Setting Up SAP Revenue Recognition : A Comprehensive Guide

Shirish Mane
New Jersey, United States
Kesava Immidi
New Jersey, United States

Abstract— Public corporations are required to report their financial statements based on GAAP/IFRS accounting. Revenue recognition is one of the principles associated with GAAP /IFRS reporting. This principle means that revenue must be recognized at the moment it is earned. This is an important consideration for two reasons. Not only does it prevent businesses from manipulating their financial statement, but it also provides an accurate picture of the financial health of a corporation.

Keywords—SAP Sales & Distribution, SAP SD, Revenue Recognition Methods.

➢ INTRODUCTION

Revenue is one of the major indicators of success for any business. Businesses are guided by some regulations on the way they have to account for and report revenues. Public companies in the U.S. must operate within generally accepted accounting principles, which set out standards regarding how companies must record revenues. This prevents someone from falsifying the books and shows a real view of what exactly has been the company's income position.

➢ Objective

The main objective of the Paper is to study the Revenue Accounting and reporting (RAR) set-up for Enterprise Resource Planning software-SAP.

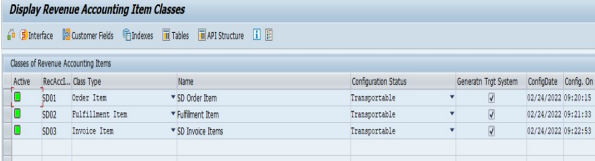## ➢ Revenue Recognition and Reporting (RAR) Set-up in SAP

Revenue Accounting → Inbound Processing → Revenue Accounting Items → Maintain Revenue Accounting Item Classes.

The revenue accounting item class determines the following technical attributes of revenue accounting items:

- Database tables, in which the system saves the revenue accounting items, depending on their status and on the record type they belong to

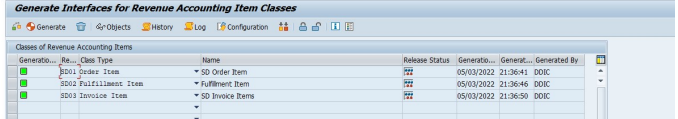- Function modules that receive the revenue accounting items

- Function modules that save the revenue accounting items in the appropriate database tables

Specific fields of revenue accounting items that you have added, either by your selection of interface components, or using customer fields (For more information, see the documentation of the relevant Customizing includes.)
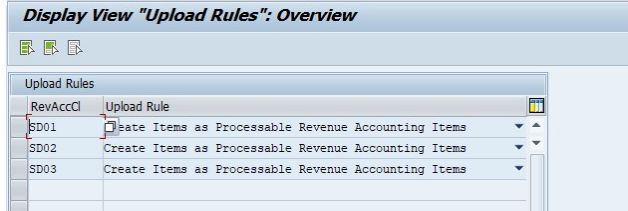

Revenue Accounting → Inbound Processing → Revenue Accounting Items → Generate Interfaces for Revenue Accounting Item Classes

Revenue Accounting → Inbound Processing → Revenue Accounting Items → Assign Upload Rules to Revenue Accounting Item Classes

Revenue Accounting → Inbound Processing → Revenue Accounting Items → Define Modifiable Fields for Revenue Accounting Items

In this activity, you specify which fields of revenue accounting items can be changed dependent on the revenue accounting item class, the record type and the status. If there is incorrect data in these fields of revenue accounting items, you can then correct them manually.

Display View "Maintain Changeable Fields of Rev. Accounting Item Class

Maintain Changeable Fields of Rev. Accounting Item Classes			
RevAccCl	Rec. Type	Status	Field Name
SD01	All Record Types	All Statuses	INITIAL_LOAD
SD03	All Record Types	All Statuses	INITIAL_LOAD
SD03	All Record Types	All Statuses	PINV_COMP
SD03	All Record Types	All Statuses	PINV_ID
SD03	All Record Types	All Statuses	PINV_TYPE

Display View "ID for Decision Table UI": Overview

Decision Table ID Used for Customizi...	BRF Application	Decision Table Name
ADD-ON POB TABLE	ZFARR_AP_SD_PROCESSING	DT_PROCESS_POB_ADD
ALLOCATION ACCOUNT	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_CORR
ALLOCATION ACCOUNT ADD-ON	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_CORR_A
DEFERRED REVENUE	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_DF_REV
POB TABLE	ZFARR_AP_SD_PROCESSING	DT_PROCESS_POB
RECEIVABLE ADJUSTMENT	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_RADJ
RECOGNIZED REVENUE	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_RC_REV
SSP TABLE	ZFARR_AP_SD_PROCESSING	DT_PROCESS_SSP
UNBILLED REVENUE ACCT	ZFARR_ACC_DETERMINATON	FARR_ACCT_DETERMINE_DT_UB_REC

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Define Sender Components

To constitute the link to the source item, from which a revenue accounting item has been retrieved, in this activity, you maintain the sender components and assign them the respective logical systems and source item types.

Display View "Assigned Logical Systems": Overview

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Assign BRFplus

Applications to Revenue Accounting Item Classes In this Customizing activity you assign a BRFplus application to a revenue accounting item class. During processing of revenue accounting items of a specific class, this BRFplus application is used.

Display View "Assign BRFplus to Revenue Accounting Item Classes": Over

Assign BRFplus to Revenue Accounting Item Classes	
RevAccCl	BRF Application
SD01	ZFARR_AP_SD_PROCESSING

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Maintain Decision Table ID for Simplified BRFplus UI

In this Customizing activity, you define decision table ID for a decision table in a BRFplus application. Any decision table that the user wants to maintain using the simplified UI for BRFplus decision tables must be configured in this Customizing activity by assigning a unique decision table ID.

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Define Job Distribution for Parallel Processing

In this Customizing activity, you define the number of jobs running in parallel on the server or server group

Display View "Job Distribution for Parallel Processing": Overview

Job Distribution for Parallel Processing				
Appl.Type	Server	Logon/server group	No. Tasks	Jobs p. WA
FARRIC_OL		parallel_generators	20	0
FARR_CHECK		parallel_generators	20	0
FARR_CLCA		parallel_generators	20	0
FARR_CLLIA		parallel_generators	20	0
FARR_CONTR		parallel_generators	20	0
FARR_CPRP		parallel_generators	20	0
FARR_MC		parallel_generators	20	0
FARR_MIGCT		parallel_generators	20	0
FARR_MIGED		parallel_generators	20	0
FARR_MIPST		parallel_generators	20	0
FARR_POST		parallel_generators	20	0
FARR_PRDL		parallel_generators	20	0
FARR_RADI		parallel_generators	20	0
FARR_RAGL		parallel_generators	20	0
FARR_RAI0		parallel_generators	20	0
FARR_RAI2		parallel_generators	20	0
FARR_RAI2I		parallel_generators	20	0
FARR_RAI4T		parallel_generators	20	0
FARR_RAICK		parallel_generators	20	0

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Define Exemption Reasons for Revenue Accounting Items

In this activity, you define the exemption reasons for revenue accounting items. You can exempt revenue accounting items from processing, for example, if there are issues with the Customizing or the item may be corrupt. The system then moves these items to a separate table which excludes them from ordinary processing.

Display View "Exemption Reasons for Revenue Accounting Items": Overvie

Exemption Reasons for Revenue Accounting Items			
Exemp...	Exemption Reason	StatusGrp	ExempType
Z1	Exempt RAI's	All	It is possible to restore the item

Revenue Accounting → Inbound Processing → Revenue Accounting Item Management → Define Restoration Reasons for Revenue Accounting Items

In this activity, you define restoration reasons for revenue accounting items. You can define separate restoration reasons for revenue accounting items in status "Raw" and revenue accounting items in status "Processable" by setting the status group.

Items can be restored manually in the Monitor for Revenue Accounting Items.
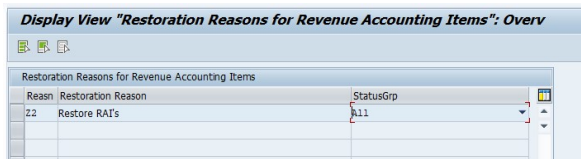
Revenue Accounting → Revenue Accounting Contracts → Configure Accounting Principle-specific Settings

In this Customizing activity, you can perform the following tasks for each specific accounting principle:
- Specify the way that the contract balance is presented.
  You can specify how you would like to present the contract balance, either as contract liability and contract asset, or as unbilled receivable and deferred revenue. For the calculation, refer to Calculation of Contract Liabilities and Contract Assets.
- Specify the local currency calculation method. You can define how transactions in foreign currencies are recognized in local currencies.
- Enable contract modification.
- Enable cost recognition.
- Specify the posting level of the contract liability and contract asset (unbilled receivable and deferred revenue).
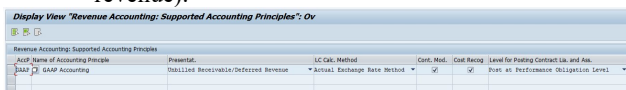
Revenue Accounting → Revenue Accounting Contracts → Assign Company Codes to Accounting Principles

In this Customizing activity, you define which company codes are supported under which accounting principles. For each combination of company code and accounting principle, you specify a legacy data transfer date and a migration status to indicate the date on which Revenue Accounting should be productive for this combination. If granular migration is used, packages can also be assigned and the migration settings can be managed for individual packages, as well.
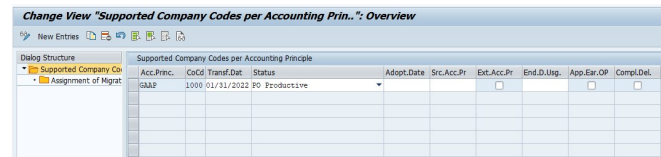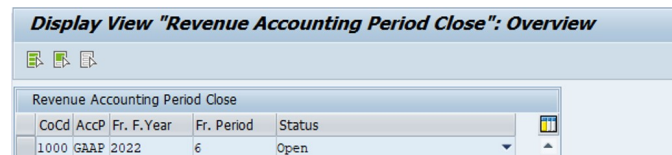

Revenue Accounting → Revenue Accounting Contracts → Open and Close Revenue Accounting Periods

In this activity, you configure whether an accounting period is open for revenue accounting related transactions. The settings in this activity provide a revenue accounting perspective of period closing.

Requirements
- The starting period must be an open posting period as defined in the Open and Close Posting Periods setting in the Customizing for FI. However, depending on the message control customizing, you can control whether violation of this requirement is disallowed or only triggers a warning message.
- The revenue accounting period that you try to open or close cannot be earlier than the transition period (the period that includes the legacy data transfer date).
- The reconciliation keys for previous revenue accounting periods must be closed and all contract liabilities and assets must have been calculated and posted.
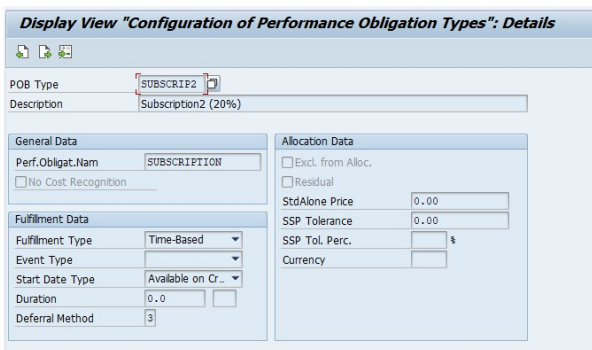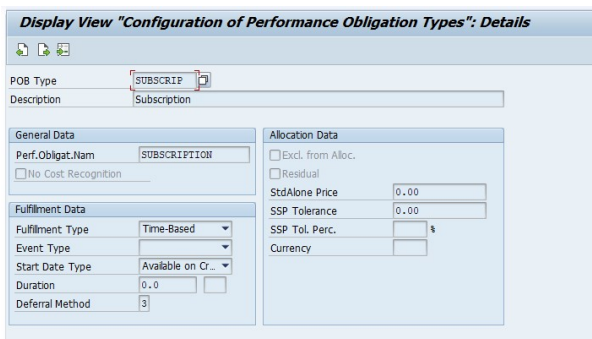

Revenue Accounting → Revenue Accounting Contracts → Define Contract Categories

In this Customizing activity, you can define contract categories and assign number ranges to them. Each contract category is associated with a number range that is used for creating new contracts of that category.
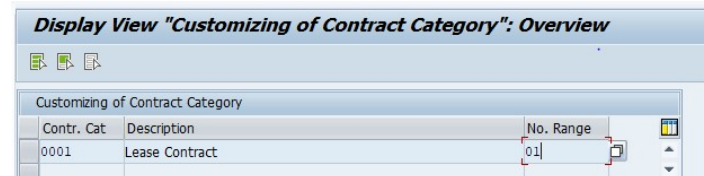
Revenue Accounting → Revenue Accounting Contracts → Define Performance Obligation Types

In this Customizing activity, you can define performance obligation types and their associated attributes. Performance obligations may follow certain patterns. Therefore, you can define a performance obligation type for performance obligations that always have certain attribute values. A performance obligation type is like a template that includes all predefined attribute values to be applied on similar performance obligations. When a user edits a performance obligation, the user can apply a performance obligation type for the system to derive certain attribute values automatically.

Revenue Accounting → Revenue Accounting Contracts → Define Reserved Condition Types

In this Customizing activity, you can define condition types that are reserved for Revenue Accounting.

Allocation Effect

This condition type carries differentials that result from price allocation. When allocating transaction prices for a contract, the system aggregates all pricing conditions and allocates the total amount among the performance obligations in the contract. The system then represents the allocated prices on a differential basis. Without changing the original pricing conditions, the system adds a special condition type that carries the differential resulting from the allocation. For example, if a performance obligation with an original price of EUR 15 is allocated EUR 20, the system represents the allocation result as an original price of EUR 15 and an allocation effect of EUR 5.

Right-of-Return Revenue Adjustment

This condition type carries the amount of revenue that must be deferred to be recognized because of a right of return held by the customer.

Right-of-Return Cost Adjustment

This condition type carries the amount of cost that must be deferred to be recognized because of a right of return held by the customer.
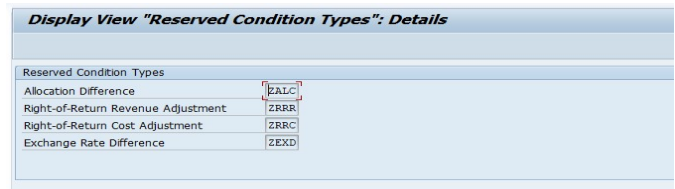
Revenue Accounting → Revenue Accounting Contracts → Change Message Control

In this Customizing activity, you can configure how the system handles certain messages for Revenue Accounting. Each message indicates an exception scenario, not necessarily an error, that occurs during revenue accounting transactions. You can configure whether this message is ignored, handled as a warning, or handled as an error.
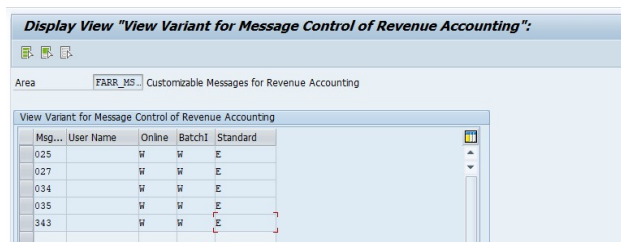
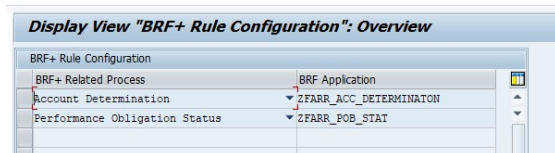Revenue Accounting → Revenue Accounting Contracts → Assign BRF+ Applications to Revenue Accounting Processes

In this Customizing activity, you can assign BRFplus (BRF+) applications to specific processes that require rule-based determination for Revenue Accounting.
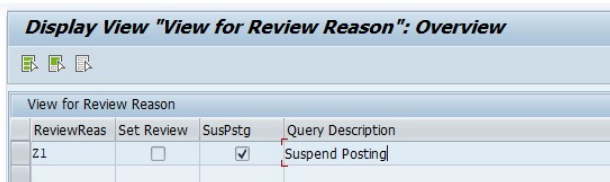
For Account Determination

The BRF+ application that you specify here is the BRF+ application that you can use in the Configure Account Determination for Specific Transactions Customizing activity. You can create your own BRF+ applications and use them for account determination. However, we recommend that you copy from the SAP standard template FARR_ACC_DETERMINE_TEMPLATE.

For Determination of Performance Obligation status

The BRF+ application that you specify here determines the status that is set when a performance obligation is created or updated, depending on certain attributes of the performance obligation. You can use the FARR_POB_STATUS_TEMPLATE BRF+ application as a template.

Display View "BRF+ Rule Configuration": Overview

BRF+ Related Process	BRF Application
Account Determination	ZFARR_ACC_DETERMINATON
Performance Obligation Status	ZFARR_POB_STAT

Revenue Accounting → Revenue Accounting Contracts → Define Review Reasons

Display View "View for Review Reason": Overview

ReviewReas	Set Review	SusPstg	Query Description
Z1	☐	☑	Suspend Posting

Revenue Accounting → Revenue Accounting Postings → Define Posting Specifications for General Ledger Transfer
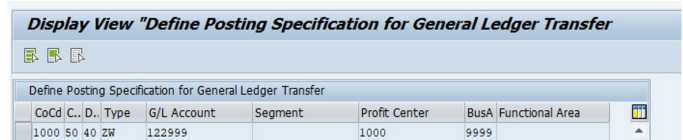
In this Customizing activity, you can define certain specifications for revenue postings for each company code. Posting Keys and Document Types
You can define the posting keys for debit and credit postings and the document type for posting the G/L documents during the transfer of totals records to the general ledger (FI-GL).

You must be able to post to this document type in all companies. The document type specified here is used in all revenue postings in the general ledger where you do not explicitly specify another document type.

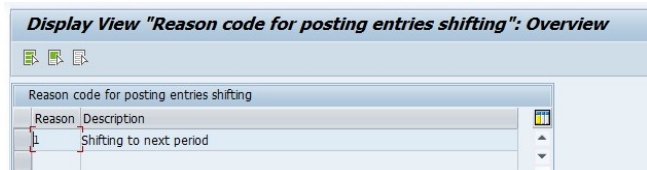Transfer Account for Document Splitting

The number of items that can be included in a G/L document is limited. If the number of items to be posted during the transfer of totals records to the general ledger exceeds this number, it is necessary to split the documents. Typically, the G/L documents created by a document split do not have a balance of zero. You reach a balance of zero for these documents by posting to a transfer account that you specify here.

In addition to the account number, you can enter other account assignment data for the transfer account, such as segment, business area, and profit center in this Customizing activity.

Display View "Define Posting Specification for General Ledger Transfer"

Define Posting Specification for General Ledger Transfer

CoCd	C..	D..	Type	G/L Account	Segment	Profit Center	BusA	Functional Area
1000	50	40	ZW	122999		1000	9999	

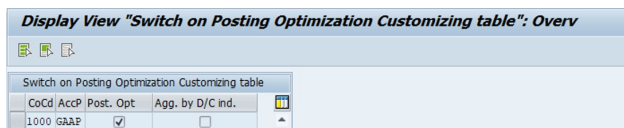Revenue Accounting → Revenue Accounting Postings → Define Reasons for Shifting Periods

In this Customizing activity, you can define the possible reasons for shifting revenue accounting periods. When the accountant runs revenue postings at the end of an accounting period, some issues may prevent the postings from being successfully transferred to the corresponding ledgers. If the accountant cannot solve the issues, they can choose to shift unfinished postings to the next accounting period. When performing such a shift, the accountant must specify a reason that explains why they have to shift the postings.

Display View "Reason code for posting entries shifting": Overview

Reason code for posting entries shifting

Reason	Description
1	Shifting to next period

Revenue Accounting → Revenue Accounting Postings → Switch on Posting Optimization

In this Customizing activity, you can perform the following tasks:

- Switch on optimization for revenue posting when your aggregation level is very low. To reduce the number of G/L documents, Revenue Accounting aggregates the posting items in the revenue accounting subledger as much as possible. Posting items with the same account assignments are aggregated together. As a result, the higher the aggregation level is, the less posting items there are. However, if there is an attribute that is specific for each contract in the posting table, the revenue accounting subledger cannot be fully aggregated. For example, the profitability segment contains a sales order number that is different for each contract. In such cases, we recommend that you enable posting optimization. When this function is switched on, G/L documents are posted and created by a technical parameter KEYPP (0-999). Although the number of G/L documents may increase with this function, your memory consumption may be reduced.

Display View "Switch on Posting Optimization Customizing table": Overv

Revenue Accounting → Revenue Accounting Postings → Assigning Additional Revenue Posting Aggregation Dimensions

In this activity, you can select fields from structure INCL_EEW_FARR_REP. These fields are revenue posting aggregation dimensions.

Display View "Transfer Selected Fields to FI-CO": Overview
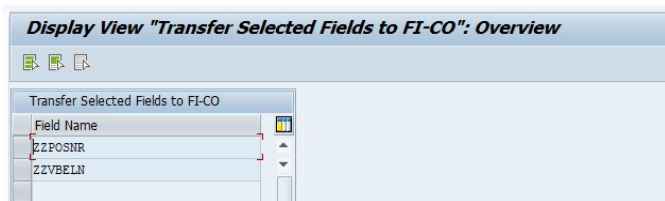
Sales and Distribution → Revenue Accounting and Reporting → Integrate with Revenue Accounting and Reporting

You use this activity to integrate with SAP Revenue Accounting and Reporting with SD

Change View "Activate Integration Component for Revenue Accounting": D
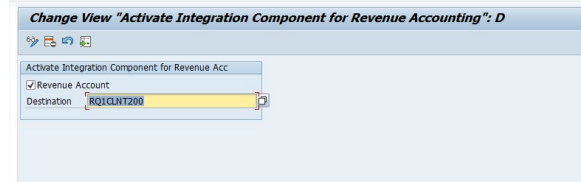
Sales and Distribution → Revenue Accounting and Reporting → Activate Functions to Integrate with Revenue Accounting

Activate Milestone Billing Plans Use

When you activate this flag, the interface between SAP Sales and Distribution and SAP Revenue Accounting and Reporting produces planned invoice information for milestone billing plans.

Activate Service Fulfillment Use

Setting a sales organization to produce fulfillment RAIs (SDFI) when an order relevant for SAP Revenue Accounting and Reporting has nonstock materials like service fulfilled and the cancellation of service fulfilled without creating goods movements.

Display View "Activate Functions to Integrate with Revenue Accounting"
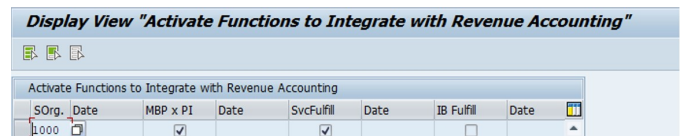
Sales and Distribution → Revenue Accounting and Reporting → Maintain Revenue Accounting Item Settings

Customizing activity to activate revenue accounting for a sales order item based on these parameters:
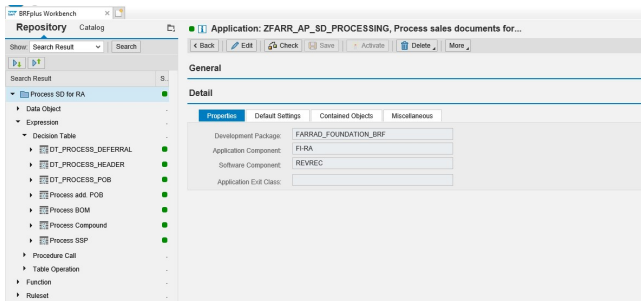
Sales Organization

Sales Document Type

Sales Document Item Category

Display View "Activate Item Categories for Revenue Accounting": Overvi
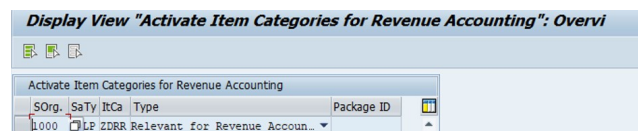
BRF+ Setup for POB Determination

DT_PROCESS_POB → This table is used for determining POB rules based on predefined parameters
DT_PROCESS_POB_ADD → This table is used to define additional POB's which are delivered as part of main POB.
DT_PROCESS_SSP → This table is used for defining the fair value of the product being sold BRF+ Setup for Account Determination
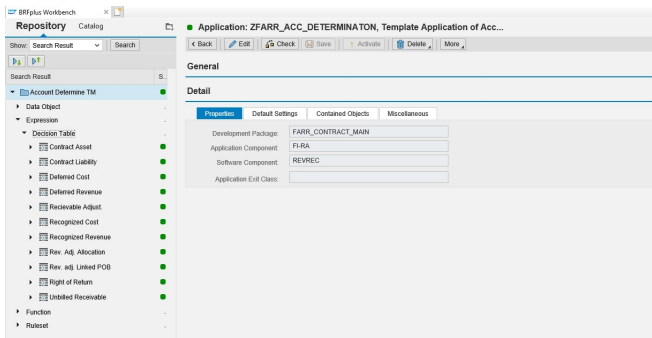
FARR_ACCT_DETERMINE_DT_UB_REC → Account

determination table for determining unbilled receivable account
FARR_ACCT_DETERMINE_DT_CORR_A → Account determination table for determining allocation account for linked POB's
FARR_ACCT_DETERMINE_DT_CORR → Account determination table for determining allocation account for leading POB's
FARR_ACCT_DETERMINE_DT_RC_REV → Account determination table for determining recognized revenue account for POB's
FARR_ACCT_DETERMINE_DT_RADJ → Account determination table for determining receivable adjustment account
FARR_ACCT_DETERMINE_DT_DF_REV → Account determination table for determining deferred revenue account.

CONCLUSION:

Companies may face fines and even sanctions if they are found to have deliberately misstated revenues. Revenues may also be poorly recognized in terms of incorrect forecasts, which complicate the decision-making process for strategic steps. It is, therefore, of utmost importance that revenue reporting is done per standard revenue reporting guidelines, and it is here that SAP system setup plays an important role.

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[1] https://help.sap.com/docs/

[2] https://www.cpajournal.com/tag/revenue-recognition/

[3] Shirish Mane, 2024, Revenue Recognition Method-Overview, INTERNATIONAL JOURNAL OF ENGINEERING RESEARCH & TECHNOLOGY (IJERT) Volume 13, Issue 12 (December 2024),