

# Revenue Management

Oracle® Revenue Management Cloud is a centralized, automated revenue management product that enables you to address revenue as defined in the ASC 606 and IFRS 15 accounting standard for Revenue from Contracts with Customers. The product provides a configurable framework to automate the identification and creation of customer contracts and performance obligations, their valuations and resulting accounting entries, and the ability to recognize the revenue over time or at a point in time.

## SEAMLESS AND COMPREHENSIVE BUSINESS SOLUTION

Oracle Revenue Management Cloud is an application that enables you to manage customer contracts and performance obligations easily to help you address the revenue mandates of the ASC 606 and IFRS 15 accounting standard.

Oracle Revenue Management Cloud is a Service which is part of Oracle Enterprise Resource Planning (ERP) Cloud Service and has the capability to work with any source application. The Service accesses data from and publishes to both Oracle ERP Cloud Service and with Oracle E-Business Suite. Robust data integration is available with third party applications. Integrated data includes sales orders, sales invoices, and other relevant sales and fulfillment data. Sales cycle data from various source systems is processed automatically and managed centrally in Oracle Revenue Management Cloud.

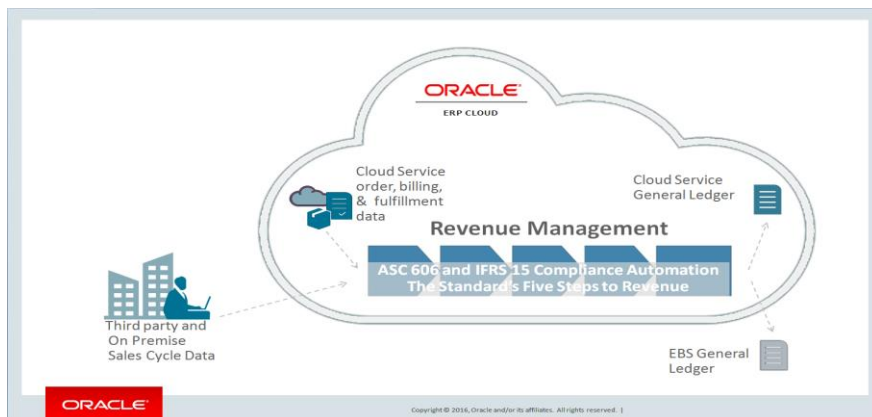


Figure 1. Oracle Revenue Management Cloud Functional Architecture Overview

### Key Features

Oracle Revenue Management Cloud provides:

- Centralized repository for ASC 606 and IFRS 15 sales cycle compliance
- Support for "point in time" and "over time" revenue recognition
- Ability to recognize revenue independently of billing

Automation through:

- Identification and creation of customer contracts and performance obligations
- Valuation of customer contracts and performance obligations
- Observation of Standalone Selling Price (SSP), or upload of SSP or Estimated Selling Price
- Revenue allocation across performance obligations within each contract

## ENSURE AUTOMATED, EFFICIENT COMPLIANCE WITH ASC 606 AND IFRS 15

In all enterprises, revenue is an important driver of business success. It is closely defined, and compliance with definition is highly scrutinized. Ensuring compliance with the 2014 FASB & IASB definitions, particularly the recognition criteria and valuation considerations, present control challenges. Accounting for contract assets and liabilities, and accruing at inception rather than deferring revenue when invoiced, are new practices with new risks.

The ASC 606 and IFRS 15 accounting standard replaces the former principle with a new core principle for recognizing revenue: "Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expected to be entitled in exchange for those goods or services." It also outlines five logical steps to accomplish that as shown in figure 2 below.

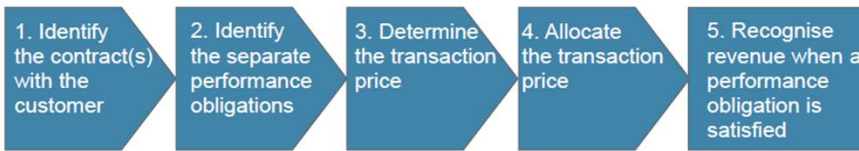


Figure 2. ASC 606 and IFRS 15 – Five steps to apply the core principle

Oracle Revenue Management Cloud automates these revenue processing tasks thus minimizing manual interventions, and allowing organizations to comply efficiently and consistently with the ASC 606 and IFRS 15 core principle.

### Identify the Contracts and the Distinct Performance Obligations

Oracle Revenue Management Cloud imports, processes and stores data related to the sales cycle - orders, customer contracts, receivable data, point of sale data, shipping, traffic and other satisfaction data, et cetera, from the Oracle ERP Cloud Service, from Oracle E-Business Suite, or from third party systems. It stores that sales cycle data in a central revenue repository. It analyses the data, and uses configurable rule engines to identify and create performance obligations and accounting contracts. Contract and performance obligation identification rules can easily be configured in the system by your revenue managers or revenue analysts.

Number	Classification	Satisfaction Method	Satisfaction Status	Full Satisfaction Date	Selling Amount	Obligation Amount	Revenue Recognized	Billed	Extended SSP	Identification Rule
1	Maintenance	Allow partial	Fully satisfied	8/31/17	0.00	252.15	252.15	0.00	300.00	Maintenance
2	Hardware	Require complete	Fully satisfied	5/24/17	200.00	168.10	168.10	200.00	200.00	Computers and Accessories
3	Hardware	Require complete	Fully satisfied	6/1/17	6,600.00	6,387.73	6,387.73	6,600.00	7,600.00	Computers and Accessories
4	Hardware	Require complete	Fully satisfied	5/24/17	50.00	42.02	42.02	50.00	50.00	Computers and Accessories

Figure 3. Review automatically-generated Contracts and Performance Obligations

### Key Business Benefits

Oracle Revenue Management Cloud enables you to:

- Easily adopt and implement revenue processes enabling ASC 606 and IFRS 15 compliance
- Automate the ASC 606 and IFRS 15 processes, increasing productivity, and reducing risk of error
- Integrate sales cycle data from third party source applications, E-Business Suite, and Oracle ERP Cloud
- Review contract exceptions to ensure best-practice compliance and consistency
- Enhance the user experience and improve efficiency with productivity tools
- View streamlined revenue management information on contracts and performance obligations via actionable user interfaces

## Determine the Transaction Price

Oracle Revenue Management Cloud determines the transaction price by totaling the order values of all orders included in an identified accounting contract, including supplied estimates related to variable consideration.

## Allocate the Transaction Price

ASC 606 and IFRS 15 generally require that, at contract inception, the total expected consideration is allocated to the performance obligations using the relationship of the total transaction price to the total actual or estimated similar and separate sale standalone selling prices. This way, any discount or discounted goods or services are spread over the performance obligations.

**Table 1: An Example on How to Allocate the Transaction Price**

IDENTIFIED TRANSACTION AND ITS IDENTIFIED PERFORMANCE OBLIGATIONS	TOTAL TRANSACTION PRICE (PER ORDER)	TOTAL STAND-ALONE (SSP) OR ESTIMATED SELLING PRICES (ESP)	RELATIVITY OF TOTAL SSP/ESP TO TOTAL TRANSACTION PRICE	EXPECTED CONSIDERATION (PERFORMANCE OBLIGATION AND REVENUE VALUATION)
Performance Obligation 1	40	45		87% of 45= 39
Performance Obligation 2	60	55		87% of 55= 48
Performance Obligation 3	0	15		87% of 15= 13
Total SSP / ESP		115	100/115 = 87%	
Total Transaction Price / Consideration	100			100

The transaction in the example above is discounted by 13% (15 out 115), and that discount is applied evenly to each performance obligation.

In order to allocate the transaction price, the relevant similar and separate sale standalone selling prices or estimated selling prices must be identified.

Oracle Revenue Management Cloud automates the observation of separate standalone selling price (SSP) based on imported historical standalone transactions and user configurable rules. It can estimate SSPs using the cost plus, adjusted list and residual methods.

Organizations can identify a different SSP based on how they price and stratify their customer data – identifying similar sales. For example, SSP can vary by region, deal size, customer type, etc. Oracle Revenue Management Cloud offers multiple dimensions to stratify and maintain these prices.

Establish observed SSP or ESP on a quarterly, bi-annual, or annual basis and determine the effective period for these prices to be used for revenue allocation across performance obligations in accounting

## Related Products

Oracle Revenue Management Cloud shares data with:

Oracle Enterprise Resource Planning Cloud products:

- Enterprise Contracts and Project Billing
- Receivables
- Subscription Management
- General Ledger

Oracle E-Business Suite products:

- Order Management
- Projects
- Receivables
- Service Contracts
- General Ledger

contracts.

You can also easily upload SSP or estimated selling price (ESP) with spreadsheet integration using Oracle Applications Developer Framework Desktop Integrator. In addition, you can feed in Unit SSPs with source lines when integrating revenue basis data with Revenue Management.

### **Recognize the Revenue when Performance Obligation is Satisfied**

Oracle Revenue Management Cloud values the performance obligations and generates accounting entries for contract liabilities, contract assets, allocation discount and eventually, revenue.

Oracle Revenue Management Cloud utilizes a powerful subledger accounting rules engine which enables you to generate accounting entries for multiple ledgers, such as primary or secondary ledgers.

It generates a true sub-ledger to Oracle ERP Cloud and to Oracle E-Business Suite, and publishes the sub-ledger data to General Ledger.

The Service accrues the ASC 606 and IFRS 15 performance obligation liability when either party acts, and derecognizes that liability when the goods or services are transferred to the customer and revenue is recognized.

Oracle Revenue Management Cloud recognizes revenue on successful transfer and measured satisfaction of the promised goods and services to the customer, in the value of the performance obligation. Performance obligations are identified and revenue recognized as either Point in Time or Over Time.

Business events or satisfaction events drive revenue recognition.

The separation of revenue from billing ensures that revenue recognition can be managed and processed independently of billing. The flexibility of separate revenue and billing cycles ensures that both revenue recognition and billing processes are compliant with regulations and consistent with business practices.

Billing decrements the performance obligation asset value when the invoice is issued. The difference between the billing amount and the revenue amount is handled as activity on the contract discount on the balance sheet, either by reclaiming discount granted at inception, or by funding revenue for discount granted at the close of the transaction.

Oracle Revenue Management Cloud provides a full audit trail of the lifecycle of revenue activities offering visibility and continual monitoring of all aspects of the revenue recognition process.

### **Update Performance Obligations or Modify a Contract**

Expected consideration, being variable, is estimated at inception and will have to be updated and the contract revalued as the facts become clear. Contract modification will cause revisions and re-allocations too. Oracle Revenue Management Cloud enables you to easily feed in such updates, track the revision intent, and if necessary terminate a performance obligation, and add a new performance obligation to an existing accounting contract.

If updates to a performance obligation in a contract are material Revenue Management Cloud will reverse the original revenue recognized and generate new accounting entries based on the allocated amounts following the revision. If, however, the updates are immaterial, Revenue Management Cloud can optionally apply the changes to revenue prospectively to open and new performance obligations only, subject to the availability of the remaining revenue to accommodate the immaterial write off.

You can also identify and automatically write off residual account balances that may arise due to

rounding or other issues, including immaterial transaction changes, by creating the necessary accounting journals to clear the account balances.

### Address Performance Obligation Variations for Subscription Services

Oracle Revenue Management Cloud provides the ability to automatically renew customer contracts when the initial service term ends without receiving a new sales order line for each renewal. You can either renew the original accounting contract or convert it to new periodic accounting contract, such as a month-to-month contract. A new accounting contract is created for designated lines for the period and amount, as indicated on the initial accounting contract. A new accounting contract is created at the end of each service period until terminated. You can easily review related contracts via reporting and online search, by searching for the Contract Group Number that you had defined or the system had generated.

You also have improved control over satisfaction events for period-based revenue contract lines, such as the ability to suspend, reverse, and reinstate them.

Oracle Revenue Management Cloud enables you to devolve a period based overtime performance obligation into a series of Devolved Performance Obligations for a number of accounting periods. Each Devolved Performance Obligation is processed as if it is a separate performance obligation, which limits the contract liability accrual to only the amount of the corresponding accounting period. For instance, an overtime performance obligation may be for a year’s service subscription spend over 13 accounting periods, and the sales contract’s Terms and Conditions accommodate canceling the subscription at any time. This feature enables you to have the system generate 13 Devolved Performance Obligations amounts based on days of beginning and end partial periods along with eleven in between periods evenly divided. Hence, the contract liability accrual is limited to the devolved amount for the corresponding accounting period.

The integration with Subscription Management Cloud enables you to automate your revenue recognition process for subscription services based on your policies reflecting the ASC 606 and IFRS 15 accounting standard.

### Increase Productivity and Efficiency

Once you have verified your revenue management configuration you can focus your efforts only on customer contracts of significance, and contracts with exceptions.

Oracle Revenue Management Cloud provides a centralized work area that provides a holistic view of all accounting contracts that require attention and user action from a central location. You are notified about the status of customer contracts without having to navigate to multiple pages.

Number	Date	Freeze Date	Allocation Pending Reason	Transaction Price	Currency	Effective Period	Classification	Identification Rule	Ledger
47	01/12/17	11/12/17	SSP not available	1,469.44	USD	Quarter 4-2017	01/10/17 - 31/12/17	Telecommunication	US Primary Ledger
49	01/12/17	11/12/17	SSP not available	1,497.44	USD	Quarter 4-2017	01/10/17 - 31/12/17	Telecommunication	US Primary Ledger
50	01/12/17	11/12/17	SSP not available	1,411.44	USD	Quarter 4-2017	01/10/17 - 31/12/17	Telecommunication	US Primary Ledger

Figure 4. Centralized work area highlighting contracts that require your attention

The centralized work area contains three tabs:

- The Pending Review tab lists customer contracts with total transaction price over a certain threshold

amount (significant value contracts).

- The Pending Allocation tab lists customer contracts where SSP or ESP is not available for allocation across performance obligations.
- The Pending Revenue Recognition tab lists customer contracts awaiting the appropriate data to recognize the revenue.

You can review these pending contracts and take direct action to ensure the relevant contracts are updated with required information to ensure the contracts are released from hold and processed by the system.

By pushing actionable information to you, it eliminates the need to run multiple queries or search for data; you will know exactly what to do the moment you log on.

Additionally, productivity tools such as extensive spreadsheet integration, and embedded collaboration tools ensure increased efficiency within the revenue department.

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