing type (such as annual or perpetual licences), the mean discount, revenue account and contract liability information, the default revenue recognition rule, when to create the Rev Rec schedule (which differs by product/service) and the item revenue category.

To summarise: Getting started with NetSuite's Advanced Revenue Management requires setting up revenue recognition rules, basic item or product configuration and fair value prices. Once the setup of ARM has been completed, everything is automated and revenue recognition happens automatically.

“You set up three things: the rules, the fair value prices and you do some basic item-level configuration. Everything else is automated... and then I really do nothing... I manage Rev Rec by exception.”

— Joe Friedman, Director, Finance Centre of Excellence, NetSuite



ITEM ID	ITEM NAME	LIST PRICE	RECURRING TYPE	REVENUE ACCOUNT	CONTRACT LIABILITY ACCOUNT	REVENUE RULE	CREATED PLAN ON	FORECAST PLAN	ITEM REVENUE CATEGORIES
871	AA1 SaaS License	2,400.00	Term Annual	Subscription	Subscription	EvenPeriods Profit	Revenue Arrangement Creation	EvenPeriods Profit	SaaS Annual
872	AA2 SaaS License	1,200.00	Term Annual	Subscription	Subscription	EvenPeriods Profit	Revenue Arrangement Creation	EvenPeriods Profit	SaaS Annual
875	AA3 Training Class	1,200.00	Perpetual	Training Class	Training Class	Event Qty	Fulfillment	Forecast Item 2Month	SaaS TrainingPS
887	AA4 Implementation	500.00	Perpetual	Professional Services	Professional Services	% Complete	Project Progress	Default Standard	SaaS TrainingPS

Revenue Arrangement

This is the revenue contract, which is the key piece of the whole ARM Rev Rec engine. It is created automatically based on the setup.

to revenue elements within ARM and all crucial information about a sale is contained and visible, with audit trails about each element.

ARM enables companies to fully meet the five steps of the new revenue recognition standards:

1. **Identify a contract with a customer.** A new contract is driven by a sales order.
2. **Identify the performance obligations.** Items on sales contracts are converted to revenue elements within ARM and all crucial information about a sale is contained and visible, with audit trails about each element.
3. **Determine the transaction price.** ARM automatically provides this information.
4. **Allocate the transaction price to the performance obligations.** Using information in the system, calculated fair values are used to allocate the transaction price across the performance obligation.

5. Recognise revenue as the performance obligation is satisfied. As a performance obligation is satisfied, revenue is automatically recognised.

Once the appropriate steps are taken to set up ARM for revenue recognition and the transactions begin to occur and flow through the system, the standards set forth by IFRS 15 will be fully satisfied by NetSuite's ARM in a simple, easy and automated way. This ensures compliance while providing managers with full visibility.

With this setup of Rev Rec, three things are posted by ARM to the GL: invoices, Rev Rec journal entries and deferred reclass entries. The revenue arrangement is a container for this information.

Billing and Revenue Summary Report

The ARM Billing and Revenue Summary Report is a great report that keeps track of everything as it relates to a specific order, including the:

- Total booking amount
- Total amount billed
- Billing backlog, which ties the billing schedule for what is remaining to bill
- Amount planned, which is revenue planned in the future and is tied to the forecast
- Amount recognised
- Net contract liability (there is also a contract liability report)

Primary Information

DATE: 6/1/2016	COMPLIANT	SUBSIDIARY: US - West
REVENUE ARRANGEMENT # 144	TRANSACTION IS ALLOCATION BUNDLE	CURT: 0.00
CUSTOMER: A1 Customer	TRANSACTION TOTAL: 64,400.00	PLN: File-Copy
CURRENCY: USD	TOTAL CHRG-OUT: 1,791.71	LOCATION: ST US - San Francisco
	TOTAL REVENUE AMOUNT: 64,400.00	COMPONENT: Sales - Direct

Revenue Elements

REVENUE ELEMENT	CUSTOMER	SOURCE TRANSACTION	REVENUE DATE	ITEM	QUANTITY	UNIT PRICE	AMOUNT	DISCOUNT	SALES AMOUNT	AMOUNT	CONTRACT TERM	ALLOCATION AMOUNT	REVENUE AMOUNT	REVENUE AMOUNT	REVENUE AMOUNT	REVENUE AMOUNT	REVENUE AMOUNT
296	A1 Customer	Sales Order #2471	6/1/2016	AA1: SALES License A	10	1.00	2,400.00	35.0%	15,600.00	25.0%	10	15,200.00	15,754.47				
299	A1 Customer	Sales Order #2471	6/1/2016	AA2: SALES License B	10	1.00	1,200.00	25.0%	9,000.00	25.0%	12	8,600.00	8,371.34				

“This [the Manage Rev Rec page] is a great page to holistically manage everything by exception.”

— Joe Friedman, Director, Finance Centre of Excellence, NetSuite

CUSTOMER	DATE	NO.	CURRENCY	ORDER TYPE	BOOKING AMT	AMT BILLED	BILLING BACKLOG	AMT PLANNED	AMT UNPLANNED	AMT RECOGN
A1 Customer										
	6/1/2016	2471	USD	Contract - New	\$64,400.00	\$32,400.00	\$32,000.00	\$65,475.17	\$3,526.83	
	8/1/2016	2472	USD	Contract - Updell	\$100.00	\$100.00	\$0.00	\$900.00	\$0.00	
Total - A1 Customer					\$65,500.00	\$33,500.00	\$32,000.00	\$66,375.17	\$3,526.83	
Azure Corp (UC1)										
	3/1/2016	2469	USD	Contract - New	\$94,700.00	\$94,700.00	\$0.00	\$94,700.00	\$0.00	
	5/1/2016	2470	USD	Contract - Updell	\$23,400.00	\$23,400.00	\$0.00	\$23,400.00	\$0.00	
	6/1/2016	28	USD	Contract - Downsell	\$98,400.00	\$98,400.00	\$0.00	\$98,400.00	\$0.00	
Total - Azure Corp (UC1)					\$216,500.00	\$216,500.00	\$0.00	\$216,500.00	\$0.00	
Baxter Corp (UC2)										
	3/1/2016	2439	USD	Contract - New	\$81,200.00	\$81,200.00	\$0.00	\$81,200.00	\$0.00	
	5/1/2016	2440	USD	Contract - Updell	\$16,800.00	\$16,800.00	\$0.00	\$16,800.00	\$0.00	
	6/1/2016	25	USD	Contract - Downsell	\$66,340.00	\$66,340.00	\$0.00	\$66,340.00	\$0.00	
Total - Baxter Corp (UC2)					\$164,340.00	\$164,340.00	\$0.00	\$164,340.00	\$0.00	
Caver Corp (UC3)										
	5/1/2016	2441	USD	Contract - New	\$94,000.00	\$94,000.00	\$0.00	\$94,000.00	\$0.00	
Drexler Corp (UC4)										
	3/1/2016	2442	USD	Contract - New	\$65,000.00	\$65,000.00	\$0.00	\$65,000.00	\$0.00	
	5/1/2016	2443	USD	Contract - Updell	\$4,500.00	\$4,500.00	\$0.00	\$4,500.00	\$0.00	
	6/1/2016	24	USD	Contract - Downsell	\$62,125.00	\$62,125.00	\$0.00	\$62,125.00	\$0.00	
Total - Drexler Corp (UC4)					\$131,625.00	\$131,625.00	\$0.00	\$131,625.00	\$0.00	
Epsilon Corp (UC5)										
	3/1/2016	2463	USD	Contract - New	\$21,400.00	\$0.00	\$21,400.00	\$21,400.00	\$0.00	
Franklin Corp (UC6)										
	3/1/2016	2465	USD	Contract - New	\$20,500.00	\$0.00	\$20,500.00	\$20,500.00	\$0.00	
Gamma Corp-UK (UC7)										
	3/1/2016	2446	GBP	Contract - New	\$76,376.00	\$76,376.00	\$0.00	\$76,376.00	\$0.00	
Jello Corp-UK (UC8)										
	3/1/2016	2447	GBP	Contract - New	\$76,376.00	\$76,376.00	\$0.00	\$76,376.00	\$0.00	
	5/1/2016	2448	GBP	Contract - Updell	\$22,910.00	\$22,910.00	\$0.00	\$22,910.00	\$0.00	
	6/1/2016	25	GBP	Contract - Downsell	\$98,810.00	\$98,810.00	\$0.00	\$98,810.00	\$0.00	
Total - Jello Corp-UK (UC8)					\$198,162.00	\$198,162.00	\$0.00	\$198,162.00	\$0.00	
Kentia Corp-UK (UC9)										
	3/1/2016	2449	GBP	Contract - New	\$15,267.00	\$0.00	\$15,267.00	\$15,267.00	\$0.00	
Offier Corp (UC10)										
	3/1/2016	2450	USD	Contract - New	\$63,900.00	\$63,900.00	\$0.00	\$63,900.00	\$0.00	
Sextone Corp-UK (UC11)										
	3/1/2016	2451	USD	Contract - New	\$63,900.00	\$63,900.00	\$0.00	\$63,900.00	\$0.00	

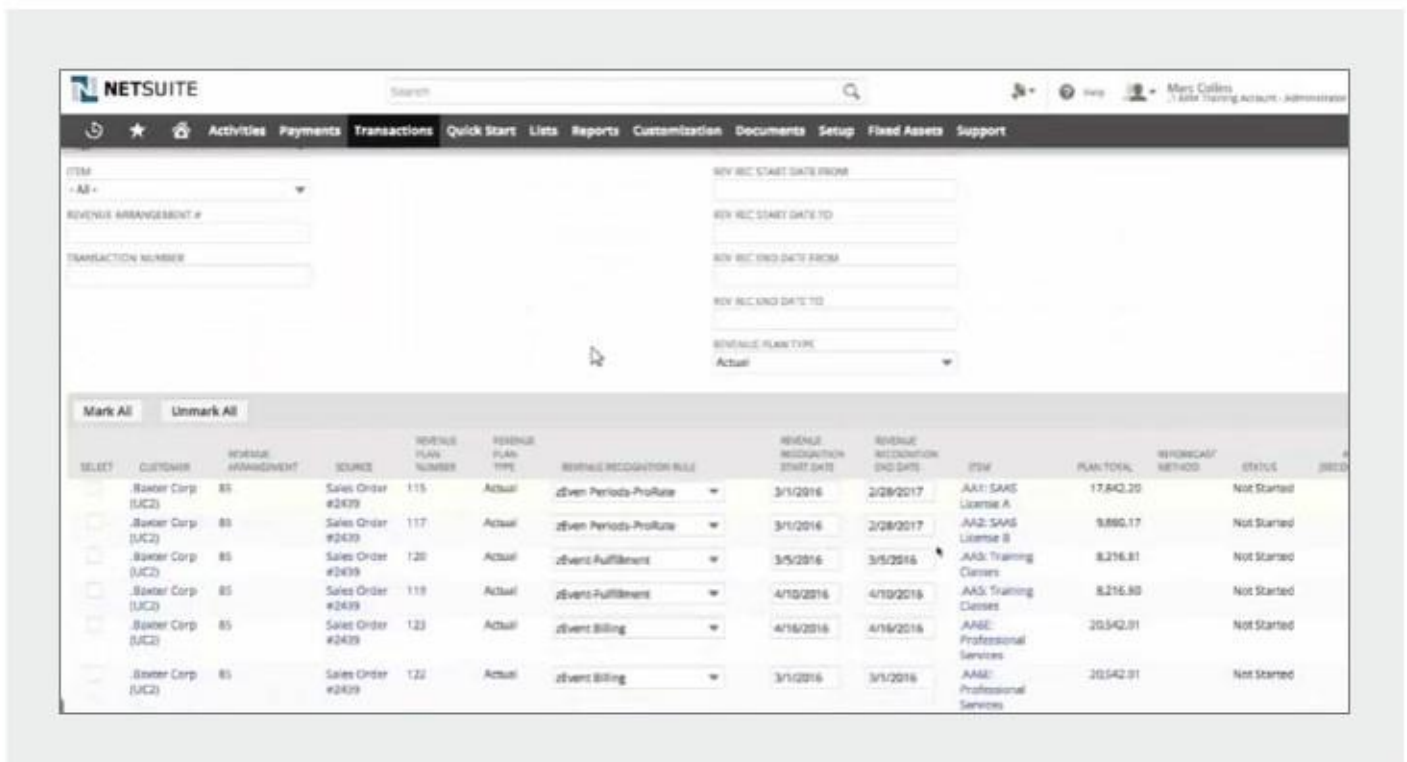
Also helpful is ARM's Manage Rev Rec page, which is a holistic view of all Rev Rec across all customers, and provides the ability to manage by exception. Within this report, it is possible to put something on hold or take something off hold and catch it up, or change the start or end date on a rule or a plan that hasn't been done yet.

Using the Manage Rev Rec page, it is possible to filter information in the revenue arrangement and see the rules for a particular order.

Key Features and Attributes

These are the key elements and benefits of Advanced Revenue Management:

- **Updated income statement.** A company's income statement is updated by ARM in real-time as revenue is posted. Users have the ability to drill down on any line of the income



statement to see the underlying detail, the journal, the revenue elements, the revenue arrangement, the source transactions and more.

- **Dynamically linked.** Everything within NetSuite's ARM product is dynamically linked, with real-time updates and drill down capabilities providing ease of use and enhanced visibility.
- **Highly automated.** Once rules are set up, items are configured, and fair value prices are determined, the system is automated and managers can manage by exception. All reports are updated automatically. Managers have the information they need at their fingertips to manage the business.

- **Incredibly flexible.** All aspects of this solution are extremely flexible. Even when default rules are set and items are configured, changes are easy.

- **Meets AASB 15 requirements.** AASB 15 has a dual reporting requirement; which NetSuite is built to meet.

“Truly, we can meet the dual reporting requirements for AASB 15.”

— Steven Skinner, Finance Centre of Excellence, NetSuite

Conclusion

With the ever changing accounting standards, companies are concerned about preparing for revenue recognition related to AASB 15 while also managing their books according to GAAP NetSuite has the tools that companies need. The Advanced Revenue Management solution is flexible, scalable, dynamically linked and provides all of the capabilities and real-time information needed to effectively manage the revenue recognition process. By using NetSuite's Advanced Revenue Management, managers will be equipped with data, reports and tools to meet new requirements, deal with audits and manage the business more effectively.

About Oracle NetSuite Global Business Unit

Oracle NetSuite Global Business Unit pioneered the Cloud Computing revolution in 1998, establishing the world's first company dedicated to delivering business applications over the internet. Today, Oracle NetSuite Global Business Unit provides a suite of cloud-based financials / Enterprise Resource Planning (ERP), HR and omnichannel commerce software that runs the business of companies in more than 100 countries. For more information, please visit <http://www.netsuite.com.au>.



www.netsuite.com.au



Chat with an expert.

infoapac@netsuite.com

Phone: +61 2 9491 1000