Complying with IFRS15 and ASC606 regulations with SAP® S/4HANA Revenue Accounting and Reporting (RAR)

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International Financial Reporting Standard (IFRS) 15

IFRS 15 Key Definitions

Operational Document: It represents a contract that an enterprise has with its customer to deliver goods or service within a stipulated time. This could traditionally represent a sales order/delivery/invoice.

Transaction Price: This is the price of the item determined in the operational document (Sales Order/Invoice) via pricing conditions and cannot be maintained within Revenue Accounting

Stand Alone Selling Price: This is the 'fair value' price of the distinct item when sold individually which can be maintained in the operational document or within Revenue Accounting.

Revenue Contract: This is an automatically generated number created within Revenue Accounting. This number could be unique per operational document (Sales Order) or a combination of operational documents. The subsequent processing of the operational document (Delivery or Invoice) will update the same Revenue Contract.

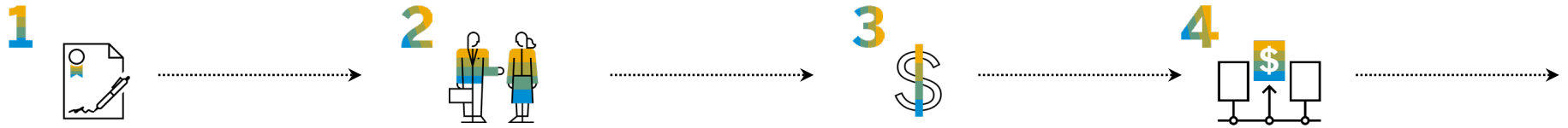
Performance Obligation (POB): This is a promised item in the contract to the customer to deliver transfer goods or perform service. It is also an automatically generated number created within Revenue Accounting under the contract.

Distinct or Indistinct: Distinct POB's are goods or service always sold independently by itself and Indistinct POB's are goods or service that are combined with other items and does not need individual tracking.

International Financial Reporting Standard (IFRS) 15

Revenue from Contracts with Customers was introduced by the International Accounting Standards Board to provide one comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and capital markets. The new rules on revenue recognition became effective January 2018 and replaces former revenue recognition standards (IAS 11 - Construction Contracts, IAS 18 - Revenues) and most other revenue recognition guidance (IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). The core principle of IFRS 15 is that revenue is recognized when the goods or services are transferred to the customer, at the transaction price. Revenue is recognized in accordance with that core principle by applying a 5-step model as shown below.

IFRS 15 Revenue Recognition Five Step Model



1 Identify the customer contract

In this step, you create revenue accounting contracts corresponding to operational documents that are created on a back-end operational system.

2 Identify performance obligations of the contract

In this step, you identify the performance obligations included in each contract. Performance obligations are promises in a contract to transfer to a customer goods or services that are distinct. You create performance obligations for items in the operational document and manage their relationships with one another.

3 Determine the transaction price

In this step, the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. If the consideration promised in a contract includes a variable amount, an entity must estimate the amount of consideration to which it expects to be entitled in exchange for transferring the promised goods or services to a customer.

4 Allocate the price to the performance obligations

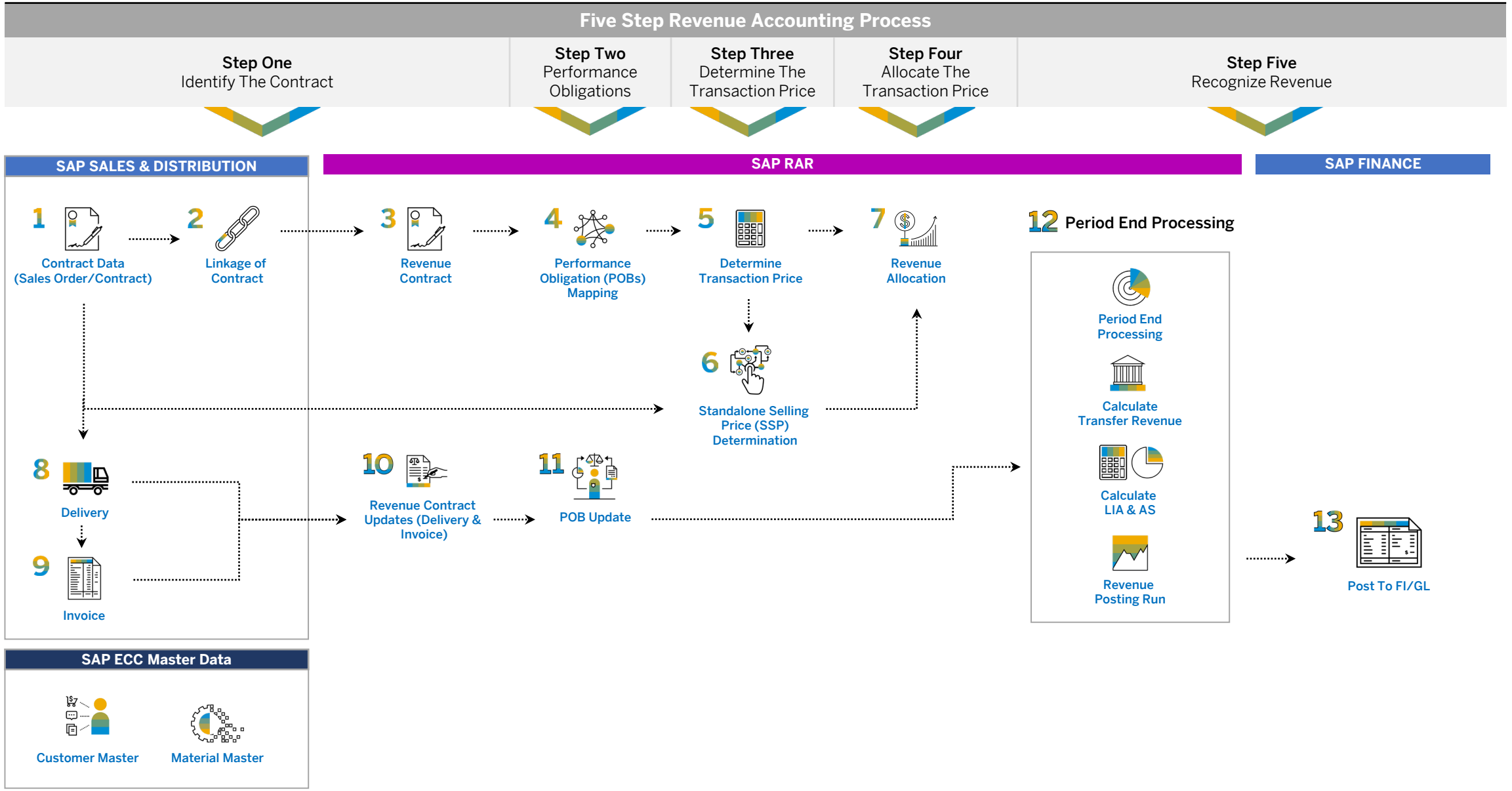
In this step, you allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.

5 Recognize revenue as the POBs are fulfilled

In this step, you recognize revenue when a performance obligation is satisfied by transferring a promised good or service to a customer. A performance obligation may be satisfied at a point in time or over time. For a performance obligation satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognized as the performance obligation is satisfied.

SAP® RAR Process Flow

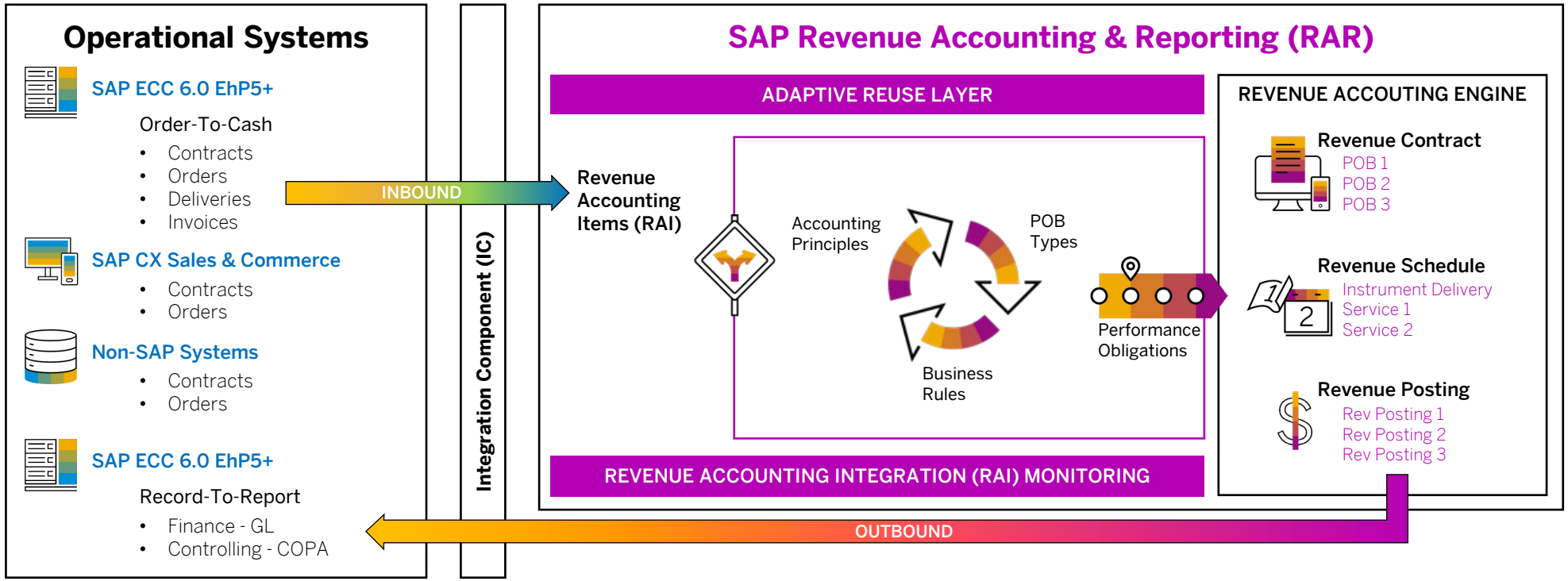
IFRS 15 and ASC 606 Five Steps & RAR Process Structure:



SAP® Revenue Accounting & Reporting (RAR)

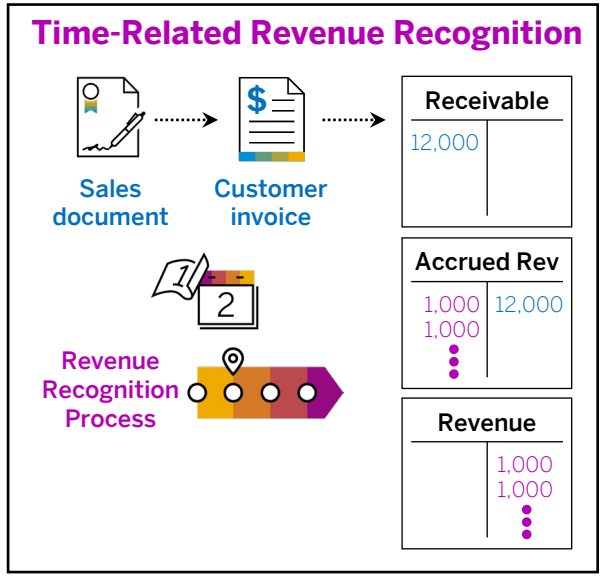
Solution Overview Concept

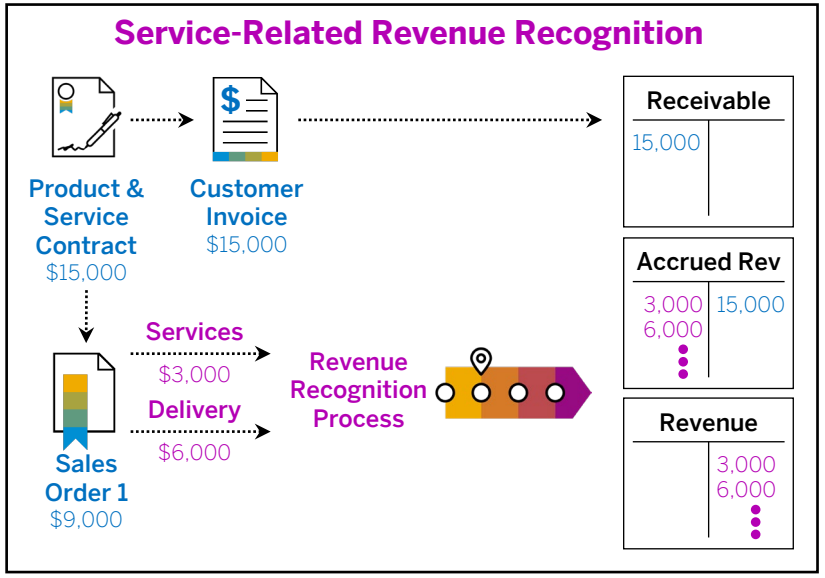
Revenue accounting receives operative data from the components integrated with it (orders, invoices and order fulfillments, such as goods issues) and stores this in the form of Revenue Accounting Items. The technical properties of the revenue accounting items are determined by the Revenue Accounting Item Classes. You define these technical properties by undertaking the Configuration of Revenue Accounting Item Classes. You process revenue accounting items for revenue accounting contracts, performance obligations, and order fulfillments. The status of a revenue accounting item reflects its processing status. You can monitor this centrally in the RAI Monitoring component.



SAP® Revenue Accounting & Reporting (RAR)

Revenue Recognition Business Scenarios





Service-related revenue recognition method is illustrated by a service contract with a customer and invoice for the full amount at the start of the contract validity period. Revenues are recognized if the agreed upon services are actually delivered. If the total contract amount is 15,000 and the value of each individual service is 3,000, you recognize a value of 3,000 each time a service is performed. If you perform the service and deliver a product with a value of 6,000, you recognize both 3,000 and 6,000. The remaining amount remains as a credit on the deferred revenue account until you have performed the all services.

Time-Related Revenue Recognition

Using time-related revenue recognition, you can recognize revenues over a specific period of time . An example would be revenue recognition for the duration of a service contract. In time-related revenue recognition, the revenue between a specific start and end date is recognized in equal proportions . The start and end dates are determined on item level in the sales document. The number of periods between these dates is determined using the financial calendar for the company code assigned to the document. You can use time-related revenue recognition for One-time billing document items, Periodic billing plans, and Milestone billing plans.

At the time at which revenue recognition is carried out, you can determine whether revenue recognition for sales document items is carried out at the point of sale/contract or later when the billing document is created. You make the control settings in Customizing in the "Determine Revenue Recognition Method" section. SAP Sales contracts, sales orders, billing documents, credit memo requests, and debit memo requests are all documents that can be used as a reference for time-related revenue recognition.

Service-Related Revenue Recognition

Using service-related revenue recognition, you can carry out revenue recognition on the basis of a specific event . For example, revenue recognition for a service contract when services are performed. The accrual period is not relevant for service-related revenue recognition. Service-related revenue recognition supports goods that must be delivered and services that do not require delivery.

Revenue recognition for service-related items takes place at sales document item level. The items can be contained in the following documents:

- Sales contracts
- Sales orders
- Release sales orders
- Credit memo requests
- Debit memo requests
- Returns requests

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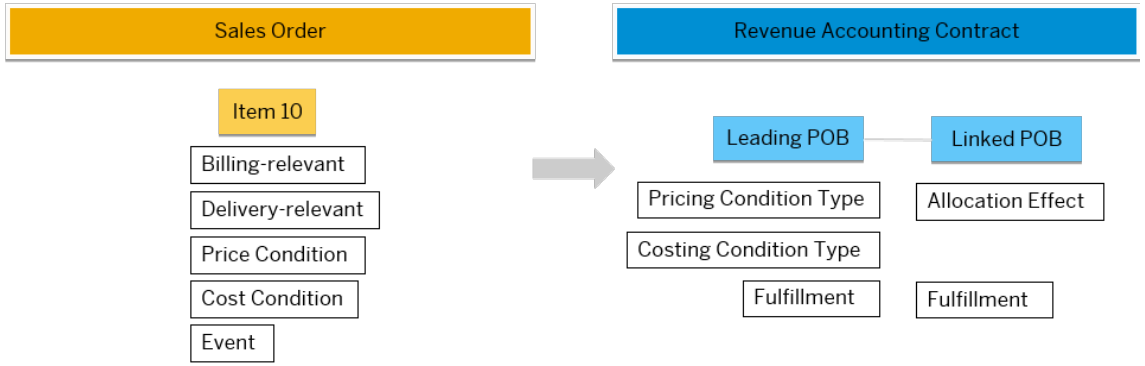
Revenue Recognition Contract Management > Performance Obligations Process



Your company promises to deliver a medical instrument to a customer. For each purchase, your company promises to deliver a technical service that ensures the instrument is correctly installed. It is an important part of your company's delivery, even though it is not explicitly listed as a line item in the sales order. In this case, the following POBs can be created:

POB	Leading/Linked	Leading POB	Sales Order Item
001 - Instrument	Leading	None	Instrument
002 - Service	Linked	001 - Instrument	None

Contract Management

Revenue Accounting allows you to recognize contract management either by managing performance obligations or managing contracts directly. For performance obligations, this includes manually adding, deleting and cancelling performance obligations. For contracts, you can create, change, search, or display a contract, as well as combine contracts. You can also calculate and distribute contract liability and contract asset, manage cost recognition, manage the status, and reprocess objects with existing performance obligations or contracts.

Performance Obligations

A performance obligation represents the contractual commitment of an enterprise to deliver a good or a service to a customer in exchange for a consideration. A performance obligation corresponds to an item in an operational document, such as a sales order item. Therefore, a performance obligation is not necessarily a distinct performance obligation that stands on its own for revenue recognition.

Linked Performance Obligations

A linked performance obligation (POB) is an implicitly promised item. Some items that your company promises to deliver to the customer may not be explicitly included in an operational document. However, you may want to include them in a revenue accounting contract. In this case, you can configure Revenue Accounting to add those implicitly promised items as linked POBs. You can also specify a leading item for these linked items. Any linked POB that is defined in BRF+ is passed to Revenue Accounting.

Linked POBs can also be created using the Performance Obligation Structure UI. In price allocation, linked POBs are allocated with the amount of allocation effect. If the fulfillment type of linked POBs is event-based or percentage of completion, the event type can only be manual fulfillment. If the fulfillment type is time-based and start date type is 3, the start date is always the event date of the leading POBs. You can see the following leading/linked attributes in Revenue Accounting;

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Revenue Recognition Contract Management > Performance Obligation Hierarchies

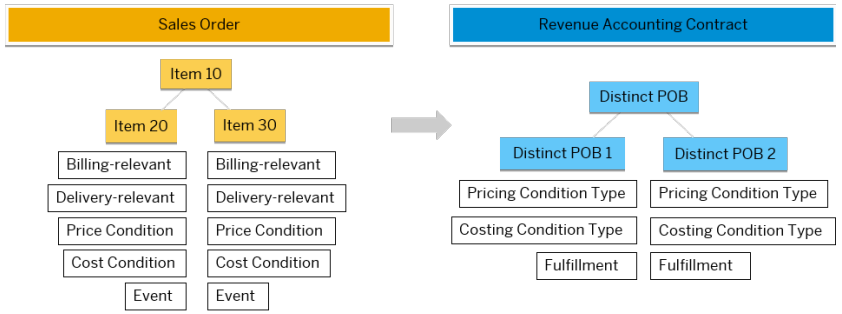
Performance Obligation Hierarchies

Revenue Accounting can manage performance obligations in a hierarchy. Performance obligations in a contract are organized in a hierarchy to represent their relationships with one another. The hierarchy can be considered a tree structure, if you think of the contract as a virtual root. A performance obligation can have other performance obligations as its lower-level items. This relationship can represent a bill of material (BOM) structure, a compound structure, and a compound BOM structure business scenario.

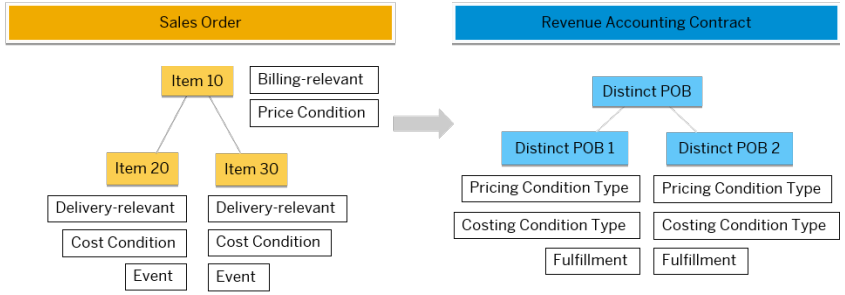
Distinct BOM Structure

Revenue Accounting can manage performance obligations in a distinct bill of material (BOM) structure. When a sales representative creates a sales order, the sales order can include a sales BOM that represents both the finished product and its components. When Revenue Accounting creates a revenue accounting contract for the sales order, the system can transfer the sales BOM structure. As a result, the system organizes POBs in the same structure as they appear in the sales order. You are not allowed to build or dissolve BOM structures using the Performance Obligation Structure UI. Revenue Accounting supports the following distinct BOM structures:

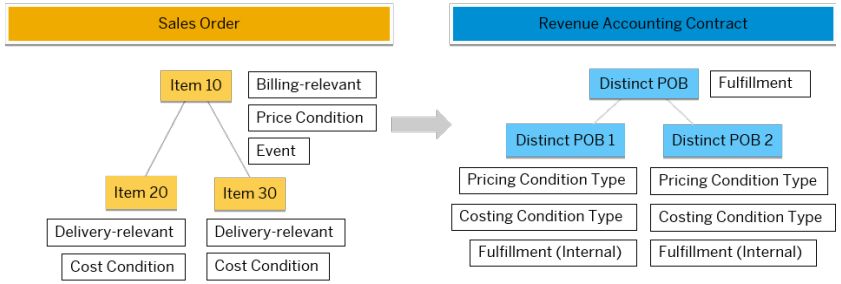
When price conditions and cost conditions are defined at the item level, and events occur on the items, Revenue Accounting creates a distinct BOM structure. Each low-level POB has its own fulfillment and revenue recognition.



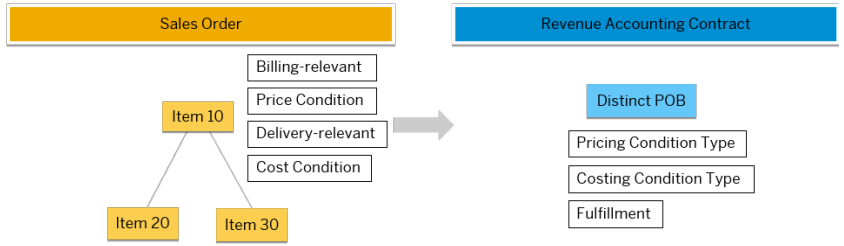
When price conditions are defined at the header level and cost conditions at the item level, if events occur on the items, Revenue Accounting creates a distinct BOM structure. The contractual price of the high-level POB is distributed to low-level POBs. Each low-level POB has its own fulfillment.



When price conditions are defined at the header level and cost conditions at the item level, if events occur on the header, Revenue Accounting creates a distinct BOM structure as follows. The contractual price of the high-level POB is distributed to low-level POBs. Fulfillment of the high-level POB is also distributed.



When price conditions and cost conditions are defined at the header level, Revenue Accounting does not support a distinct BOM structure. Only a distinct POB is created in a revenue accounting contract. A distinct BOM structure can consist of multiple levels and there is no restriction on the number of low-level POBs. Costs are always recognized on the lowest POB level.



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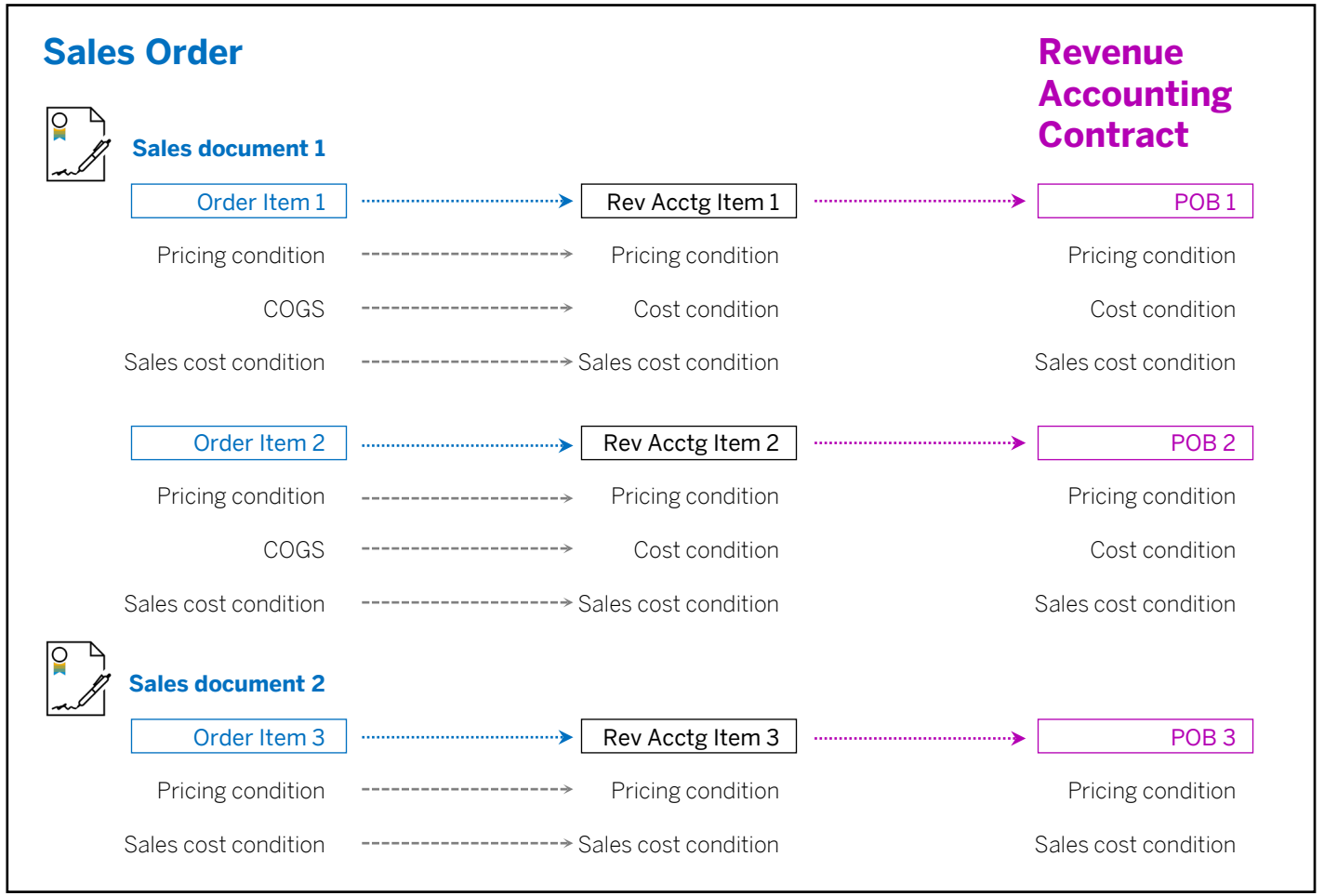
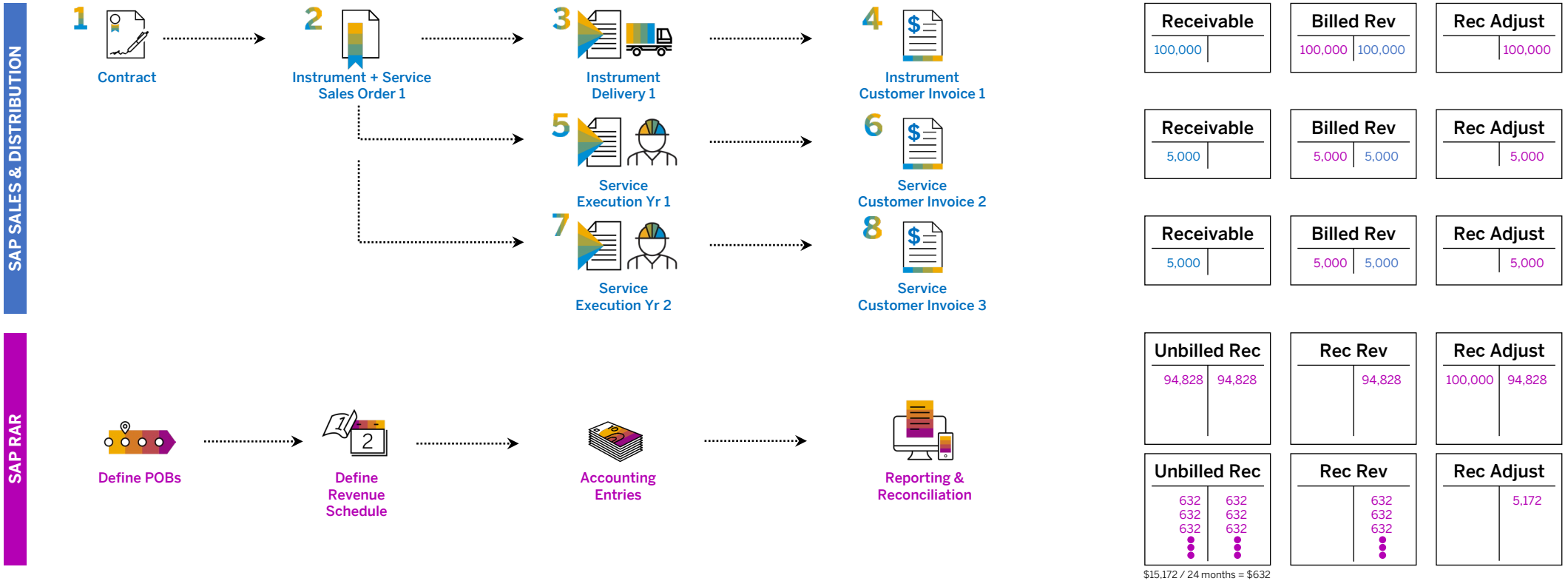
Revenue Recognition > Sales integration with Revenue Accounting Contracts



SAP® RAR Core Business Scenario 1

Instrument sale with two-year service contract

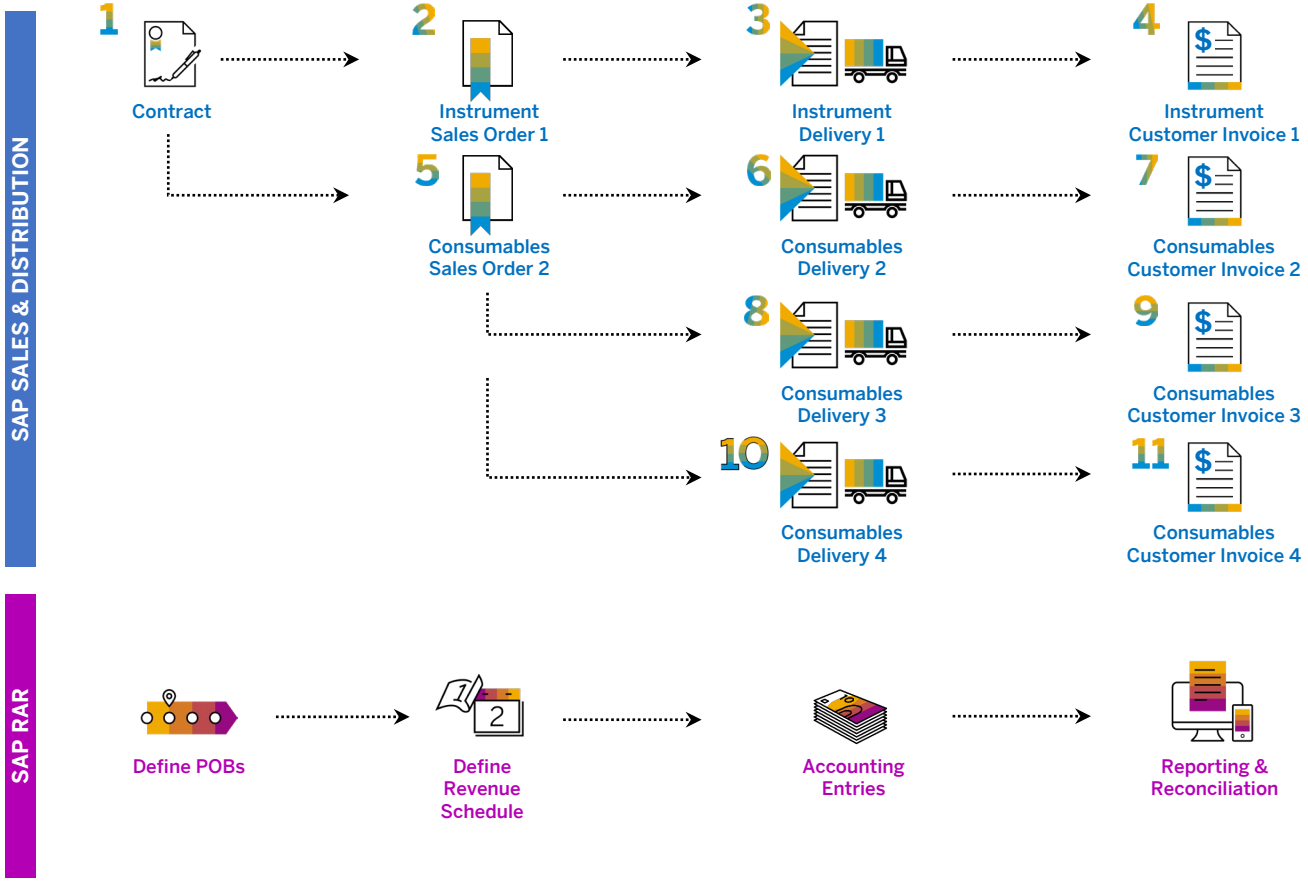


$15,172 / 24 months = $632

Potential Performance Obligations/Deliverables	Explicit	Stand-alone Selling Price (SSP)	Transaction Price (Billing Price)	Allocation	Revenue Recognition Pattern	Purchase Order	SO	Invoice
Instrument	Y	$ 125,000	$ 100,000	$ 94,828	Point-in-time upon delivery on 1/15/2023	PO# 1	SO# 1	Invoice# 1
Additional 2-Yr service renewal contract	Y	$ 20,000	$ 10,000	$ 15,172	Over time ratably over two-year service period of 2/1/2024 - 1/31/2025; invoiced annually 1 month before	PO# 1	SO# 1	Invoice# 2 Invoice# 3
Total		**$ 145,000**	**$ 110,000**	**$ 110,000**				

SAP® RAR Core Business Scenario 2

Instrument sale with chargeable consumables



Receivable	
100,000	

Billed Rev	
100,000	100,000

Rec Adjust	
	100,000

Receivable	
150,000	

Billed Rev	
150,000	150,000

Rec Adjust	
	150,000

Receivable	
100,000	

Billed Rev	
100,000	100,000

Rec Adjust	
	100,000

Receivable	
50,000	

Billed Rev	
50,000	50,000

Rec Adjust	
	50,000

Unbilled Rec	
117,647	117,647

Rec Rev	
	117,647

Rec Adjust	
100,000	117,647
17,647	

Unbilled Rec	
141,177	141,177
94,118	94,118
42,969	42,969

Rec Rev	
	141,177
	94,118
	42,969

Rec Adjust	
150,000	141,177
	8,823
100,000	94,118
	5,882
50,000	42,969
	7,031

Potential Performance Obligations/Deliverables	Explicit	Stand-alone Selling Price (SSP)	Transaction Price (Billing Price)	Allocation	Revenue Recognition Pattern	Purchase Order	SO	Invoice
Instrument	Y	$ 125,000	$ 100,000	$ 117,647	Point-in-time upon delivery on 1/15/2023	PO #1	SO# 1	Invoice# 1
$300K in Consumables shipped over 15 month ship schedule	Y	$ 300,000	$ 300,000	$ 282,353	Point-in-time upon multiple deliveries: $150K on 10/14/2023 $100K on 12/15/2023 $50K on 2/10/2024	PO #2	SO #2	Invoice# 2 Invoice# 3 Invoice# 4
Total		**$ 425,000**	**$ 400,000**	**$ 400,000**				

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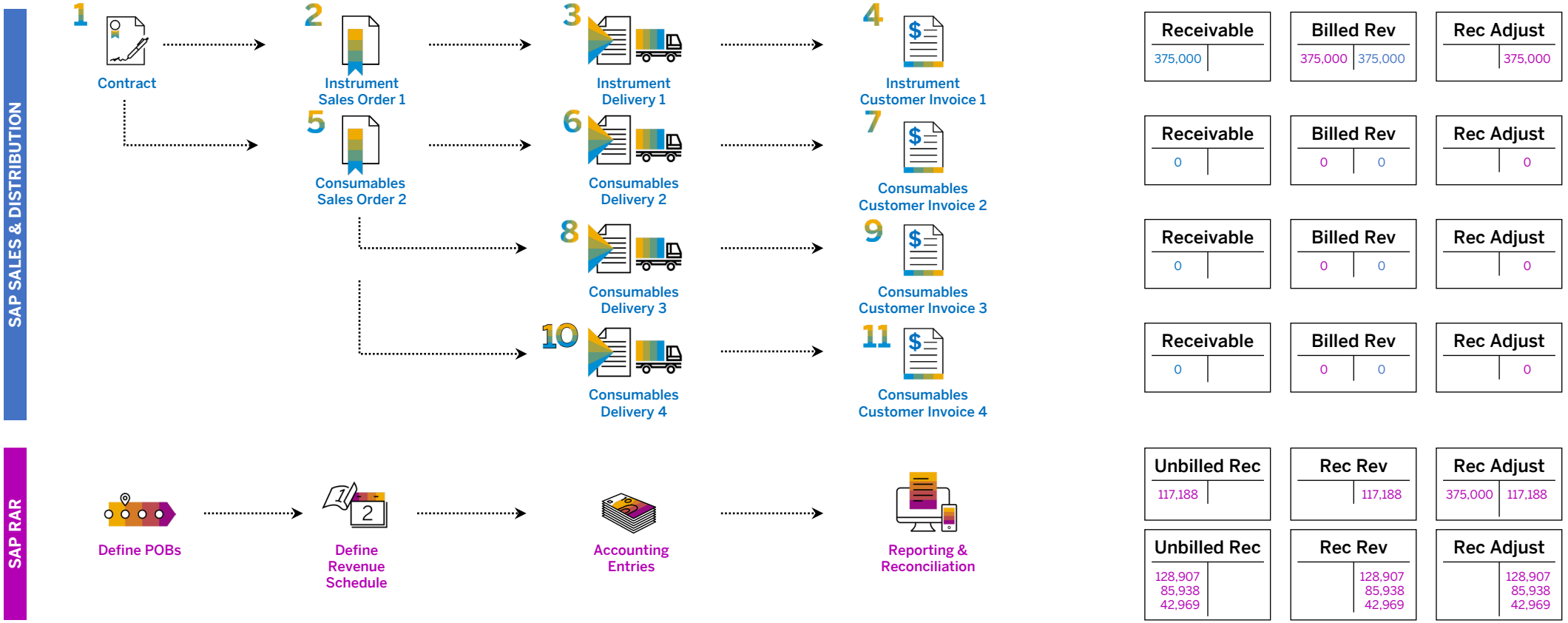
SAP® RAR Core Business Scenario 3

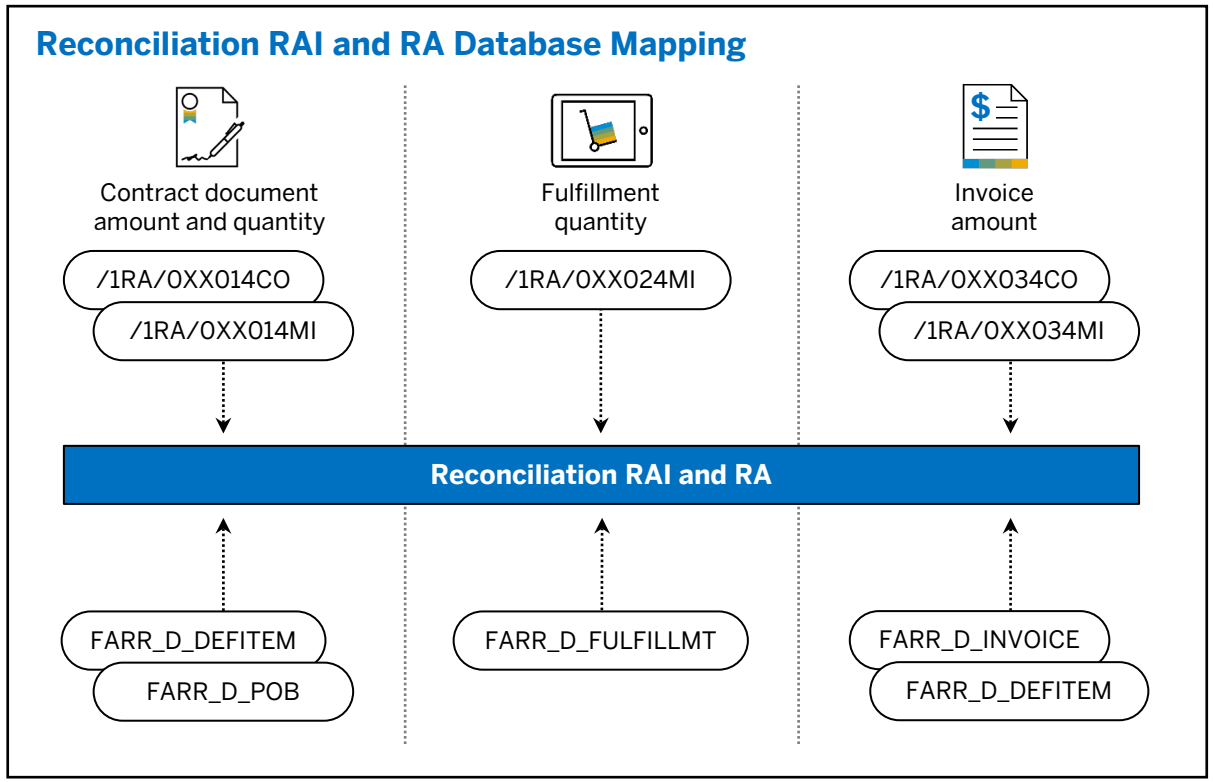
Instrument sale with free-of-charge consumables



Potential Performance Obligations/Deliverables	Explicit	Stand-alone Selling Price (SSP)	Transaction Price (Billing Price)	Allocation	Revenue Recognition Pattern	Purchase Order	SO	Invoice
Instrument	Y	$ 125,000	$ 375,000	$ 117,188	Point-in-time upon delivery on 1/15/2023	PO #1	SO# 1	Invoice# 1
$300K in Consumables shipped over 15 month ship schedule	Y	$ 275,000	$ -	$ 257,813	Point-in-time upon multiple deliveries: $150K on 10/14/2023 $100K on 12/15/2023 $50K on 2/10/2024	PO #2	SO #2	Invoice# 2 Invoice# 3 Invoice# 4
Total		**$ 400,000**	**$ 375,000**	**$ 375,000**				

SAP® Revenue Accounting & Reporting (RAR)

Reconciliation Reports



Reconciliation reports are available that allow you to check whether information that is relevant to revenue recognition is transferred and processed successfully in Revenue Accounting.

Reconciliation Type 1

The Reconciliation occurs between Revenue Accounting Items in Adapter Reuse Layer (transaction FARR_CHECK_CONS) and the originating data in the operational source component. The reconciliation can be carried out either from last successful check or by operational document (the latter is for simulation only). Also see the documentation of the report. The reconciliation report checks the following things:

- Whether items are transferred from the sender system
- Whether revenue accounting item errors are reported
- Whether different item values occur
- Whether different condition type values occur

This report uses the Application Log to report the results of the reconciliation.

Reconciliation Type 2

To ensure data consistency, you need to periodically reconcile the processed revenue accounting items with the performance obligations that were determined. The program (transaction FARR_RAI_RECON) checks the following data; Order quantity, transaction price per condition; Fulfill quantity; Invoice amount per condition type. The reconciliation results are displayed on performance obligation level. If one or more differences are found, the performance obligation is marked as not successfully reconciled and will be considered again in the next reconciliation run.

However, the following data is not checked; Invoice quantity and Fulfillment of specific types of performance obligations, such as time-based performance obligations whose fulfillment is not triggered by events, value-based performance obligations, and manual fulfillment performance obligations. If differences are found, you have options to resolve the differences, such as, you can run the RAI monitor to check unprocessed revenue accounting items, if the corresponding performance obligations have been generated via transaction FARR_RAI_MON.

You can also check the related database tables to identity the root cause. The above figure illustrates the tables that are involved in the processing.

Reconciliation Type 3

The following reconciliation reports are available that allow you to perform reconciliation between FI-GL and Revenue Accounting:

Reconciliation between Revenue Postings and the General Ledger

This report detects differences between the posting table and the GL. The processing is mainly based on Run IDs. This report does not check differences related to accrual runs and posting errors. Instead, this report focuses on differences between the posting table and posting results. Users can have several selection criteria, but company code, fiscal year, period, and accounting principle are mandatory and single-value fields. For better performance, users now can only perform reconciliation for one period at a time. The reconciliation report detects the following differences:

- Different document amounts between posting table and general ledger records
- Different local amounts between posting table and general ledger records
- Different G/L accounts between posting table and general ledger records

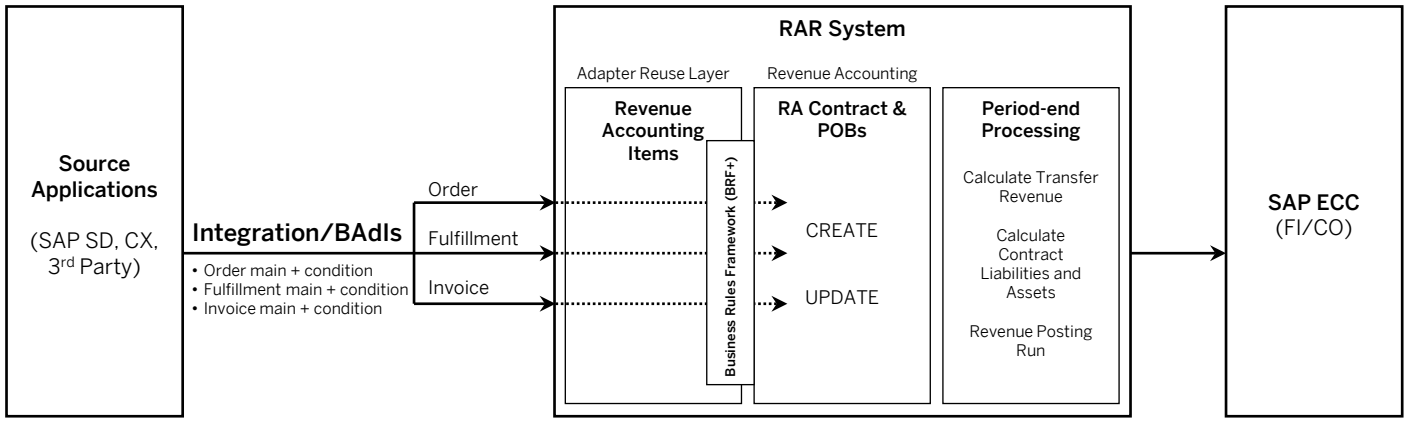
If differences are found, you can run a reverse posting and run a revenue posting again.

Reconciliation of Accounts Between Revenue Accounting and the G/L

This report detects differences between account balances in Revenue Accounting and the G/L. This works only if Revenue Accounting is the only application that posts to these accounts. The report has to be started for a company code, accounting principle, and a fiscal year period. In addition, you can specify a set of accounts to be compared.

SAP® Revenue Accounting & Reporting (RAR)

Technical Architecture and Data Flow



SAP RAR Architecture and Data Flow

- Data flow to RAR system from applications calculate revenue, contract asset and contract liability as per IFRS 15.
- Data flow to RAR with native integration from SAP SD and SAP CX Sales and Service, and from 3rd party applications using BAdIs, e.g., creating contract in SD/CRM/CX, other SAP components, or any 3rd party.
- The information flow from source applications to RAR provides details of Order, Fulfillment and Invoice of a contract. An order creates a contract in RAR, whereas fulfillment and invoice update an existing contract.

Adapter Reuse Layer (ARL)

- Data received from source applications generate RAIs (Revenue Accounting Items) to pass the contract information to RAR. SAP applications like SD can be configured to generate RAIs in ARL automatically.
- RAIs in simple terms can be referred to as common language understandable by RAR system. Data received from all the source applications generate RAIs.
- Once RAIs are created, they need to be processed to create/update RA Contract and POBs (Performance Obligations).
- RAIs can be viewed and processed using RAI Monitor (Transaction FARR_RAI_MON).

SAP® Revenue Accounting & Reporting (RAR)

Technical Architecture SAP ECC 6.0 Release Requirements

Product Version	Instance	Support Package
EHP5 FOR SAP ERP 6.0	Central Applications	10
EHP6 FOR SAP ERP 6.0	Central Applications	06
EHP6 FOR SAP ERP 6.0 ON HANA	Central Applications	01
EHP7 FOR SAP ERP 6.0	Central Applications	01
EHP8 FOR SAP ERP 6.0	Central Applications	Initial Shipment Stack

SAP Revenue Accounting and Reporting 1.2 is delivered as product version SAP REVENUE ACCOUNTING 1.2 which includes instance Revenue Accounting with software component version REVREC 120.

Instance REVREC 120 needs at least an SAP ERP 6.0, Enhancement Package 5 environment and is compatible with all higher Enhancement Package Stacks. Instance Revenue Accounting always needs to be installed on top of your Financial system. Revenue Accounting and Reporting 1.2 is not a standalone product, it needs to be integrated into operational components which send order and billing information to Revenue Accounting and Reporting. With Version 1.2, the following operational components or products support integration to Revenue Accounting and Reporting:

- SAP Sales and Distribution (SD)
- SAP Hybris Billing (Billing & Revenue Innovation Management (BRIM))
- SAP Customer Relationship Management (CRM)

As Revenue Accounting and Reporting also supports remote communication, it is possible to deploy Revenue Accounting and Reporting on a different system from the operational component. In this case, you have to consider the Data Harmonization requirements listed below.

Instance Revenue Accounting can be installed on SAP ERP 6.0 Enhancement Package 5 and higher. If your Financials system is below that, you first need to upgrade to at least SAP ERP 6.0 Enhancement Package 5.

Required alternative Product Versions, Instances and minimal Support Package Stacks for Revenue Accounting are listed above.

Key Contacts

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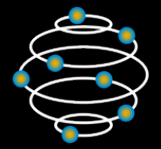

SAP S/4HANA INTELLIGENT ENTERPRISE
S/4HANA Digital Transformation
S/4HANA Roadmapping + Advisory
S/4HANA Greenfield Implementations
S/4HANA Brownfield Conversions

SAP SUPPLY CHAIN OPTIMIZATION
SCM Roadmapping + Advisory
SAP Advanced ATP & Extended Warehouse Management
SAP IBP & SNC
SAP IoT and Robotics Integration

SAP OMNICHANNEL CUSTOMER EXPERIENCE
SAP Marketing Cloud
SAP Commerce Cloud
SAP Sales & Service Cloud
SAP Customer Data Cloud

SAP PREDICTIVE & AUGMENTED ANALYTICS
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