Rebuilding revenue – Accounting and reporting trends in revenue

May 19, 2021

Six operational levers to grow revenue

Reset segmentation roles and coverage models

Update customer and product segmentation models to realign sales coverage, marketing spend

Adopt new revenue models

Explore opportunities to develop opex pricing models through use of software add-ons, new service offerings, partnerships or LoT plays

Enhance digital engagement capabilities

Level-up eCommerce, digital marketing, product features and workforce skillsets to better engage customers through virtual channels

Implement creative and dynamic pricing

Leverage digital tools (e.g., deal desk, AI/ML pricing, customer 360) to integrate customer insights into the pricing processes

Accelerate and automate business processes

Identify opportunities to improve sales, pricing and product development processes through (e.g., co-innovation, agile product development)

Evolve offering portfolio

Simplify product, service and feature portfolio to facilitate bundling; explore opportunities to expand along the hardware/ software spectrum

*To learn more, listen to the full podcast: “Forecast 2021: 6 operational changes to increase top line revenue.”

Revenue contract modifications

Distinct good or service	Standalone selling price	Impact
✓	✓	Separate contract: Prospective, impacting new goods or services only
✓	✗	Cancellation and new contract: Prospective, impacting both remaining and new goods
✗	N/A	Cumulative catch up

Payments to customers

Presentation

Payments made to a customer reduce the transaction price of the revenue contract unless:

- Paid in exchange for a distinct good or service received from the customer
- Amount does not exceed the fair value of those goods or services

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Timing

Payments that reduce transaction price are recorded at the later of when:

- The company recognizes revenue for the related goods or services
- The company pays or promises to pay the consideration

Example – Payments to customers

Assumptions

- Company A enters into a 3-year, non-cancellable contract to provide IT outsourcing services to a new customer.
- Company A agrees to make a $1 million up-front payment to the new customer to help defray the customer's set up costs related to the contract.

How should Company A account for the payment?

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How should Company A account for the payment?

Analysis

- The payment is not in exchange for a distinct good or service.
  – Recorded as a reduction of the transaction price of the contract.
- Company A would likely record an asset for the payment (assuming it is recoverable) and reduce revenue as the services are provided to the customer over the contract period.

Example – Trial periods

Assumptions

- Company B offers to provide 3 months of free service on a trial basis to potential customers.
- At the end of the trial period, a customer signs up for a non-cancellable 12-month service contract for $1,200.

How should Company B recognize revenue for this transaction?

Example – Trial periods

Assumptions

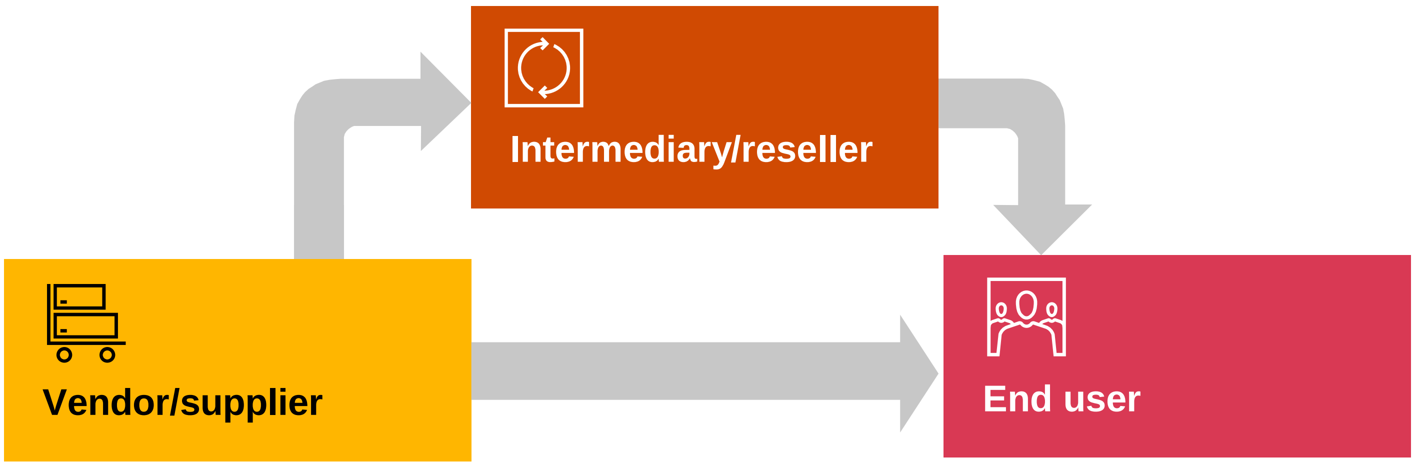
- Company B offers to provide 3 months of free service on a trial basis to potential customers.
- At the end of the trial period, a customer signs up for a non-cancellable 12-month service contract for $1,200.

How should Company B recognize revenue for this transaction?

Analysis

- A contract does not exist until the customer commits to the 12-month contract; no revenue is recognized during the trial period.
- Company B should recognize the transaction price of $1,200 on a prospective basis over the 12 month subscription term (i.e., $100/month).

Principal versus agent



- The principal versus agent guidance in ASC 606 applies to revenue arrangements that involve **three or more parties**.
- The guidance is applied from the perspective of an **intermediary** in a multi-party arrangement.
- Significant judgment is often required to determine whether an **intermediary** is
  - the **principal** for providing goods or services to an end user ("gross" reporting), or
  - an **agent** arranging for those goods or services to be provided by another party ("net" reporting).
- An intermediary is the principal if it **controls** the goods or services before they are transferred to the end user.

Thank you

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