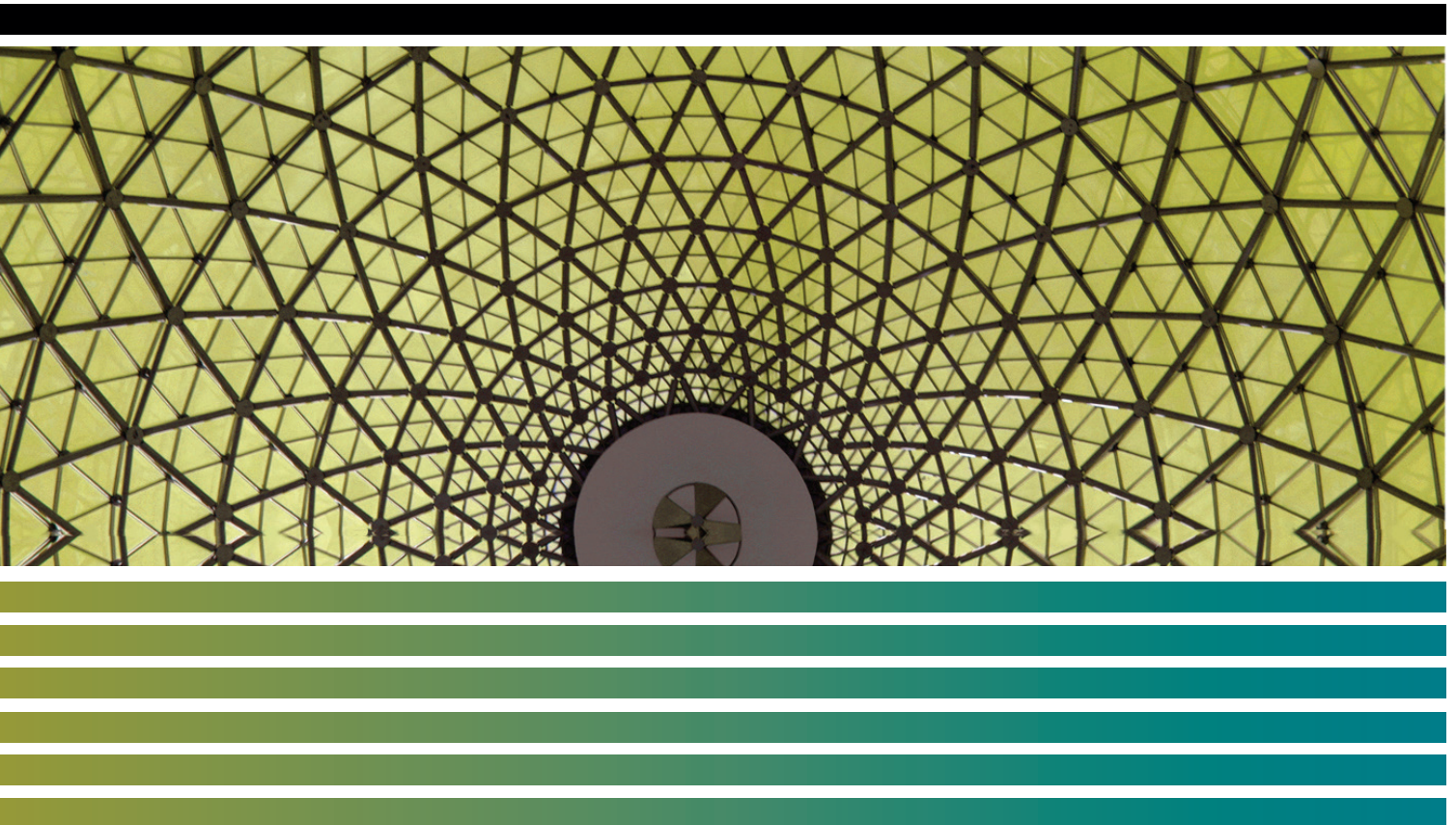


REVENUE MANAGEMENT FOR MICROSOFT DYNAMICS 365 FOR OPERATIONS

Integrating Best Practice Revenue Management Intelligence into Your ERP Solution

AN ARMANINO WHITE PAPER





THE REVISED REVENUE ACCOUNTING RULES

In recent years, the Financial Accounting Standards Board (FASB) has provided a number of updates to the generally accepted accounting principles (GAAP) around the revenue recognition rules for companies that sell multi-element arrangements, where some of those elements have their own delivery schedules.

These critical accounting standard updates seek to ensure that companies are breaking out the fair value of the multiple elements in a revenue arrangement and aligning the recording of the revenue (and cost of goods sold where applicable) with the terms of the delivery of those elements:

- **ASU 2009-13** (formerly known as EITF 08-01) is an accounting standards update that relates to multi-deliverable revenue arrangements.
- **ASU 2009-14** (formerly known as EITF 09-3) is an accounting standards update that relates to certain revenue arrangements that include software elements

These updates amend ASC 985-605 (formerly SOP 97-2) and affect companies that sell multi-element arrangements, which may include any combination of elements such as hardware, software, professional services and post contract support (PCS) services such as up-date or upgrade subscriptions, prepaid support tickets, warranties or maintenance agreements.

These rules can apply to:

- **Software company** that sells perpetual licensing—software and maintenance
- **Software-as-a-Service (SaaS) company** that sells subscription, professional services and support
- **Consumer electronics company** that sells hardware with software component, and an access right to software updates over the life of the device
- **Electronic equipment company** that sells hardware, software, installation services and support subscriptions
- **Electronic device manufacturer** that sells hardware, software and warranties

Whether these companies are selling these arrangements by their individual elements, such as the software and maintenance, or bundling those elements into a single SKU the individual elements that make up that agreement need to be specified.

Upon selling an arrangement, the total value of the arrangement must be accounted for, and the company must accurately align revenue with each of the elements in the arrangement and accurately record the amount and timing of when that revenue can be recognized.

THE REVENUE RECOGNITION PROCESS

The process of Revenue Recognition under ASU 2009-13 and ASU 2009-14 follows this basic framework:

1. Establish Best Estimated Selling Price (BESP)
2. Define Elements of Arrangement
3. Establish the Deal Price of Arrangement
4. Revenue Reallocation and Carve Out
5. Revenue, Cost of Goods Sold (COGS) Deferral and Scheduling
6. Revenue Recognition

DESCRIPTION OF PROCESS		BENEFITS OF REVENUE RECOGNITION FOR MICROSOFT DYNAMICS 365 FOR OPERATIONS
Establish BESP	The Fair Market Value for each element that can be included in an arrangement must have its individual value established based on the revenue recognition hierarchy. Under the current guidelines, there is a hierarchical criterion that must be followed:	Regardless of the method used, this value is either systematically calculated or manually recorded, and then stored separately from the list price or deal price.
Vendor-Specific Objective Evidence (VSOE)	Use if available. VSOE median price is determined based on the historical sales of an element as it is sold separately on a non-multi-element order.	Revenue Recognition for Microsoft Dynamics 365 for Operations provides a reporting framework that can specify the number of occurrences an item must be sold alone—as well as the time-period basis included in the median price calculation. The median price can be calculated by the system and can populate the revenue reallocation price table when the median price criteria specified is met.
Third-Party Equivalent (TPE)	Use if VSOE is not available. Establishing this value allows a company to evaluate the market value of a comparable product as it would be sold stand-alone by a third party. This process may be straightforward or may require a market study to determine a TPE.	The revenue price table in Revenue Recognition for Microsoft Dynamics 365 for Operations allows the user to manually record the TPE revenue price for an element and attach any documentation needed to substantiate that value.
Estimated Selling Price (ESP)	Use if VSOE or TPE are not available. When establishing ESP, there are company- and industry-specific criteria that are often used. To arrive at an ESP, companies may consider valuations of the element based on gross margin analysis. The ESP may even be stratified by market segment or sales volume.	Established at the product or product group level, Revenue Recognition for Microsoft Dynamics 365 for Operations can base ESP on a percentage of the list price of another element or group of elements within an arrangement, such as in the case of PCS revenue elements.
Define Elements of Arrangement	Companies that sell multi-element arrangements must identify all the elements that are considered included in an arrangement. These may include any combination of elements such as hardware, software, professional services, upgrade subscriptions, support tickets, or warranties and maintenance agreements	Revenue Recognition for Microsoft Dynamics 365 for Operations uses a sales order to capture the various elements within an arrangement, which are then itemized as line items within that sales order arrangement, or combined into a bundle or sales bill of materials. When elements are sold as a bundle, they can be expanded as line items so that each element can be accounted for individually, while still presenting a single SKU on customers' sales order confirmation and invoice forms.

DESCRIPTION OF PROCESS

BENEFITS OF REVENUE RECOGNITION FOR MICROSOFT DYNAMICS 365 FOR OPERATIONS

Establish Deal Price of Arrangement

While sales and marketing teams maintain a high degree of flexibility on the structure of a MSRP presentation, which may include customer-specific pricing, discounting, bundling, promotional packaging, free offers or trial periods, the revenue accounting system needs to evaluate the total value of the arrangement, which we will refer to as the “deal price.”

Revenue Management for Microsoft Dynamics 365 for Operations retains all the powerful pricing and discount flexibility that is enabled through the trade agreements and sales order functionality in Microsoft Dynamics 365 for Operations. The sales order is used to define the arrangement. Upon confirmation of the sales order, the total value of the agreement or deal price is calculated.

Revenue Reallocation & Carve Out

When the sales price for any of the elements differs from the fair value price, revenue must be reallocated to or carved out from those elements.

In Revenue Management for Microsoft Dynamics 365 for Operations, once the sales order is confirmed, an additional routine is automatically run which identifies all of the elements in the arrangement—either as line items or through expanding the bundle. It then queries relevant BESP, takes the total value of that arrangement and automatically distributes the revenue to each of the various elements in the arrangement based on BESP.

Revenue, COGS Deferral and Scheduling

The revenue and the matching COGS deferral and recognition must align with the delivery of each of the elements.

Revenue Management for Microsoft Dynamics 365 for Operations provides a flexible framework for scheduling the revenue associated with multi-element arrangements from a sales order and can be recognized over any number of intervals, over any period of time. These revenue recognition schedules form templates for the recognition of revenue based on company-specific revenue recognition rules. Additional flexibility is provided by dynamic revenue schedules that based on a start and end date and provide the ability to make one off adjustments for unique situations. Revenue schedules defaults can also be set at a product group or individual product level and be updated as needed for any order specific considerations.

Revenue Recognition

Revenue/COGs recognition must be defined according to business rules.

In Revenue Management for Microsoft Dynamics 365 for Operations, revenue schedules form the framework for staging the timing of revenue recognition events. In addition to the scheduling of the recognition, there are often industry specific, business specific or even one-off arrangement specific rules that impact the recognition of Revenue and COGS.

While your products and services offerings may be complex, your order entry and revenue recognition processes do not need to be. Having the flexibility to model your most complex revenue rules for your sales arrangements upfront greatly simplifies the order entry and revenue accounting processes.

THE IMPORTANCE OF INTEGRATING ERP AND REVENUE RECOGNITION SOLUTIONS

Today, most enterprise resource planning (ERP) solutions available do not automatically defer and recognize revenue in real time in accordance with GAAP

standards. Without the right tools, accounting professionals have been forced to utilize standalone spreadsheets, pulling information from multiple data sources. These manual and spreadsheet-driven processes make it difficult to accurately forecast revenue and renewal orders, track fulfillment of obligations for revenue recognition events or handle returns, cancellations or adjustments.

Rather than having the centralized global view of revenue that the ERP solution was originally intended for, companies have experienced the

pain of decreased financial performance visibility coupled with increased manual steps and latency around reporting from multiple data sources.

Using spreadsheets to track these complex business requirements significantly increases the risks of non-compliance.

Maintaining version control and sharing of spreadsheets increases the chance of errors and oversights which could create significant delays in period-end closing, the time and cost associated with audits and the possibility of the need to restate revenues.

Revenue accounting rules are complicated and under continual review making it even more critical to have a solution that is flexible to adapt with those changes.





THE IMPORTANCE OF AN INTEGRATED SOLUTION: REVENUE MANAGEMENT FOR MICROSOFT DYNAMICS 365 FOR OPERATIONS

Utilizing a single integrated solution to model your revenue recognition up front reduces your reliance on spreadsheets and manual calculations outside the system while providing real-time revenue recognition, robust audit controls, logging and full drill through capability to transaction details for greater stakeholder visibility and a faster period close.

Companies also benefit from being able to support multi-currency transactions, revenue and COGS recognition, deferral, amortization, forecasting and reporting capabilities within a single integrated solution. With *Revenue Management for Microsoft Dynamics 365 for Operations*, you will gain greater confidence in the accuracy of your numbers and be able to report upon a single global truth.

Ease of Maintaining Revenue Recognition

Rules: *Revenue Management for Microsoft Dynamics 365 for Operations* provides a flexible framework for defining revenue recognition rules. For ease of record management, these rules can be set at the product group level. Group level setups include deferral eligibility, auto holds on revenue, standard revenue recognition templates, essential or non-essential, as well as

the ledger account posting profile for revenue and COGS deferral and recognition. Product group setup can be defaulted down to the individual products in that group, streamlining the process of new product creation.

Ease of Order Entry: *Revenue Management for Microsoft Dynamics 365 for Operations*

simplifies the order entry process by allowing customer service representatives to easily configure multi-element orders as sales bundles or simply add line items within a single sales order. The order line type can default the revenue recognition schedule based on the setup of the product group or individual product, while enabling CSRs to change the recognition schedule for that order line. By applying a simple drop down box or defining a start and end date for a contract term, it enforces the businesses accounting rules whether the revenue from the specific line item can be recognized up front or needs to be deferred.

For line items where revenue is deferred, those predefined or dynamically generated revenue recognition schedules forecasts and schedules the accurate revenue recognition over its respective time period.

Sales Order Invoicing: Flexibility in the sales order invoicing process allows for the invoice to be presented to the customer according to the negotiated pricing structure that they expect, whether that is an inclusive bundled price for all elements of the order, or a depiction of individual prices and/or discounts in percent or dollar amount by the line items on the order.

Scalable for Growth: The power of *Revenue Management for Microsoft Dynamics 365 for Operations* lies in the real-time calculation and reallocation of the revenue to identify and automate the creation of revenue recognition schedules:

- Revenue management calculations enforce the company-specific rules for how revenue is handled for each of the items on a multi-element order.
- Revenue management parameters associated with the item drive the revenue carve-out and reallocation process within a multi-element order when an item's sales price differs from its list price at the time of order confirmation.
- Consolidated invoice(s) based on the sales price on multi-element orders are provided to the customer, while the revenue reallocation is based on the calculations according to the company-specific revenue recognition rules. Upon order invoicing, the revenue that can be recognized is immediately posted to the

appropriate ledger account, with the balance being posted to a deferred revenue ledger account.

- Revenue recognition schedules based on the reallocated revenue price are automatically created and scheduled to be posted on their anticipated future recognition date.
- Journals that require a revenue recognition event prior to recognition—such as customer acceptance—are automatically placed on “hold” pending approval to prevent accidental posting prior to the occurrence of that event. These journals provide flexibility in that they can be automatically posted as scheduled as part of a batch job. In addition, they can be manually reviewed and adjusted with proper security prior to posting.

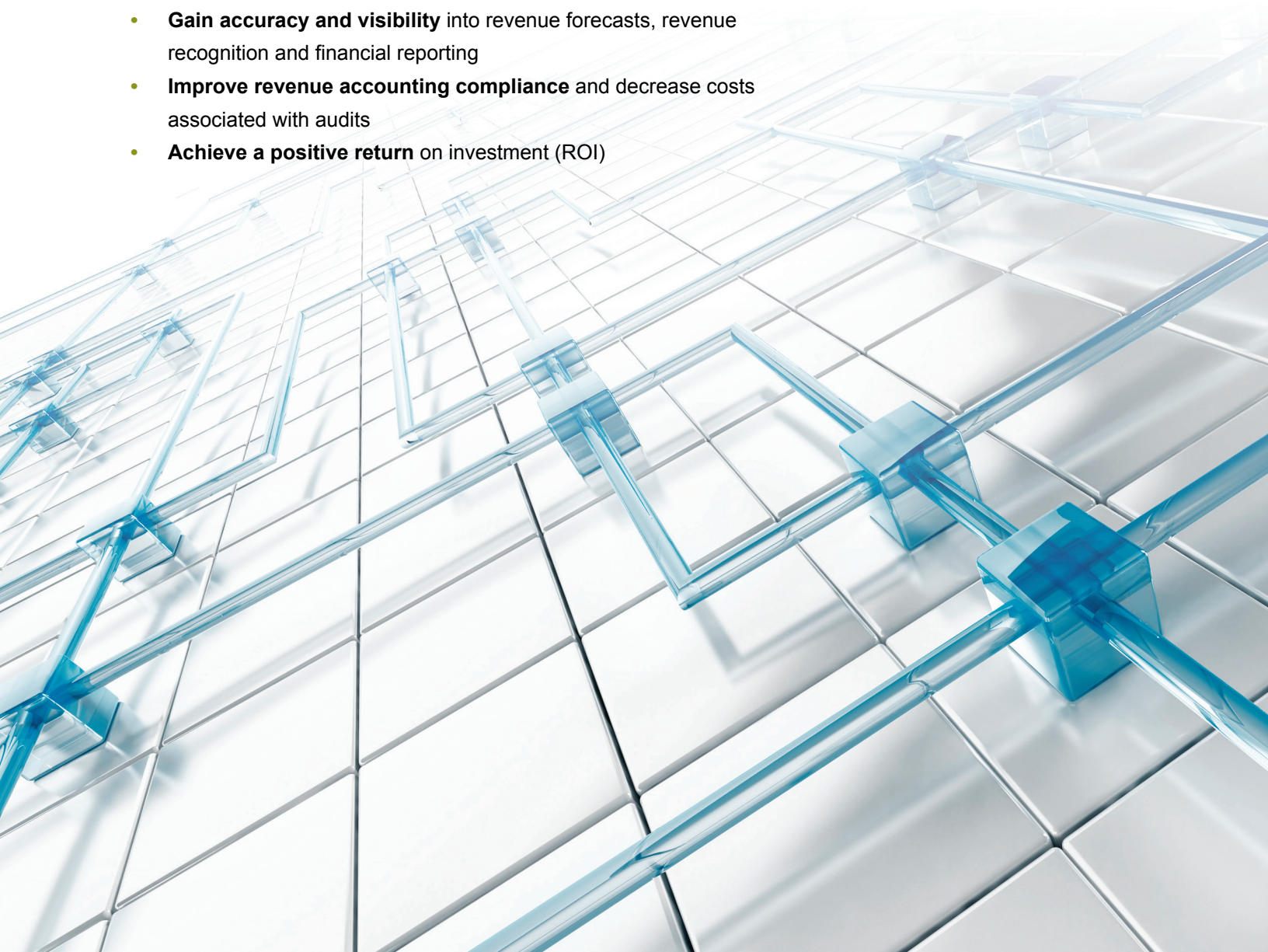
Configurable and Flexible: *Revenue Management for Microsoft Dynamics 365 for Operations* provides a solution for companies who face complex revenue recognition requirements in a way that is not only easy to use and configure, but it also provides for true flexibility and agility. The need for companies to constantly adapt and expand their offerings of bundled products, software, maintenance, services and warranties to establish and retain a competitive advantage requires a flexible ERP solution that provides rapid configurability and industry-specific functionality.

FINAL THOUGHTS

Designing best practice revenue management intelligence into your ERP solution provides greater control of revenue management practices in your organization leading to a reduction of accounting errors, greater visibility of revenue forecasting and stronger audit compliance—alleviating headaches and allowing business leaders to focus on more strategic business management goals.

The benefits of revenue intelligence and ERP integration include:

- **Increase productivity** through ease of use, process automation, scalability and standardization
- **Reduce risks** associated with a reliance on spreadsheets, manual processes, accounting errors and restatements
- **Ensure timely revenue recognition** and a faster close process
- **Gain accuracy and visibility** into revenue forecasts, revenue recognition and financial reporting
- **Improve revenue accounting compliance** and decrease costs associated with audits
- **Achieve a positive return** on investment (ROI)



ABOUT ARMANINO^{LLP}

Armanino is one of the largest Microsoft Dynamics partners in the nation as a value-added reseller (VAR) and implementation partner for Microsoft Dynamics 365 for Operations, GP and CRM. Additionally, the firm offers the Microsoft Dynamics 365 for Operations for High Tech Industries™ Certified for Microsoft Dynamics (CfMD) solution. This proprietary product helps technology companies, including software & internet, semiconductor, medical device, pharmaceutical and electronics manufacturers, to empower their sales forces, cut costs and time-to-market, improve forecast accuracy, and manage distributor relationships and supply chains. As a Microsoft Inner Circle partner, Armanino is among the top 1% of partners in the world.

Armanino^{LLP} (amllp.com) is the largest independent accounting and business consulting firm in California and the 29th largest firm in the U.S. Armanino provides an integrated set of audit, tax, consulting and technology solutions to companies in the U.S. and globally. The firm helps clients adapt and change in every stage of business from start-up through rapid growth to the sale of a company. Armanino emphasizes smart technology; leading a cloud revolution of financial, operational, sales, and compliance tools that are transforming the way companies do business. Armanino extends its global services to more than 100 countries through its membership in Moore Stephens International Limited – one of the world's major accounting and consulting membership organizations.

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