forward faster

SSA® Baan ERP 5.0c Service

Service Contract Revenue Recognition

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Table of Contents

Chapter 1 Introduction....1-1

Service Contract Revenue Recognition....1-1

Revenue Spreading - Old and New Enhanced methods....1-2

Settings....1-1

Chapter 2 Revenue Recognition Methods and Set-up....2-1

Additional Features:....2-3

Revenue recognition per configuration:....2-3

Chapter 3 Process Flow....3-1

Scenario I....3-1

Scenario II....3-4

Chapter 4 Instructions and Features....4-1

About this Guide

This document is a User's Guide that describes the Service contract revenue recognition enhancements made to SSA ERP Service as part of the SSA Baan ERP 5.0c version. The document also describes the methods to calculate Service contract revenues.

This document contains the following chapters:

Chapter 1, "Introduction," provides a general introduction about the new enhancements in SSA Baan ERP 5c Service.

Chapter 2, "Revenue Recognition Method and Setup," provides the basic setup required for the new enhancement and the details about the new revenue recognition method introduced.

Chapter 3, "Process Flow," provides the step-by-step procedures required to implement the new revenue recognition methods selected.

Chapter 4, "Important Instructions and Features," provides information about the important features and useful information available to the user.

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In your e-mail, refer to the document number and title. More specific information will enable us to process feedback efficiently.

Chapter 1
Introduction

1

Service Contract revenue recognition

Previously, the Service Contract Business Object could not control the revenue to be recognized, and the period in which the revenue had to be recognized. In addition, the revenue was recognized irrespective of the costs incurred in that period, which did not conform to GAAP standards.

To overcome this limitation, Baan ERP 5.0c Service now offers a new functionality to conform to accounting standards and to provide flexibility in the SSA Baan ERP Service Revenue recognition process, including the existing functionality of revenue spreading.

Revenue spreading: Previous and newly enhanced methods

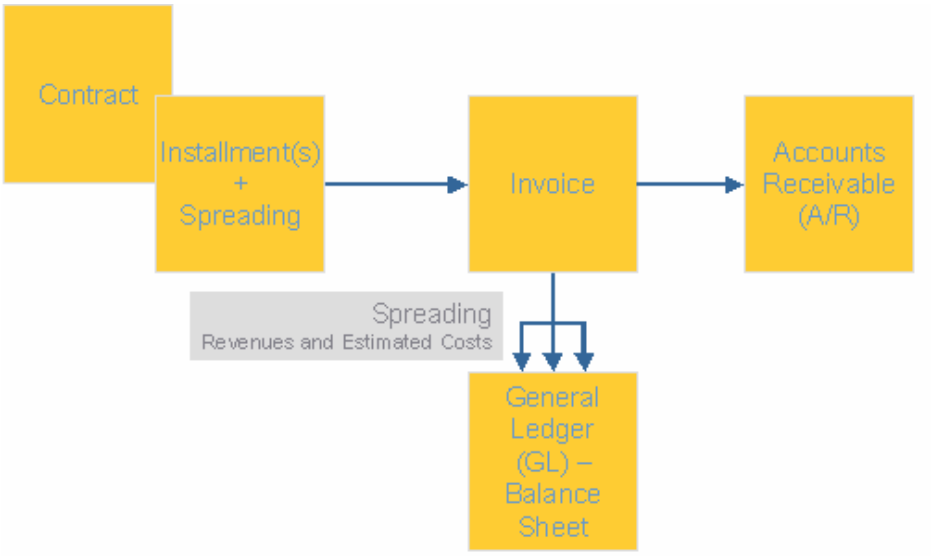


Figure 1-1: Previous revenue recognition structure, with installments and spreading closely linked

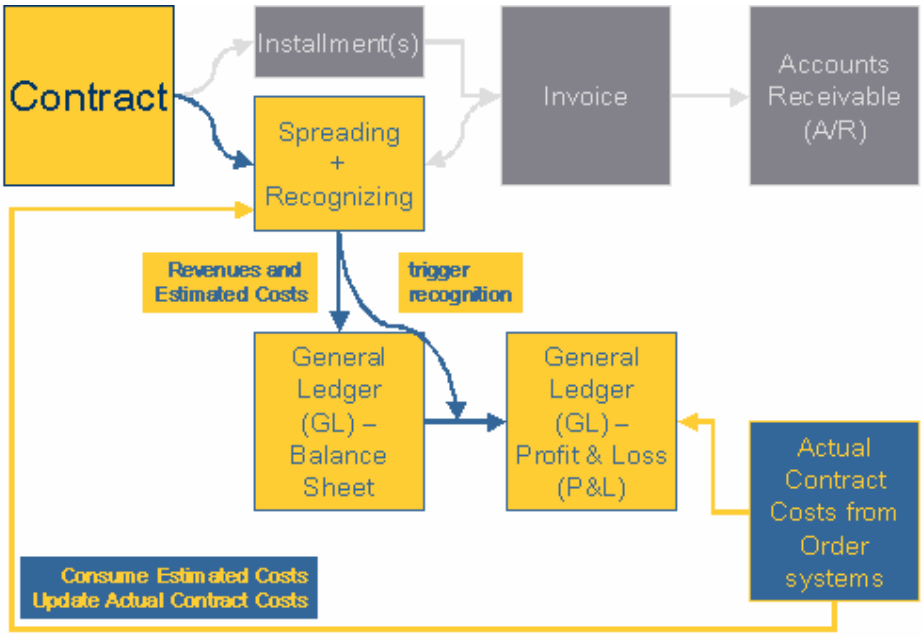


Figure 1-2: Previous revenue recognition structure, with installments and spreading closely related

You can use one of the following four methods to calculate revenue recognition in the new structure:

- Number of days per period
- Cumulative cost
- Earned revenue factor cost per period
- Earned revenue factor cumulative cost

Chapter 2
Revenue Recognition Methods and Setup

2

Settings

The following two options are available for revenue recognition:

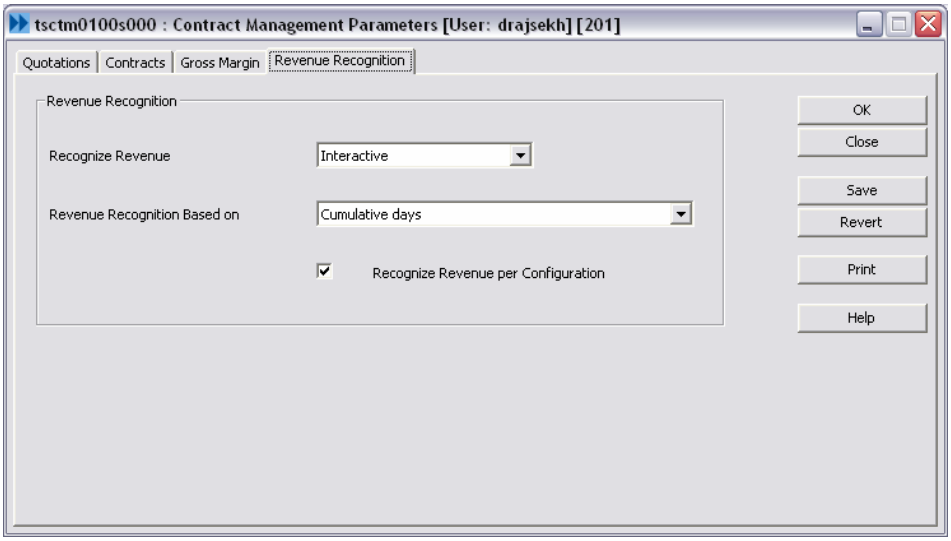


Figure 2-1: Contract Management Parameters (tsctm0100s000), Revenue Recognition tab, Cumulative Days-based revenue recognition

The parameter settings for revenue recognition are

- Direct by Installment
  Enables you to use the current functionality of revenue spreading.
- Interactive
  Enables you to choose the exact recognition method, the amount to be recognized, and the period in which the revenue must be recognized. Separate processes are provided to spread the revenue; calculate the revenue amount, which the user can change manually, if required; and to recognize the revenue. All the postings related to the revenue recognition are triggered from the SSA ERP Service only. With this method, the number of periods to which an installment can be spread is set to 1.

The following figure shows the revenue calculation methods available if you set the **Revenue Recognition** field to **Interactive**:

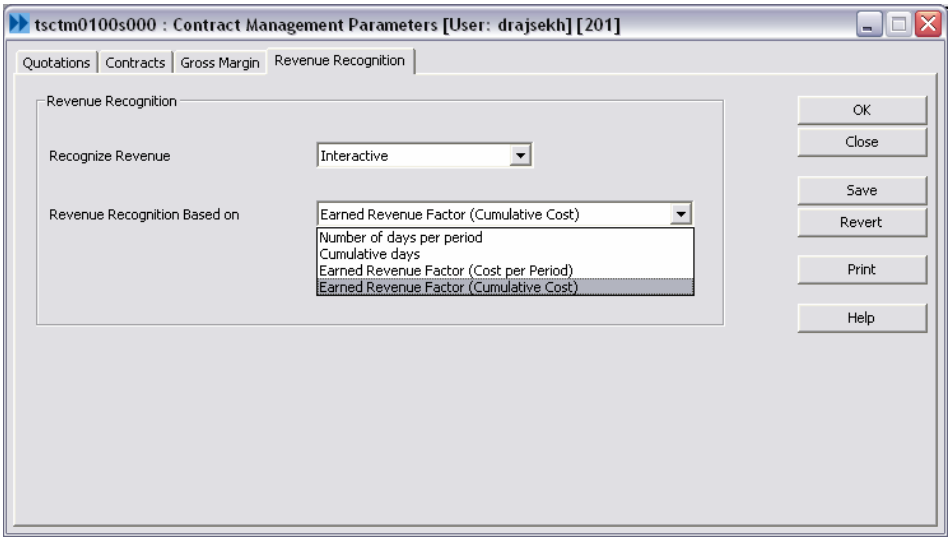


Figure 2-2: Contract Management Parameters (tsctm0100s000), Revenue Recognition tab, earned revenue factor-based revenue recognition

If you set the **Recognize Revenue** field to **Interactive**, the following revenue calculation methods are available:

- **Number of Days per Period**
  The basis of revenue recognition per period is the number of days available in the fiscal period.

  The number of days for which the contract is live in the fiscal period determines the amount that must be recognized for that fiscal period.

The contract duration in days, based on the start date and end date of the contract, forms the basis of the contract price per day.

- **Cumulative Days**
  This method is based on the cumulative days since the last revenue recognition, in the fiscal period. The creation date of the contract revenue is considered and the fiscal period to which the creation date belongs, is the fiscal period in which the amount is to be recognized. The contract duration, in days based on the start date and end date of the contract forms the basis to find the contract price per day. The total value recognized is equal to the contract amount.
- **Earned Revenue Factor (Cost per Period)**
  A method to keep the revenue in line with the cost incurred. Recognition is possible only at the end of the period, which enables you to capture all the cost incurred in the period. You can use this method if the real cost incurred on the service contract forms the basis for determining the period, and also the amount to be recognized. No amount exists to be recognized in a fiscal period in which no cost is incurred for the contract. An insight is available about the cost incurred per period from service order system when the material, labor and other lines are costed. The costs are transferred to the contract and are stored against the fiscal period in which the costing occurs.
- **Earned Revenue Factor (Cumulative Cost)**
  In this method, the cost incurred since the last recognition for the contract forms the basis to calculate the amount to be recognized. The creation date of the contract revenue is considered and the fiscal period to which the creation date belongs, is the fiscal period in which the amount is to be recognized.

Additional features

Revenue recognition per configuration:

You can recognize the revenue per configuration or for the entire contract. You must always calculate the earned revenue factor per configuration.

Provision

Provision is a method to keep some amount unrecognized until the end of the contract period. This enables you to take care of any rounding differences

that might occur at the end of the contract. The provision ensures that you do not recognize the revenue more than the actual. A percentage specified in the provision is kept unrecognized until the end of the contract period. Provision is applicable only for the number of days per period and earned revenue factor (cost per period) revenue calculation methods.

Chapter 3
Process Flow

3

This chapter describes the cumulative days method and the earned revenue factor (cost per period) revenue recognition method through the use of an example.

Scenario I

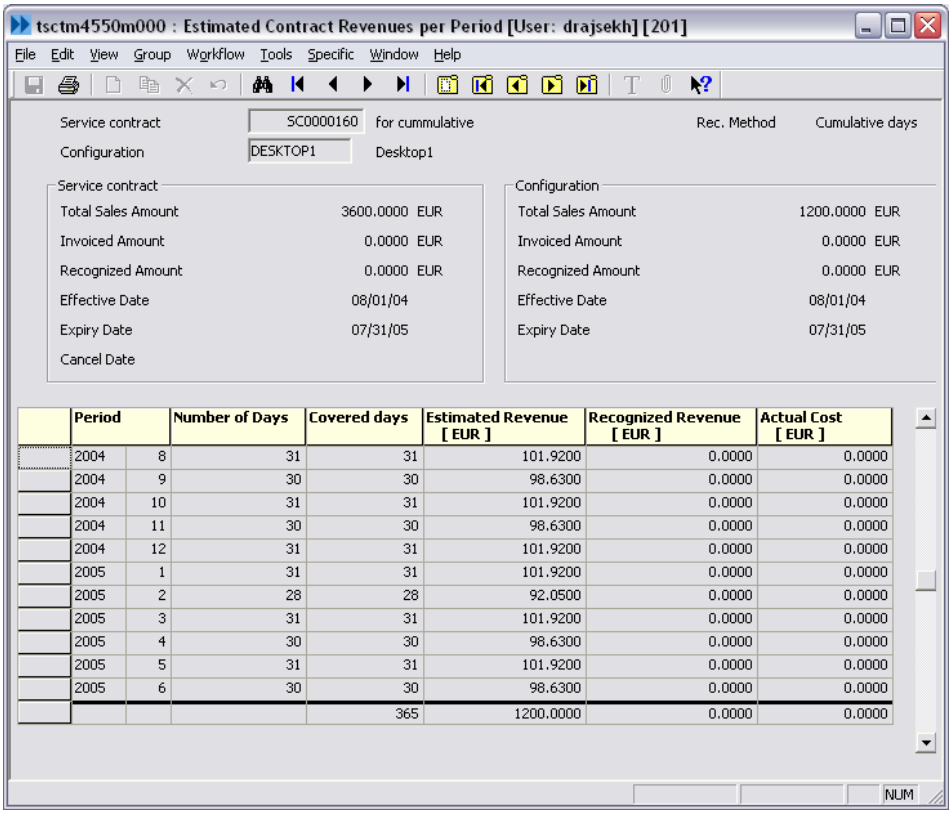
Cumulative Days Method	
Service contracts	**SC0000 160**
Configuration line	**10** – Desktop1 – net sales amount = 1200 EUR, Cost = 600 EUR
	20 – Laptop1 – net sales amount = 2400 EUR, Cost = 1200 EUR
Installments at contract	Quarterly (Four installments / year)
Effective date	August 1, 2004 – July 31, 2005
Active on	Feb. 5, 2005
Provision	0
Revenue recognition per configuration	YES

Step 1:

Create a contract with the data provided in the previous table.

Step 2:

When activated, installments and estimated revenues are generated for both the configurations.



Period		Number of Days	Covered days	Estimated Revenue [EUR]	Recognized Revenue [EUR]	Actual Cost [EUR]
2004	8	31	31	101.9200	0.0000	0.0000
2004	9	30	30	98.6300	0.0000	0.0000
2004	10	31	31	101.9200	0.0000	0.0000
2004	11	30	30	98.6300	0.0000	0.0000
2004	12	31	31	101.9200	0.0000	0.0000
2005	1	31	31	101.9200	0.0000	0.0000
2005	2	28	28	92.0500	0.0000	0.0000
2005	3	31	31	101.9200	0.0000	0.0000
2005	4	30	30	98.6300	0.0000	0.0000
2005	5	31	31	101.9200	0.0000	0.0000
2005	6	30	30	98.6300	0.0000	0.0000
			365	1200.0000	0.0000	0.0000

Figure 3-1: Estimated Contract Revenues per Period (tsctm4550m000)

You can calculate the estimated revenues for the period 2004/8 in the following way:

Calculation = 1200 / 365 = 3.2876 EUR

For a 31-day month = 31 * 3.2876 = 101.92 EUR

Step 3:

Use the **Calculate / Confirm Revenues** option in the Estimated Revenue session to calculate the revenue.

The contract revenue is calculated as:

The number of days elapsed since the last recognition. Here, the total number of elapsed days from August 1, 2004 to February 5, 2005 is 189.

The amount calculations are as follows:

- Amount per day for configuration line 10 = 3.2876 EUR
- Amount to be recognized = 189 * 3.2876= 621.38 EUR

Step 4:

Click **Recognize Revenue** on the **Specific** menu after you set the **Calculated Revenue Line** to **Confirmed**. The recognized amount is in the current period, in other words, 2005/2.

Step 5:

The integration transactions are booked for the recognized amount under the transaction origin service.

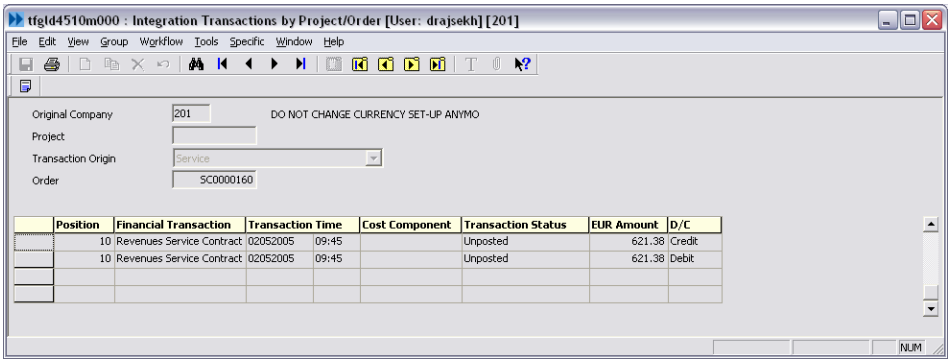


Figure 3-2: Integration Transactions by Project/Order (tfgld4510m000)

Step 6:

Post contract installments into SSA ERP Finance, and close and post the contract to history.

Scenario II

For Earned Revenue Factor (Cost per Period)	
Service contract	**SC0000161**
Configuration line	**10** – Desktop2 – net sales amount = 1200 EUR, Cost = 600 EUR
	20 – Laptop2 – net sales amount = 3600 EUR, Cost = 1200 EUR
Installments at contract	4, middle of quarter, 3 periods of coverage
Effective date	August 1, 2004 – July 31, 2005
Active on	Feb. 5, 2005
Provision	10%

Step 1:

Create a contract with the data specified in the previous table.

Step 2:

When activated, installments and estimated revenues are generated for both the configurations. Calculate earned revenue factor for both the configurations.

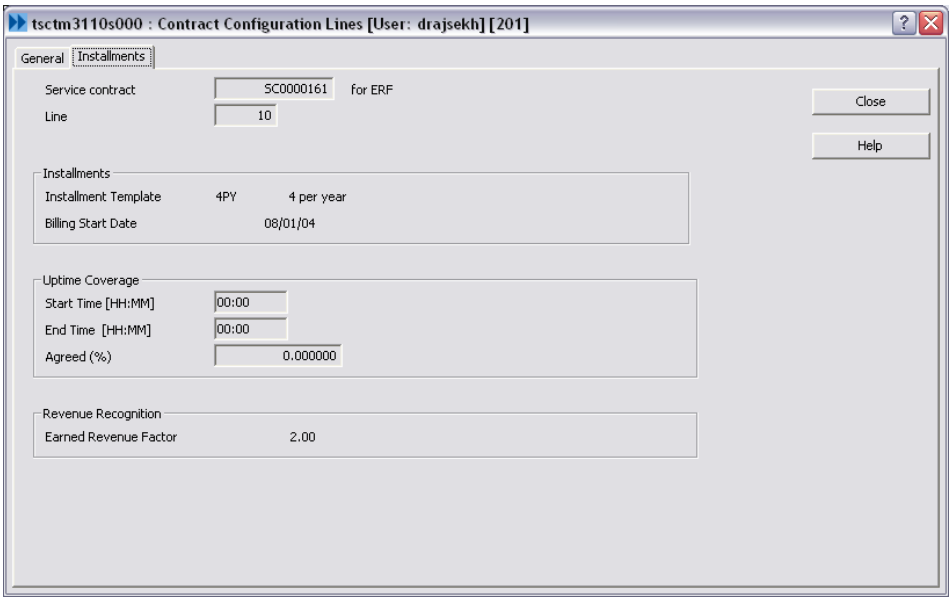


Figure 8 Contract Configuration Lines session

The calculation for earned revenue is as follows:

- Configuration line 10 => 1200 / 600 = 2
- Configuration line 20 => 3600 / 1200 = 3

Step 3:

Create a service order for configuration line 10. Actual cost incurred in the order is covered by the configuration. The Contract Cost Coverage (tsctm4570m000) session lists all the orders covered by the contract and the actual cost incurred.

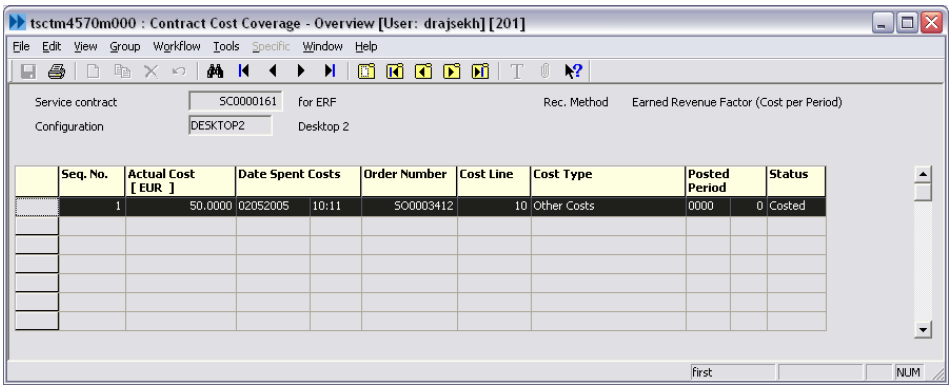


Figure 3-3: Contract cost coverage session

Step 4:

The actual cost incurred appears in the Estimated Contract Revenues per Period (tsctm4550m000) session. The actual cost is booked in the period in which the cost line is set to costed.

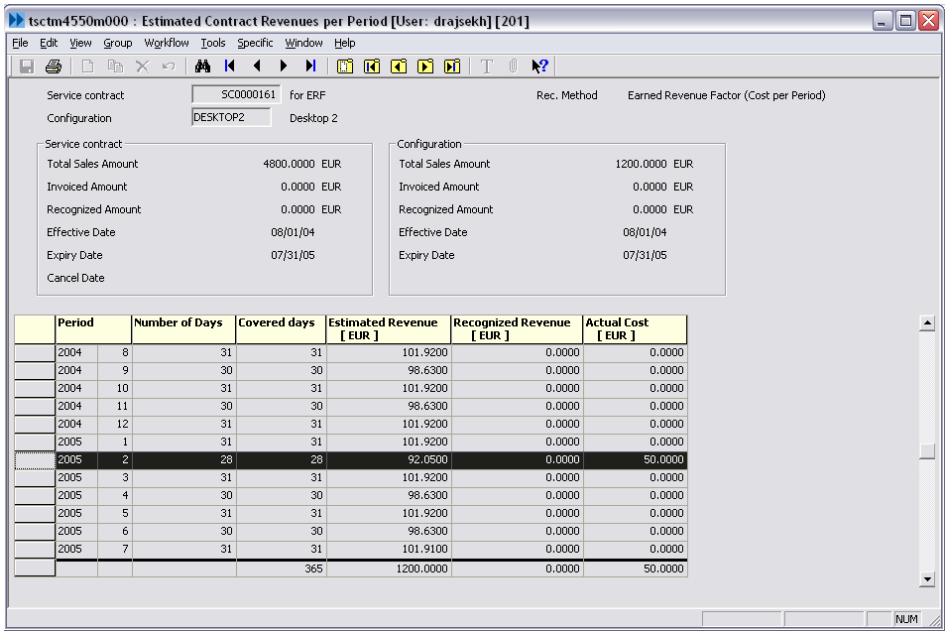


Figure 3-4: Estimated Contract Revenues per Period (tsctm4550m000)

Step 5:

Click **Calculate/Confirm Contract Revenues** on the **Specific** menu in the Estimated Revenue (tsctm4550m000) session to calculate the revenue.

In this case, contract revenue is not calculated for the current period, 2005/2, because the period is not yet over. For the previous period, no contract line is created because no actual cost is available.

As a result, the following error report is generated:

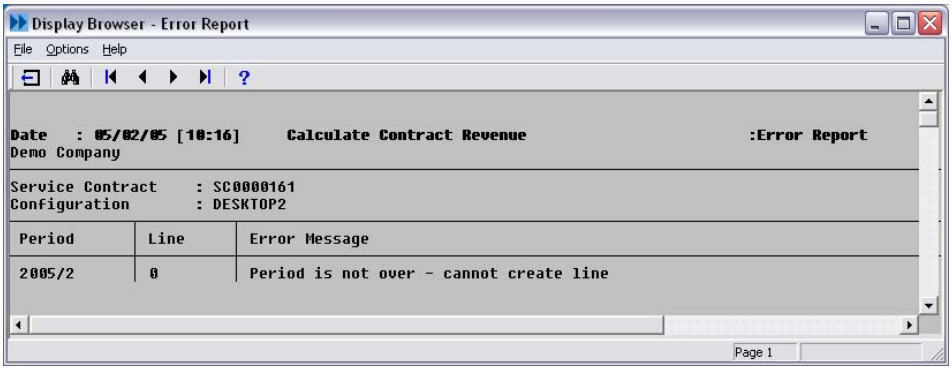


Figure 3-5: Error report

Step 6:

After the period 2005/2 is over, if no additional actual cost is booked, the contract revenue is calculated in the following way:

Actual cost X ERF factor for the configuration

In other words, 50 X 2 = 100 EUR

Because provision is 10 percent, the calculated contract revenue is 90 EUR.

Step 7:

Recognize the revenues, post the contract installment to SSA ERP Finance, close the contract, and post the contract to history.

Chapter 4
Instructions and Features

4

The revenue recognition-related fields are present on the last tab of the Service Contract Management Parameters (tsctm0100s000) session and the Service Contract (tsctm3500m000) session.

If you select the **Direct by Installment** method, the estimated revenues are calculated with number of days per period. After the posting is completed in SSA ERP Finance, a line is inserted in the Contract Revenue session to display the actual cost.

You can also select the revenue recognition methods from Service contract quotation.

You can view the Revenue recognition from the History - Service Contracts (tsctm8530m000) session.