



PUBLIC

How to Recognize Revenue According to IFRS in SAP Business One

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Purpose

SAP Business One target customers mostly sell goods and services. Revenue recognition rules define the conditions when the revenues can be recognized. The following example documents the typical case relevant for the end of financial period (year/quarter/month). It is vital to recognize the revenue correctly for the preparation of Financial Statements.

Glossary

Term	Abbreviation	Description	Differences in Usage (General –SAP Business One)
IFRS	International Financial Reporting Standards	International Financial Reporting Standards (IFRS) are Standards, Interpretations and the Framework for the Preparation and Presentation of Financial Statements (in the absence of a Standard or an Interpretation) adopted by the International Accounting Standards Board (IASB).	N/A
Local GAAP	Generally Accepted Accounting Principles	Generally Accepted Accounting Principles (GAAP) is the term used to refer to the standard framework of guidelines for financial accounting used in any given jurisdiction.	N/A
IAS 18	International accounting standard 18 – Revenue recognition	The objective of IAS 18 is to prescribe the accounting treatment for revenue arising from certain types of transactions and events.	N/A

Revenue recognition

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Revenue from the **sale of goods** shall be recognized when all the following conditions have been satisfied:

- (a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the **rendering of services** can be estimated reliably, revenue associated with the transaction shall be recognized by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits associated with the transaction will flow to the entity;
- (c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Possible Business Scenario

Scenario description

In this example, our company uses SAP Business One and is located in UK. We sell goods to various countries within the European Union, but also to Russia and China. Goods are generally transported by ship so the delivery might take from several days to several weeks.

Local legislation may require recording of the revenues when they are paid or when the Invoice is issued. This is in contrary to IFRS requirements. As a consequence, the accountant needs to formulate a procedure to ensure that the delivery conditions (aka Incoterms, International Chamber of Commerce: http://www.iccwbo.org/incoterms_faq/#1) are met and the revenues can be recognized.

Scenario Solution

The SAP Business One user can employ the following procedure for filtering and subsequent analysis of the documents in relation to correct revenue recognition. Since there is a need to monitor the values on specific accounts, the recommendation is to divide the G/L accounts in the Chart of Accounts into three groups:

Group 1: for Local legislation

Group 2: for IFRS

Group 3: for Common purpose

Precondition: all existing accounts are created based on the local legislation, such that there is a need to create only specific IFRS accounts. Using our example from the scenario above, the following accounts would have to be created:

- a. IFRS revenue correction account
- b. IFRS offsetting account

Our company has contracts specifying the delivery conditions with our customers. Based on these contracts, our accountant can identify the potential combination of the Incoterms and the country. The Reference Fields Link between AR Invoice (Administration – Setup – Reference Fields Link) and its accounting entry will be adjusted accordingly:

Reference Field Links - Setup

Document	Subdocument	Ref. Links Status
A/R Invoices		Customized
A/R Credit Memos		
Deliveries		
Returns		
A/P Invoices		
A/P Credit Memos		
Goods Receipt PO		
Goods Return		
Incoming Payments		
Outgoing Payments		
Goods Receipt		
Goods Issue		
Inventory Transfers		
Landed Costs		
Inventory Revaluation		

Reference Field Links - Definition - A/R Invoices

#	Field Name	Field Value	Default Value
1	Reference 1 - Header	Document Number	Document Number
2	Reference 2 - Header	Customer Ref. No.	Customer Ref. No.
3	Reference 3 - Header	Not Defined	Not Defined
4	Reference 1 - Row	Document Number	Document Number
5	Reference 2 - Row	Customer Ref. No.	Customer Ref. No.
6	Reference 3 - Row	Not Defined	Not Defined
7	Reference 1 - Row	Customer Ref. No.	Customer Ref. No.
8	Reference 2 - Row	Installation Number	Installation Number
9	Reference 3 - Row	Not Defined	Not Defined
10	Country - BP Row	Ship-to Code	Not Defined
11	Country - Row	Ship-to Code	Not Defined
12	Incoterms - BP Row	Incoterms - UDF	Not Defined
13	Incoterms - Row	Incoterms - UDF	Not Defined

Journal entry fields (rows 10-13)

Document fields (rows 10-13)

- In this example, incoterm 'DES' (Delivered Ex. Ship) indicates that goods are delivered to the port from which the time of transport is normally 2 weeks. Our company captures the information relating to the destination country and associated incoterms to the document using user-defined fields on header level. Using the new reference links functionality then maps this data to the related journal entry.

The screenshot displays two SAP Business One windows: 'A/R Invoice' and 'Journal Entry'.

A/R Invoice - General Tab:

- Customer: C1
- No.: Primary 5
- Status: Open
- Posting Date: 02.12.10
- Due Date: 18.12.10
- Document Date: 02.12.10
- Incoterms: Delivered Ex Ship

A/R Invoice - Logistics Tab:

- Ship to: Russia
- MOSCOW RUSSIAN FED.

Journal Entry - Grid:

#	G/L Acct/B...	G/L Acct/BP Name	Debit	Credit	Base Amount	Distr. Rule	Country	Incoterms
1	C1		GBP 960.00				Russia	DES
2	207000	VAT Payable (output		GBP 0.00	GBP 960.00		Russia	DES
3	410000	Sales Revenue (Foreign		GBP 960.00			Russia	DES
4	130000	Raw Materials		GBP 100.00			Russia	DES
5	500005	Raw Materials - Cost of	GBP 100.00				Russia	DES

3. Within the 'Expanded Selection Criteria' of the General Ledger (or Document Journal) report the additional parameters for restricting by user-defined fields enables the accountant to screen for the exact documents that are of interest. Here the relevant criteria from the AR Invoice are 'Incoterm' and 'Country'. Since these incoterms specify a delivery time of 2 weeks, the 'Posting Date' range is adjusted accordingly. Based on this analysis, taking the actual delivery of the goods and destination into account, the respective revenue recognition adjustment can be made to IFRS G/L accounts.

General Ledger - Selection Criteria

Business Partner Accounts Find 5

#	x	Account
210		400010 - Sales Revenue
211		400020 - Sales Revenue
212		400030 - Sales Revenue
213		400041 - Foreign Sales
214		410001 - Sales Revenue
215		410002 - Sls. Rvn.
216	x	410003 - Sls. Rvn. (Third)
217		410000 - Sales Revenue

Selection: Posting Date From 01.01.2010 To 31.12.2010
 Due Date From 01.01.2010 To 31.12.2010
 Document Date From 01.01.2010 To 31.12.2010 Expanded

Expanded Selection Criteria

Original Journal: A/R Invoice

Parameters: User-Defined Fields

User-Defined Fields

#	Field	Rule	Value	To Value
1	Country (Row)	Equal	Russia	
2	Incoterms (Row)	Equal	DES	

General Ledger									
Posting Date	Due Date	Series	Doc. No.	Trans. No.	Remarks	Credit (LC)	Cumulative Balance (LC)	Country (Row)	Incoterms (R..)
Turnover	⇒ 410003				Sls. Rvn. (Third C		-900,00 GBP		
⇒ 02.12.10	02.12.10	Primary	⇒ IN 10	20	A/R Invoices - Cu	960,00 GBP	-1.860,00 GBP	Russia	DES
⇒ 02.12.10	18.12.10	Primary	⇒ IN 11	21	A/R Invoices - Cu	900,00 GBP	-2.760,00 GBP	Russia	DES
							1,860.00 GBP		

- 4. Thus, the accountant is able to check and validate the values in the respective IFRS G/L accounts and verify the closing balances. In the example above the amount of 1860 EUR is excluded from overall balance of 2760 EUR.

Authorizations

For information about the authorizations required for Reference links and User-defined fields setup see the online help as well as the document *How to Define Authorizations*, which you can download from the documentation area of SAP Business One Customer Portal at <http://service.sap.com/smb/sbocustomer/documentation>.

Other Reference Materials

For more information about IFRS and its application in SAP Business One, see the white paper **SAP Business One in an IFRS Environment** at

<http://service.sap.com/~sapidb/011000358700001182792009E.pdf> or visit

<http://channel.sap.com/sbo/ifrs> (Channel Partners only).

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