Oracle’s RMCS and all you want to know about the new revenue recognition standard: ASC 606/IFRS 15

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Your presenter

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Executive summary
Chris is a Principal in the Pacific Northwest Advisory Services practice. He has proven experience and background in finance, technology, and process design. He brings expertise in finance transformation, cost and performance management, finance operations, and shared service design. Prior to joining Grant Thornton, Chris was a co-founder and partner at Arryve, a management consulting firm providing thought leadership, execution excellence and great relationships to clients ranging from Fortune 10 clients to small business owners. In his earlier career years, Chris also worked for a Big Four firm as an auditor. His specialties include: project management, change management, marketing, product strategy, corporate recovery, financial & tax strategy, business valuation, due diligence, business intelligence, strategic planning, M&A, post-merger integration, ERP financial systems.
Your presenter

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Executive summary
Brad Kwiatek is a Director in Grant Thornton’s Business Advisory Services – Oracle Practice. Brad has over 12 years of experience with leading and managing financial transformation projects as well as implementing Enterprise Resource Planning, Enterprise Performance Management, Business Intelligence, and Data Management solutions. Brad is a proven thought leader in the delivery of integrated financial processes and systems. Prior to Grant Thornton, Brad worked for MarketSphere and Intel.

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We are the U.S. member firm of Grant Thornton International, a global organization of member firms providing audit, tax and advisory services to clients for more than 90 years.

Over 10% revenue growth in the U.S. last year with a 13% increase in headcount

$1.56bn revenues

- 35% of the companies on the 2015 Fortune 1000 list
- 39% of the companies on the 2015 Fortune 500 list
- 54% of the companies on the 2015 Fortune 100 list
- 25% of the companies on the Russell 2000 list
Committed Oracle partner

Specialized Partner of the Year, 2014 (EPM, NA)

JD Edwards Excellence Award, 2015

Excellence Award, 2015 (Fusion Middleware Innovation at Serta Simmons Bedding)

JD Edwards Excellence Award, 2016
Agenda

• New revenue recognition standards
• The 5-step-model to support new revenue recognition standards
• Transition and implementation considerations
• Managing your Revenue with RMCS
• Q&A
The Future of Revenue Recognition

Revenue Recognition

- Single, converged and principle based RevRec Standard from FASB and IASB
- Supersedes virtually all revenue recognition guidance in US GAAP & IFRS, including prescriptive guidance and industry-specific practices
- Utilizes more principles and requires more estimates and greater judgement
- Requires evaluation of the policies, processes, systems and controls by which revenue is recognized and disclosed

Effective for annual reporting periods after December 15, 2017 for Public Companies

Takeaways

- Put a structure in place to analyze the changes and effectively execute implementation
- Review contracts and understand impacts of standards on current and future contracts
- Virtually all companies will experience some level of change
- The impacts identified will have significant process and system considerations throughout the organization
The 5-step-model to support new revenue recognition standards

The core principle of the new Revenue Recognition standard

- Recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

Tactical steps to implement the new standard

1. Identify the contract(s) with a customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue when or as an entity satisfies performance obligations
There are four key phases to implementing revenue recognition changes

**Approach**

**Plan Phase**
- Workshop designed to understand impacts of new standard across the organization
- Revenue streams evaluated with initial technical accounting impact identified
- Organization processes reviewed and desired new state discussed
- Income tax changes and reporting requirements identified
- Milestone-level implementation plan finalized for all organizational groups affected

**Assess Phase**
- Detailed assessment completed on all revenue streams, and verified against contracts and transaction
- Changes drafted and reviewed with internal and external auditors
- SOX controls changes identified and prepared for internal review
- Tax changes prepared and communications with relevant authorities identified

**Design Phase**
- Design process and system changes necessary to meet new accounting standard
- Obtain agreement with internal and external auditors on technical accounting impact
- Identify tax reporting changes required to meet new standards
- Plan communication around changes and impact on the organization
- Reset forecast and budgeting templates and expectations with investors

**Execute Phase**
- Implement and manage accounting process and system changes
- Build a governance model to ensure that changes are successfully implemented and monitored
- Provide proper tax authority communications
- Roll out new customer contract terms and conditions if changes result from implementation
- Manage communications of change drivers and related impacts

**SEC Survey – By the Numbers**

- **8%** PLAN Phase
- **75%** ASSESS Phase
- **17%** DESIGN or EXECUTE Phase
Key considerations to design for success

These principles are key drivers for a successful implementation:

1. Technical accounting decisions must lead the design phase of this project
2. The assumptions and business rules from the ASSESS phase directly impact design
3. Companies will need greater access to historical data to ensure accurate contract estimates
4. Ongoing assessment of key estimates will be increasingly important
5. The ability to assess and change individual contracts is part of the standard
6. Additional systems beyond revenue will be impacted (FP&A, Sales Commissions)
Guidelines for successful design & execution

- Design
  - Translate accounting impact to organization
    - Processes and systems will require changes based on impacts found
    - Downstream impacts will be cross organization

- Accelerate
  - Assessment accelerates technical reqs
    - Assumptions and rules from assessment phase directly drive business requirements
    - Accelerator has been created to streamline the process

- Improve
  - Look at O2C process holistically
    - Every company has order to cash desired improvements
    - Pairing these changes with Rev Rec increases the ROI during implementation
Implementation considerations using Oracle’s Revenue Management Cloud Service (RMCS)
Key considerations to design for success

Perform Iterative Modeling
Ensures standard implemented correctly

Automate Process
Delivers accurate transactions

Recognize Revenue
Provides stakeholders assurance

What-if modeling compares iterations to each other, and to your current accounting

Consistently apply the standard for customer contracts and performance obligations

Properly record and report assets, liabilities, discounts and revenue
Revenue Management Solution Approach

- Cloud Service order, billing, & fulfillment data
- Cloud Service General Ledger
- EBS General Ledger
- Third party and On Premise Sales Cycle Data

- ASC 606 and IFRS 15 Compliance Automation
- The Standard’s Five Steps to Revenue
Revenue Management Process

**Extract, Transform & Load**
- Register data sources
  - Data extract program
  - File upload to UCM
  - Process Revenue Basis Lines
- Review and fix data:
  - import errors using ADFDi

**Manage Stand Alone Selling Prices**
- Pricing bands, Pricing Dimensions (Stratifications)
  - Stand Alone Selling Price Profiles
- Calculate
  - Stand Alone Selling Price (Basis for Revenue Allocation)
- Establish SSP
  - Upload ESP using ADFDi

**Standard 5 Steps**
- Identify the contract with the customer
- Identify the separate performance obligations
- Determine the transaction price
- Allocate the transaction price
- Recognize revenue when a performance obligation is satisfied

**Accounting**
- SLA Account/Journal Line Rules
- JERS / Accounting Method
- Create Accounting

**BIP/OTBI Reporting [OTBI in subsequent releases]**
- Contracts, Obligations, and Satisfaction Events
- Contract Accounting Entries

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*April 2-6, 2017 in Las Vegas, NV USA  #C17LV*
Import Sales Related Data

Overview of ETL (Extract, Transform, Load)

Source Applications
- EBS
- 3rd Party Application

Transform
- Code hooks
- Extract Revenue Basis Data program
- Extract Revenue Management Data Export File program

Extract
- Seeded Extract Views
- Custom extract program

UCM: Universal Content Manager
- Data Files (Source headers, lines & sublines)
- Control file

Load
- Load Interface File for Import Job (automatically triggered)

Revenue Management Cloud
- Interface Tables
- Revenue Management Daily Job Set
- RM base tables

Step 1: Register the new 3rd Party source in Revenue Management
Step 2: Extract the data from the 3rd party source application in predetermined flat file format
Step 3: Use the ERP Integration WebService API to place the file on the UCM server or manually upload it through secure file transfer.
Iterative Modeling & Scenario Analysis

General Ledger Activity and Balances: the point of commonality and the focus of reporting

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Revenue Management Cloud Service

Existing Revenue Recognition Process
Cloud Project Approach – Guiding Principles

Traditional Approach

- Requirements Driven
- Extend & Customize
- Big Bang
- Waterfall Methodology

Cloud Approach

- Solution Driven
- Adapt Processes
- Incremental
- Iterative
RMCS Implementation Methodology

Best Practice RMCS Implementation Methodology should be aligned to Oracle's Unified Method (OUM) and built on the realization of accelerating the benefits of implementing a new system and technology by...

- Ensuring business transformation is addressed/supported by the system
- Accelerating approach through the use of deliverable templates and built-in Cloud ERP tools
- Leveraging Agile development principles: allow users to visualize and experience the application early in the implementation process
- Integrating change and quality management activities
Q&A
Visit Quest International Users Group at Booth #435

- Learn how Quest can help you receive 4x the return on your ERP investment
- Walk through a customized Quest Activation Plan (QAP) to help your ERP team
- Find out more about Quest’s product-specific events, PeopleSoft RECONNECT and JD Edwards INFOCUS
Thank you for attending our session!

• If you have any follow-up questions please don’t hesitate to contact us directly with our contact information below:

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Upcoming events

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- **April 11-13**: Modern Finance Experience and HCM World in Boston, MA
- **April 18**: webcast: Finishing strong in the ASC 606 marathon: An in-depth look at designing for success
- **April 19**: webcast: Including Taleo in your Oracle ERP investment
- **April 24-27**: SuiteWorld in Las Vegas, NV
- **May 17**: webcast: Oracle Cloud HCM releases, patches and enhancements, oh my!
- **June 6-9**: OHUG global conference in Orlando, FL
- **June 8**: webcast: Project management for HCM Cloud implementations
- **June 14**: webcast: Getting to know all about you "Profile Management"
- **June 18-21**: HIUG Interact in Orlando, FL
- **July 13**: webcast: Oh the places you will go be a Maestro, with composer in the clouds
- Find your silver lining in the cloud: [grantthornton.com/silverlining](http://grantthornton.com/silverlining)
Please look for those wearing Education Committee ribbons to share feedback on this week’s sessions!
Appendix: The 5-step-model

Additional details
Step 1: Identify the contract with the customer

- Does the contract have commercial substance? (n)
- Have the parties approved the contract? (n)
- Can the entity identify the payment terms and each party's rights and obligations? (n)
- Is it probable that the entity will collect "substantially all" of the consideration to which it will be entitled? (n)

Do not proceed to Step 2

Recognize revenue only when one of the following occurs:

1. The entity's performance is complete, substantially all of the consideration has been collected and is non-refundable
2. The contract has been terminated and the consideration received is non-refundable
3. Entity stopped shipping, does not have to resume, cash received is non-refundable and relates to prior shipments

Proceed to Step 2
Step 2: Identify the performance obligations

A performance obligation is a promise to transfer either:

a) A distinct good or service
b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer
Step 2: Identify the performance obligations continued...

Step 1: Capable of being distinct?

Y

Step 2: Distinct in the context of the contract?

The following factors would indicate the promises are not distinct in the context of the contract:

- Entity significantly integrates the promises
- One or more of the promises modifies or customizes another
- The promises are highly interdependent or highly interrelated

Y

The promise is **distinct** and must be identified as a separate performance obligation.
Step 3: Determine the transaction price

Transaction price:
The amount of consideration an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Consideration payable to customer → Transaction price → Time value of money → Variable consideration → Noncash consideration
Step 3: Determine the transaction price continued...

Variable consideration
- Discounts
- Rebates
- Refunds
- Credits
- Price concessions
- Bonuses
- Penalties

Estimate amount
- Expected value (sum of probability weighted amounts)
- Most likely amount (single most likely outcome)

Include if probable that there will not be a significant revenue reversal
- Highly susceptible to factors outside entity's influence
- Limited predictive experience
- Large number of possible amounts
Step 4: Allocate the transaction price to the performance obligations

Allocate based on the relative standalone selling price (SASP) of each performance obligation

Allocate discounts/variable consideration to one or more POs if certain criteria met

Observable price is the best evidence of SASP. If no observable price, estimate maximizing the use of observable data.

Do not reallocate transaction price to reflect changes in standalone selling price. Allocate changes in transaction price on same basis as at contract inception.
Step 5: Recognize revenue over time or at a point in time

- Does customer receive and consume the benefits as the entity performs? 
  - Yes: Control is transferred over time
  - No: Does customer control the asset as it is created or enhanced?
    - Yes: 
      - Does asset have an alternative use to the entity? 
        - Yes: Control is transferred at a point in time
        - No: 
          - Does entity have the enforceable right to receive payment for performance to date? 
            - Yes: Control is transferred over time
            - No: Control is transferred at a point in time
The 5-step-model – challenges / considerations by step

**Step 1**
- Collectibility assessment
- No cash basis accounting

**Step 2**
- New criteria to identify "performance obligations"
- New warranty guidance
- Principal versus agent considerations

**Step 3**
- Identification and estimation of variable consideration
- Consideration of the "constraint guidance"
- Payments made to customers

**Step 4**
- Estimation of stand-alone selling price
- Specific guidance on allocation of variable consideration and discounts

**Step 5**
- New over time criteria
- Must select a single method to measure progress for each performance obligation if over time criteria met