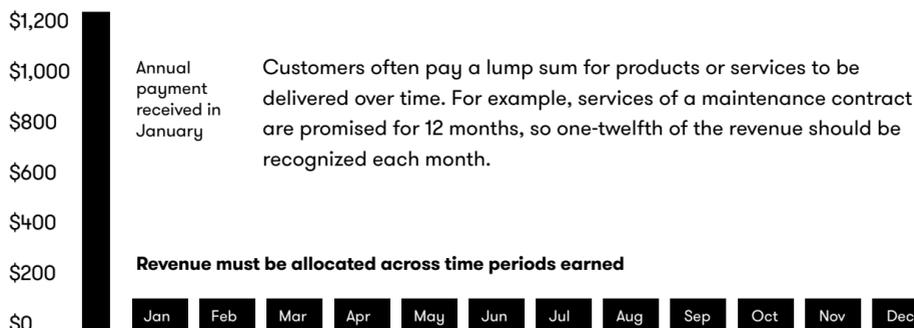**DXC.technology**

The hidden dangers of recurring revenue

Recurring revenue has become the gold standard for the digital age, providing stable income streams through subscriptions, contracts and projects. But the SEC, FASB and AICPA accounting standards that govern revenue recognition are complex, requiring careful navigation aided by systems that adapt to change.

The concept of revenue recognition

$1,200
$1,000
$800
$600
$400
$200
$0

Annual payment received in January

Customers often pay a lump sum for products or services to be delivered over time. For example, services of a maintenance contract are promised for 12 months, so one-twelfth of the revenue should be recognized each month.

Revenue must be allocated across time periods earned

| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |

Navigating the regulations is the hard part

Most enterprise resource planning (ERP) systems don't handle complex revenue recognition

To meet complex — and evolving — regulatory requirements, companies need a system that automates end-to-end functions for multi-element arrangements.

77%
of non-public companies have not completed assessing the impact of new revenue recognition standards[1]

Identify performance obligations of contracts

Revenue must be recognized in accordance with the obligations promised to the customer as opposed to the timing of their payment.

Complex billing and revenue processing scenarios

Variable consideration, like a performance bonus, must be recognized across the contract term, not just when earned — even for potential revenue.

2% to 4%
of gift cards go unredeemed[2]

Bundled products and services

To simplify purchases for customers, companies combine a set of services (software and support) or products and services (maintenance contract). Accurate reporting requires deliverables to be recorded separately across the contract time.

Cancellations, price adjustments and add-ons

Changes to long-term contracts and purchase orders requires reallocation of revenue recognition to account for the adjustments.

Complex reporting requirements

Companies have to go through the tedious process of calculating the fair value of items. That "standalone basis" becomes the value applied to determine cost allocation on contracts and other payment arrangements.

2019
is the FASB's deadline for ASC 606 compliance for non-public companies

Adequate preparation for audits

Evolving standards and regulations make preparation for audits a moving target.

Sources:
[1] https://www.pwc.com/us/en/services/audit-assurance/accounting-advisory/revenue-recognition/poll-results.html
[2] http://www.auditanalytics.com/blog/gift-card-breakage-asc-606/

Effective, accurate revenue recognition

DXC Revenue Recognition, built on the Microsoft Dynamics platform, provides effective and accurate revenue recognition for payment arrangements to comply with complex regulatory requirements. The DXC Eclipse practice within DXC Technology has the experience to help you offer customers the payment flexibility they want without cumbersome internal accounting processes.

Get direct access to our Business Consulting team today.

1.877.744.1360
www.dxc.technology/DXCEclipse

DG_2342a-20. September 2019