DOWNLOAD PDF REVENUE RECOGNITION FOR SOFTWARE

Chapter 1 : Revenue Recognition

Industry: Software The primary authority for software revenue recognition is AICPA Statement of Position (SOP) No. , Software Revenue Recognition, which is the result of about 12 years of development work from through

Generally, revenue is recognized only when a specific event has occurred and the amount of revenue is measurable. For many finance professionals, revenue management is among the top challenges today. Under new US and international accounting guidelines, the revenue recognition methods are uniform and eliminate possible manipulation with a five-step process to recognize revenue: Identify contract s with a customer. Identify the separate performance obligations in the contract. Determine the transaction price. Allocate the transaction price to the separate performance obligations. Recognize revenue when the entity satisfies each performance obligation. Revenue Recognition Software Faced with these hurdles, companies are looking to automate revenue management processes to gain efficiency, strengthen compliance, and improve visibility. Mastering the complexity of revenue management starts with thoughtful processes designed with input from senior executives across the organization in combination with a technology partner that understands your business. Only with those processes in place should you add technology like Intacct to automate revenue management. Intacct is the cloud-based accounting software that allows your finance team to connect systems, automate processes, and analyze the business. This solution eliminates complicated spreadsheets that inevitably leads to errors, lost revenue, and compliance risks. Connect with Project Management â€” Only Intacct connects project accounting to revenue recognition, using timesheets and completed milestones to automatically recognize revenue, while maintaining a separate billing schedule. Connect with Subscription Management â€" Intacct offers a preconfigured cloud connector with Zuora that enables subscription businesses to manage orders and transactions while simultaneously automating revenue recognition based on bookings data. Automate Revenue Deferral and Revenue Recognition â€" Set up revenue recognition rules for different types of products and services to post revenue automatically, based on flexible revenue recognition schedules. Automate Billing â€" Automatically generate billing schedules from contractual billing rules, leading to accurate, timely, and justifiable bills. The system is unique in that it also consolidates multiple billing types into a single bill and presents bills in multiple custom formats. Automate Subsequent Modifications â€" Automatically calculate deferred revenue and recognized revenue without tedious manual workarounds so you can control changes as they occur: Automate Add-ons â€" Intacct Revenue Management allows for flexible subscription and license add-ons and co-terminations that streamline the renewal process for you and your customers. Why Cargas and Intacct? At Cargas, we have a wealth of experience helping businesses understand the benefits of cloud accounting and revenue management. Using a best-in-class accounting software platform like Intacct can help your organization stay compliant and gain insight into revenue, cash flow and profitability that will allow you to make effective, strategic business decisions from anywhere, at anytime. We offer the highest level of service and support to ensure success. Our approach has always been to help companies transform processes through software and gain a clear understanding of your business. To learn more about Intacct software, revenue recognition and Cargas consulting services, call or contact us online. We look forward to answering all of your questions.

Chapter 2 : BDO Knows: Software

Regain control with the industry's leading revenue recognition automation software and easily manage all of your revenue recognition needs, including complex allocations, deferred revenue, fair value determination, and more â€" without the need for spreadsheets or custom code.

ASU establishes comprehensive accounting guidance for revenue recognition and will replace substantially all existing U. GAAP on this topic. It utilizes the transfer of control between the parties to determine the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: Identify the contract with the customer, Identify the performance obligations in the contract, Determine the transaction price, Allocate the transaction price to the performance obligations in the contract, and Recognize revenue when or as the entity satisfies a performance obligation. Many entities adopting the new standard may experience a change in the timing and manner of revenue recognition. For some transactions, the changes could be significant and will require careful planning. The dates below may change. Effective Date Public entities1 will apply the new standard for annual periods beginning after December 15, , including interim periods therein. Early adoption is prohibited. Therefore, a calendar year-end public entity would reflect the new standard in its first quarter ended March 31, , each subsequent quarter, and also in the year ended December 31, Nonpublic entities have an additional year to adopt, i. In addition, the new standard is effective for interim periods within annual periods that begin after December 15, Therefore, a calendar year-end nonpublic entity would first apply the new standard for the year ended December 31, If it also prepares interim financial statements, the new standard would first take effect for those interim periods in However, nonpublic entities are allowed to early adopt the new standard as follows, if they choose to do so: The new requirements may be applied no earlier than an annual reporting period beginning after December 15, , including interim reporting periods within that period. This would mirror the effective date for public entities. They may be applied for annual reporting periods beginning after December 15, and interim periods within annual periods beginning after December 15, In other words, calendar year-end nonpublic entities would apply the new standard for the year ended December 31, Interim periods would first reflect the new standard in the following year, e. They may be applied for an annual reporting period beginning after December 15, , including interim periods within that period. In this scenario, calendar year-end nonpublic entities would apply the new standard to the year ended December 31, Interim periods in that year would also reflect the new standard, e. On April 1, , the FASB decided to propose a one-year delay of the effective date for the new revenue recognition standard that it issued jointly with the IASB in It would take effect for private entities in The proposal will include an option for public and private entities to early adopt using the original effective dates, which is designed to provide flexibility for different companies in various stages of their implementation efforts. Software Industry Considerations The following examples demonstrate how the new guidelines may affect companies in the software industry. Topic Revenue from Contracts with Customers , which describes the requirements of the new standard in more detail. The interpretations contained within this publication are preliminary. GAAP, there is no accounting distinction between the various types of maintenance and support activities that software companies provide to customers. Things like phone support, bug fixes, and delivery of, when and if available, unspecified updates and product enhancements are all lumped into a single accounting unit known as PCS. In general, the portion of the arrangement fee allocated to PCS is recognized ratably over the period that services are being rendered. The new revenue rules require companies to make a closer analysis of the various activities that comprise maintenance and support. To demonstrate, assume that Xlog Inc. Upon closer analysis, though, Xlog determines that the PCS is made up of two components: Offering 24x7 telephone or internet support for user questions Unspecified software upgrades on a when and if available basis. Historically, Xlog issues around software upgrades per year, but the company has gone as long as 18 months without issuing any updates. In this arrangement, there are likely three distinct performance obligations: Each of these performance obligations is distinct on its own. For instance, the software is delivered before the other services and remains functional without the updates and the technical support. In addition, each performance obligation is distinct within the context of the contract. For example, the software updates will modify the software, but not significantly. Also, licensees can continue to utilize the software after the initial PCS period lapses at the end of one year without renewing the PCS arrangement. The support services would be recognized over time on a straight-line basis, as Xlog is providing a service of standing ready to answer questions each and every day, as needed. Similarly, Xlog would likely recognize revenue related to providing software upgrades over time as well, as the nature of this performance obligation is similar to the telephone support â€" i. Note that if the facts were changed slightly, the pattern of revenue recognition may be altered as well. For example, assume Xlog promised the customer additional functionality that would be included in its software upgrades during the PCS period. In this fact pattern, it may be that Xlog has provided the customer with both an unspecified upgrade right and a specified upgrade right. If Xlog has provided a specified upgrade right, it will have to allocate a portion of the transaction price to this performance obligation and wait to record revenues from this performance obligation until the specified upgrade is delivered. Vendor-Specific Objective Evidence VSOE It is quite common for software companies to sell multiple goods and services to a customer as part of a single transaction. For instance, a software developer may agree to provide a software license, installation services, and one year of telephone support under a customer contract. These rules prescribe when elements within a multiple-element, or bundled, software arrangement can be accounted for as separate accounting units. In summary, these rules state that: If an arrangement includes multiple elements, the total arrangement fee should be allocated to the various elements based on vendor-specific objective evidence of fair value, or VSOE, regardless of any separate prices stated in the contract for each element. However, if sufficient VSOE does not exist for the allocation of revenue to the various elements of the arrangement, they will be accounted for as a single unit and all revenue from the arrangement shall be deferred. If the only undelivered element is postcontract customer support PCS , the entire transaction price should be recognized ratably over the support period. The new revenue rules eliminate these guidelines. In particular, companies will no longer be required to have VSOE to separate elements in a bundled software arrangement, which will be a big change in practice. Instead, software companies will consider whether various aspects of a customer contract represent distinct performance obligations. For example, a software license, installation, and maintenance and support services would each be considered distinct performance obligations if: The customer can benefit from the license, installation, and support services either on their own or together with other resources that are readily available to the customer. A readily available resource includes a good or service that the entity will have already transferred to the customer under the contract. The performance obligations are distinct from one another within the context of the contract. The integration services are not significant nor do they significantly customize the software license, and None of the performance obligations are highly interrelated with or interdependent on one another. Distinct performance obligations are treated as separate accounting units. The total transaction price is allocated to distinct performance obligations using a relative selling price methodology, which will be discussed in more detail in the next section of this publication. To demonstrate these concepts, assume that Vizzy LLC licenses enterprise software that helps businesses track network traffic. Nearly every license arrangement includes one year of PCS. The PCS comprises 24x7 telephone, online or email support. PCS is renewable for successive years at the discretion of the customer. Vizzy has also concluded that the license and PCS are distinct performance obligations in this example. Vizzy has a wide range of transaction prices for both its software licenses and its PCS renewal rates. This is because the license and PCS are distinct individually, as well as in the context of the contract in this example. An integration-type service Significantly modifying or customizing the software license Highly interdependent on or interrelated with the software license, meaning that the customer could decide to not purchase PCS without significantly affecting the license in any way. If the option provides a material right to the customer, Vizzy would: Identify a third performance obligation in the arrangement. Allocate some of the arrangement consideration to this performance obligation using a relative selling price approach. The new standard provides guidance and an example on how to estimate the standalone selling price of the option. Recognize the revenue related to this third performance obligation when the customer exercises the option or it expires. For example, a software company may deliver a license to v9. Chances are, the software company will not have VSOE for the specified features, as they are not even commercially available yet! Unfortunately, this means that the software company will have to fully defer all revenues under the arrangement until the upgraded software features are delivered to the customer. This same accounting outcome would not occur under the new revenue guidelines. Instead, the software license and the specified upgrades could be viewed as distinct performance obligations, as: The customer can benefit from the license and the upgraded features individually. The performance obligations are distinct from one another within the context of the contract â€” for example, the customer does not need the upgraded feature set for the licensed software to function and provide utility to the customer. Therefore, the software company would be able to potentially recognize some revenue upon transferring control over the v9. The new revenue rules may provide an opportunity for software companies to reconsider their policies around sharing product roadmaps with customers. At the moment, many software developers may avoid specific discussions with customers around future version releases for fear of inadvertently introducing a performance obligation â€” for instance, by implicitly agreeing to develop a certain feature set that will not have VSOE. This same accounting outcome is not likely to result under the new revenue recognition rules, as the future deliverables will typically be distinct from the current software license and other performance obligations. Term Licenses Software is typically provided to customers through either perpetual or time-based term licenses. In contrast, revenues associated with time-based licenses are often recognized ratably over the license term because the current rules make it very difficult to establish VSOE for PCS bundled with a term license. As indicated earlier, an absence of VSOE for undelivered elements in the arrangement does not preclude upfront revenue recognition for a software license under the new rules. Rather, under ASC , a licensor would evaluate whether the license is distinct from other performance obligations in the arrangement. If so, then the license and the PCS would be considered separate performance obligations, regardless of whether the license was time-based or perpetual. The new accounting rules contain a different approach to determining whether revenues from any license agreement â€” term or perpetual â€” should be recognized over time or at a point in time. The new rules require the licensor to evaluate whether the license provides a right to: To demonstrate, assume that Wicky Ltd.

Chapter 3 : Revenue Recognition Software | CallidusCloud

Subtopic , Softwareâ€”Revenue Recognition, from the FASB Accounting Standards CodificationÂ®, is copyrighted by the Financial Accounting Foundation, Merritt 7, PO Box , Norwalk, CT , and is reproduced with permission.

Here are the four reasons why you should get revenue recognition software for your accounting needs: The FASB often have detailed standardization techniques that can be complex even for an experienced accountant. Using a powerful revenue recognition software tool helps your business remain compliant, while ensuring that all recognition tasks can be adequately completed in time. Live Information The use of software allows your business to remain current and always understand the revenue situation with respect to individual customers. It allows you to generate invoices on time and always ensure that you can have the pulse of the exact pricing that you must follow. This minimizes the chances of losing a customer due to the presentation of wrong financial information. The access to the right information is possible when revenue recognition software is implemented in the finance department of your company. It allows your accounting to be on point, while still providing the exact information about your cash flow. This access to information means that your financial executives can make better decisions. Therefore, ensuring that your business efficiency remains at an optimum level. Better Business Control There are several businesses the services or goods are rendered in a discrete manner. It is important to use revenue recognition software in such instances, as it gives better organizational control over understanding how much payment should be charged to the customer for the completed work. With the application of standard like ASC , it is important to record the exchange of services in lieu of the pricing asked of the customer in a contract. This is best achieved with the use of automated software tools. With most of the required recording functions occurring automatically, your staff members are free to control the more important business functions. This improves the overall business structure and provides better control over the direction of your organization, especially in terms of sharing prices and the incurred revenue with the customers. Staying Competitive The use of revenue recognition software is the future in the financial recording industry. Not keeping up with this practice is not the right way to go about staying competitive in your industry. With most businesses employing digital solutions, your company can simply lose its edge when it comes to giving the customers the best experience. We help businesses employ digital accounting solutions to perform better and remain focused on their core business. What to Know Learn the three steps you need to take now to comply on time without losing your sanity: Accounting Assessment Operational Assessment Country: Would you like to receive additional Callidus Software Inc. By checking this box, you agree that your contact details and any other data provided by you will be used by Callidus Software Inc. Callidus Software Inc will use any of the data provided hereunder in accordance with the Privacy Statement.

Chapter 4 : Revenue Recognition & Management Software Solution | NetSuite

Revenue recognition is extremely important for any business contracting with customers directly for goods and/or services. Although it is still possible to perform manual recording of the received and the required revenues, the use of revenue recognition software can make things easier as well as improve your business performance.

The principles-based rules replace prior industry-specific guidance. Your processes and customer interactions may have to change. You must evaluate multiple-element arrangements to identify performance obligations. Contract consideration that was allocated based on vendor-specific objective evidence VSOE of fair value may have to change. The transaction price may have to be allocated to separate performance obligations based on their relative standalone selling prices. The requirement to have a fixed or determinable selling price for revenue to be recognized has been replaced with a requirement to assess whether variable consideration can be included in the transaction price. These changes to the VSOE requirement and fixed and determinable selling prices above could accelerate timing of revenue recognition. Previously, revenue was deferred or not recognized until uncertainties were resolved. Extended payment terms that previously resulted in revenue deferral must now be evaluated differently. You must determine whether they represent a separate financing activity outside of revenue recognition or have an impact on the transaction price or collectability. The timing for compliance with these changes is: For public reporting entities â€" annual reporting periods beginning after December 15, For nonpublic companies â€"interim periods within annual reporting periods beginning after December 15, or early adoption following the public reporting entity timing. Revenue should only be recorded when goods and services are transferred to a customer at an agreed-upon price. Following are the five steps to achieve this core principle: Identify the contract s with a customer Identify the performance obligations in the contract Determine the transaction price Allocate the transaction price to the performance obligations in the contract Recognize revenue when or as the entity satisfies a performance obligation Within each step, your software company has decisions to make, and there are some new definitions to consider. It is critical to involve areas of your company outside of accounting and finance, including sales, marketing, and legal, to gauge how these changes influence company business practices and revenue recognition. Implementation challenges for software companies A number of challenges arise when implementing these rules, including the many types of contractual arrangements, variety of products and services provided performance obligations , and ways that customers pay for products and services the transaction price. For software companies, the following areas among others need to be evaluated, as accounting may be impacted under the new guidance: Multiple element arrangements Sales of software with bundled services Post-contract customer support.

Chapter 5 : ASC Compliance | Revenue Recognition Software | RevSym | CallidusCloud

One affected area is software revenue. The updated standard uses a different process to allocate the contract value and related discounts with the contract by eliminating the need to establish vendor-specific objective evidence (VSOE), which may produce more aggressive revenue recognition.

Chapter 6 : Revenue Recognition Changes for Software Companies: CliftonLarsonAllen (CLA)

department of the revenue recognition impact that it might have. TRIPLETT: I think though just as a reminder, sometimes there are business decisions that get made and it is not always wrong for a contract term to impact.

Chapter 7 : Recognizing Software Revenue

Software revenue recognition has not gotten easier. However, one of the keys to success is having the right tools. Software revenue recognition is a user-friendly guide for navigating through the many complexities.

Chapter 8 : A New Standard For Revenue Recognition Software Automation | Cargas Systems

Automate revenue recognition processes with cloud-based revenue recognition management software on the Salesforce platform. Improve the auditability and visibility of your revenue recognition data.