**SAP Business One
How-To Guide**

How to Recognize Revenue According to IFRS in SAP Business One

Release Family 8.8

Applicable Release:

SAP Business One 8.81 and higher

All Countries

English

January 2011

THE BEST-RUN BUSINESSES RUN SAP

Table of Contents

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:

2. 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.

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.

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).

Copyrights, Trademarks, and Disclaimers

Disclaimer

The information in this document is proprietary to SAP. No part of this document may be reproduced, copied, or transmitted in any form or for any purpose without the express prior written permission of SAP AG.

This document is a preliminary version and not subject to your license agreement or any other agreement with SAP. This document contains only intended strategies, developments, and functionalities of the SAP® product and is not intended to be binding upon SAP to any particular course of business, product strategy, and/or development. Please note that this document is subject to change and may be changed by SAP at any time without notice.

SAP assumes no responsibility for errors or omissions in this document. SAP does not warrant the accuracy or completeness of the information, text, graphics, links, or other items contained within this material. This document is provided without a warranty of any kind, either express or implied, including but not limited to the implied warranties of merchantability, fitness for a particular purpose, or non-infringement.

SAP shall have no liability for damages of any kind including without limitation direct, special, indirect, or consequential damages that may result from the use of these materials. This limitation shall not apply in cases of intent or gross negligence.

The statutory liability for personal injury and defective products is not affected. SAP has no control over the information that you may access through the use of hot links contained in these materials and does not endorse your use of third-party Web pages nor provide any warranty whatsoever relating to third-party Web pages.

The current version of the copyrights, trademarks, and disclaimers at
http://service.sap.com/smb/sbocustomer/documentation is valid for this document.

For further information on SAP and ERP:

What is SAP?
https://innormax.com/what-is-sap-and-why-is-it-used/

What does SAP stand for?
https://innormax.com/what-does-sap-stand-for/

What is ERP?
https://innormax.com/what-is-erp-system-software/

What does ERP stand for?
https://innormax.com/what-does-erp-stand-for/