Rev Up Your Revenue Recognition with EBS R12

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Abstract
11i supported revenue recognition through accounting rules which support defined schedules, but for many companies additional functionality is required. 12.1.3 / 12.2.3 introduces event and contingency based recognition. This presentation explains the old and new methods with examples.

What is Revenue Recognition
Revenue Recognition in Oracle EBS is the process that determines when and how much of each invoice and credit memo can be accounted to the assigned revenue account(s). Revenue Recognition also creates the receivable, tax, freight and AutoInvoice clearing account assignments. Revenue should be recognized when the goods are delivered (or services performed) and cash receipt is reasonably certain.

If you are running Order Management, there is a corresponding process in Oracle Costing that matches COGS (Cost of Goods Sold) to the invoice revenue and recognizes COGS in the same percentage as revenue is recognized.

By default, Oracle recognizes all revenue immediately, i.e. as of the GL date of the transactions. But if your company is subject to any rule that requires revenue to be recognized in the future or over multiple periods, then you should be aware of the three methods provided by Oracle in Release 12
- Accounting Rules
- Event Based
- Revenue Accounting Management (RAM) Wizard

Invoice and Accounting Rules
Invoice Rules govern the recognition of Receivables and are required if using Accounting Rules (which is one method to govern the recognition of Revenue). Oracle seeds two types:
- Bill in Advance – uses the start of the Revenue recognition cycle. The GL Date is changed to the first date of the earliest revenue period (based on the earliest start date entered in the Rules tab of the Lines region)
- Bill in Arrears – uses the end of the Revenue recognition cycle. The GL Date is changed to the either the end date specified in the Rules tab of the Lines region or the same day as specified in the start date in the Rules tab of the Lines region, but in the last period of the schedule

Note: if you have applied 11i.AR.N (patch 5952309), 11i.AR.O (patch 6280258), or patch 635080 for R12.AR.A or R12.AR.B (12.0 or 12.1), then the transaction date is not changed, just the GL Date.

Oracle does not permit user-defined Invoice Rules.

Recognition of Receivables also governs when taxes, freight, and late charges are recognized.

Invoice Rules are defined at the invoice header and are only applicable with the class = ‘Invoice’. Note that Credit and Debit Memos inherit Invoice Rules from the associated invoice. Assigning an Invoice Rule to an invoice tags it for processing by Revenue Recognition. If no Invoice Rule is specified, the Rules tab on the Lines window is disabled and revenue is recognized in total based on the GL date in each line.
If used, the Invoice Rule MUST be specified before clicking Line Items. Note that no changes are allowed to the invoice rule once you have clicked this tab. (Note also that Event Based does not require an invoice rule.) If you specify an invoice rule, you MUST specify an Accounting Rule.

Accounting Rules govern the recognition of Revenue and are specified at the line level. Each line can have a different rule.

Accounting Rules are user defined (Navigation from Receivables Manager: Setup > Transactions > Accounting Rules). Oracle seeds one type – Immediate. This rule assumes the Period Type is Month, but this can be changed. Note that if you use an Accounting Rule with a Period that doesn’t match the Period type specified on the calendar associated with your Ledger, you will receive the error “APP-AR-11228: Please define all periods in which revenue is to be recognized or credited”.

Accounting Rules support four types although you can define multiple rules using each type.

**Fixed Schedule**
The period type and number of periods are entered in the header. Oracle will create a schedule with the % to be recognized evenly divided over each period. However, you can override the percentages as long as the resulting total = 100. You can also specify the date on which to recognize the revenue if you specify ‘Specific Date’ as the period type. NOTE: this is the one exception to the rule that the period type must be the same as the period type assigned to your ledger calendar.

This method is called Fixed Duration in 11i

Oracle seeds the Immediate Accounting Rule. Note that it is defined using the Period type of Month. So if your ledger calendar uses a different period type, make sure you update the period type on this seeded rule.
If you want to delay specifying the revenue recognition schedule, check the Deferred Revenue check box. This will cause revenue to be deferred to an unearned revenue account and you must use the Revenue Accounting Management (RAM) wizard (see later sections of this paper) to recognize the revenue. Using a Fixed Schedule with the Deferred revenue flag checked is not allowed with an Invoice Rule of Bill in Arrears.

**Variable Schedule**

This type is used when the number of periods will not be known until the invoice is entered. Once the number of periods is entered, the percentage for each period will be evenly divided. You do not need to enter anything in the schedule section however, you can set the percentage for the first period and then Oracle will divide the remaining percentage over the other periods.

This method is called Variable Duration in 11i.
Daily Revenue Rate, All Periods
This method divides the revenue by the number of days between the start and end date specified on the invoice line. The revenue is then charged to each period by the number of applicable days in that period.

Daily Revenue Rate, Partial Periods
This method also divides the revenue by the number of days between the start and end date specified on the invoice line. The revenue is charged by day to the first and last period (partial periods). The remaining revenue is divided evenly by the number of full periods and this amount is then charged to each full period.

A schedule is not needed for either Daily Revenue method. Both these types were added to 11i in FP.G via patch 5684129.

The easiest way to demonstrate the difference between the four methods is with an example. We will use a $900 invoice that starts on January 14 and ends on April 13 (90 days). Note that for the Variable Schedule we set the first period to take 20%. And the Fixed Schedule rule specified 4 periods of 25% each period.

<table>
<thead>
<tr>
<th>GL Date</th>
<th>Period</th>
<th>Days in Period</th>
<th>Daily Revenue Rate, All Periods</th>
<th>Daily Revenue Rate, Partial Periods</th>
<th>Fixed Schedule</th>
<th>Variable Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 14</td>
<td>January</td>
<td>18</td>
<td>180</td>
<td>180</td>
<td>225</td>
<td>180</td>
</tr>
<tr>
<td>Feb 14</td>
<td>February</td>
<td>28</td>
<td>280</td>
<td>295</td>
<td>225</td>
<td>240</td>
</tr>
<tr>
<td>Mar 14</td>
<td>March</td>
<td>31</td>
<td>310</td>
<td>295</td>
<td>225</td>
<td>240</td>
</tr>
<tr>
<td>Apr 13</td>
<td>April</td>
<td>13</td>
<td>130</td>
<td>130</td>
<td>225</td>
<td>240</td>
</tr>
</tbody>
</table>

Although there is 90 days between the start and end date, four periods are affected. The Fixed Schedule type specified to take 25% each period, so $900/4 = $225 each period. The Variable Schedule took 20% of the amount for the first period ($180) and then divided the remaining $720 by 3 to get $240 for the remaining 3 periods. The Daily Revenue Rate All Periods divided the $900 by 90 and then multiplied it by the number of days in each period or partial period. The Daily Revenue Rate, Partial Periods divided the $900 by 90 and then multiplied it by the number of days in each partial period ($180 and $130). The remaining amount ($900 - $180 - $130) was divided by the number of full periods yielding $295 for February and March.

Entering Accounting Rule on an Invoice
After Entering the invoice header information (including the Invoice Rule), click the Line Items button. Enter the appropriate information on the Main tab, and then click the Rules tab. This tab is not available if no Invoice Rule is specified, and if you clicked the Line Items button before specifying an Invoice Rule, you cannot go back and add one. If an Invoice Rule was specified, then each line MUST have an Accounting Rule, even if that rule is the seeded rule immediate.
If the rule type is Fixed Schedule, the duration will default in, enter the start date. If the type is Variable Schedule, enter the # of periods. If the type is Daily Revenue Rate, All Periods or Daily Revenue Rate, Partial Periods, enter the start and end date but do not enter duration.

All periods must be defined in your calendar, but they do not have to be open or even Future Enterable. I.e. if you enter duration of 12, then your calendar must have the current period plus the next 11 periods defined. In addition the Period type on the Accounting rule must be the same as your ledger calendar. If any of the above is violated, you’ll see the following error message.

Rules can be changed until Revenue Recognition is run. After that no changes to the rules are allowed.

**Affect on the Transaction**

After entering the invoice, if you click View Accounting, you will see “model” or “place holder” rows.
If your Invoice Rule = In Arrears, Unearned Revenue will be shown as Unbilled Revenue

After Revenue Recognition is run, clicking View Accounting will spread the revenue across the periods based on the Accounting Rules entered for each line. Following is a picture showing part of the lines generated for the second line. The rule stated to spread the revenue across 3 periods so you see three entries for Revenue for $30 with GL dates in 3 different months with corresponding entries for Unearned Revenue for <$30>. Note that this did not delete the line for Unearned Revenue.

Line 1 is still in Unearned Revenue as the Accounting Rule for this line has the Deferred Revenue flag checked. Remember use of rules with this flag require the RAM wizard to recognize the revenue.

MOS notes 1121944.1 “Understanding and Troubleshooting Revenue Recognition in Oracle Receivables” and 1116934.1 “How to Setup and Troubleshoot Invoicing and Accounting Rules” describes how the transaction is recorded in the various tables and provides useful advice for troubleshooting Revenue Recognition when Invoice / Accounting Rules are utilized.

When Rules are Assigned to an Item
Accounting and Invoicing Rules can be assigned to items on the Invoicing tab. They will then be used if an invoice is created by a transfer from Order Management and the item is referenced on the order or when the item is specified on the invoice.
If the invoice is entered manually, the invoice rule must be specified on the header. Obviously a transfer from OM transfers both the invoice and accounting rule.

**Running Revenue Recognition**

Running Revenue Recognition is required if any invoices specify Invoice Rules. Revenue Recognition is invoked:

- **Batch program (Revenue Recognition or Revenue Recognition Master Program)**
- **From Transaction Tools menu (R12 only), Create Accounting – runs Accounting and Revenue Recognition for a specific invoice**
- **Submit Accounting concurrent program (not Create Accounting) (R12)**
- **General Ledger Transfer Program (11i)**

All invoices with accounting rules must pass through revenue recognition, even if the rule is “Immediate”. This is a change from the 11i behavior due to the 11i behavior that caused grouping rules to fail.

The navigation to run the batch program is (from Receivables Manager) Control > Accounting > Revenue Recognition. Choose either ‘Revenue Recognition’ or ‘Revenue Recognition Master Program’ (used for high volume). The parameters for ‘Revenue Recognition’ are ‘Print Format’ (Summary or Detail) and ‘Commit Work’ (Yes or No). For the latter, choose ‘No’ if you wish to review the distributions first in the report (choose Detail) without actually creating these records.

The parameters for ‘Revenue Recognition Master Program’ are ‘Print Format’ (Summary or Detail) and ‘Number of Workers’ (default = 4). Note that you cannot use the latter on a system with less than two processors.

If you choose ‘Create Accounting’ from the Tools menu or the concurrent program ‘Submit Accounting’, note that revenue recognition is not invoked if you choose to run the accounting in Draft mode. When Revenue Recognition is invoked from either accounting process, the report is always in Summary mode. For 11i, Revenue Recognition is also invoked whenever you run ‘General Ledger Transfer Program’ and the Revenue Recognition report is always in Detail mode.

Note that Submit Accounting is not the same program as Create Accounting, although both are run from the concurrent manager. The Create Accounting program does not invoke Revenue Recognition. If you are using this feature, you should always choose to use the ‘Submit Accounting’ program.

**Event Based Revenue**

Sometime revenue cannot be recognized on a predetermined schedule. Sometimes the right to recognize revenue depends on the occurrence of a specific event such as delivery of goods, receipt of payment, or customer acceptance. Release 12 supports this type of recognition through Revenue Policies and Contingencies and Assignment Rules. Events can be:

- **Time Based, i.e. based on passage of time**
- **Payment Based, i.e. based on collection of monies**
- **Others such as Acceptance by Customer or Proof of Delivery**

Setups for Revenue Policies, Contingencies, and Assignment Rules are seeded in the Revenue Management Super User Responsibility (not Receivables Manager). As it is annoying to continually switch responsibilities, the Revenue Management Main Menu (AR_REVMGMT_RDR_MAIN_MENU) can be added to the AR_SETUPS_GUI menu (which is included in the top menu for Receivables Manager). As the AR_REVMGMT_RDR_MAIN_MENU menu does duplicate many of the functions already available to the Receivables Manager responsibility, an alternative is to create a custom menu with the sub-menus and functions not available to Receivables Manager. This resulting menu would look like the following picture.
There are two “Revenue Policy” functions. Pick the one with the Function Name ARRDR_TOP_LEVEL_FUNCTION. Use “Revenue Management Global Menu”, not “Revenue Management Global Menu_G” and use “Contingencies Definition”, not “Contingencies Definition_G”.

**Revenue Policies**

Revenue Policies are a somewhat limited set of rules defined at the Operating Unit level that apply to all invoices in the specified operating unit. If a deviation from policy is detected, Oracle assigns a contingency and thus defers recognition until the contingency expires. Revenue Policies are optional. Contingencies can be created that apply to a smaller subset of invoices, such as a transaction type or even a specific customer. These types of contingencies require an assignment rule to have the contingency applied.

Revenue Policy setups are accessed from the Revenue Management Super User responsibility (Revenue Policy | Revenue Policy). Oracle supports two types of policies: Credit Classification and Policy Thresholds.
As the form states, you can specify up to 3 credit classifications that will cause revenue to be deferred for all invoices for a customer that is assigned the specified credit classification. Remember, policies are operating unit specific and apply to all invoices in that operating unit. The Credit Classification policy assigns the contingency “Customer Creditworthiness” and defers recognition of revenue until payment is received.

There are two types of Policy Thresholds
- Standard Refund Policy – this policy is used for invoices associated with a contract (Oracle Service Contracts). If the contract offers a refund period greater than the value you specify here, the transaction is assigned the contingency “Refund”. Revenue is deferred until the refund period expires.
- Standard Payment Term – this policy causes invoices with a payment term that exceeds the number of days entered to be assigned the “Extended Payment Term” contingency. Revenue is deferred until payment is received.

Suppose an invoice is entered as shown by the following picture. Note that the customer has been assigned a Credit Classification of “New Customer”.

Completing the invoice invokes the Revenue Management Engine which evaluates the invoice against the Policy and applies the Customer Creditworthiness contingency due to the “New Customer” credit classification and applies the Extended Payment Term contingency due to a Payment Term of over 85 days.

The “Contingency Based Deferred Revenue” report will list all invoices with assigned contingencies that prohibit revenue recognition. Contingencies will remain until either they expire (run the Revenue Contingency Analyzer) or they are manually removed using the RAM wizard.
Contingencies

While the policy can assign a Contingency, contingencies can be defined at lower levels such as customer or transaction type (assignment at this level requires defining assignment rules). Each contingency must have a corresponding Removal Event. Oracle seeds 13 Contingencies that cannot be modified, but you can create your own.

Contingencies are setup from the Revenue Management Super User responsibility (Revenue Contingencies | Contingencies Definition).

The above contingency is associated with a policy but can also be referenced by an assignment rule. The following contingencies are not. Both require a removal event to be specified. Removal events are limited to:

- Removal Event
- Optional Time Attr
- Optionally enter rem
The Time Attribute can either trigger the removal event or be “in addition to” the removal event. In the picture shown below, revenue recognition can occur after the invoice is generated AND 1 day has elapsed since the Ship Confirm Date.

Event attributes are limited to the following:
The seeded contingencies and their removal events and (optional) policies are: (none have event attributes)

- Cancellation
- Customer Creditworthiness
- Delivery
- Doubtful Collectibility (sic)
- Explicit Acceptance
- Extended Payment Term
- Fiscal Funding Clause
- Forfeitures
- Impaired Loans
- Installation
- Leasing Doubtful Collectibility (sic)
- Pre-Billing Acceptance
- Refund

- Contingency Expiration
- Payment
- Credit Classification
- Proof of Delivery
- Payment
- Customer Acceptance
- Payment
- Contingency Expiration
- Credit Classification
- Refund Policy

**Assignment Rules**  
Assignment Rules tell the Revenue Management engine when to apply a contingency. They are defined in the Revenue Management Super User responsibility (Revenue Contingencies | Assignment Rules).

![Assignment Rules Interface](image)

The General Information zone contains the name of your rule and the contingency to apply. The Criteria zone contains the conditions that determine when to apply this assignment rule. In the picture above, the rule is applied if the Bill To Customer is in 'Walton Corporation'. Note that the rule can be updated to include additional values. The Condition supports In or Not In.

![Contingency Parameters](image)
Multiple conditions can be specified. The rule supports ‘Match All Criteria’, i.e. every condition must be true, or ‘Match Any Criteria’, i.e. the rule will be applied if any one of the conditions is true. To specify a 2nd condition select a 2nd parameter, then click ‘Add Criteria’.

If the parameters provided by Oracle are not enough, there is a tab where you can define up to 10 additional parameters, however at the time of this paper, the form does not work and there is no documentation on this. Oracle has registered the bug 18811787 for this issue. The priority for this bug is P3 and thus may never be fixed. If your company has a need to create assignment rules based on additional parameters, please attach your business case to this bug and ask to have the priority escalated to P2.

**Assignment Rule Test Cases**

On the Assignment Rules screen, there is a “Test Cases” tab. This allows you to test your rules to see if/how they would be applied based on entered criteria.

Click the “Create Test” button to create a new test. Enter a name for your test at the top, then a value for one or more of the parameters. Click ‘Get Result’ to have Oracle provide the expected result (this in effect runs the test), or ‘Add Values’ to select the assignment rule(s) you expect to be returned. Click Apply when you are finished. Note that if you specify a value and expect no values to be returned, when you click Get Results, you’ll get the message “The rule engine has returned the default value associated with the rule object because the criteria parameter values you have supplied do not match to any rules defined for this rule object”. The test can still be saved, it will have an expected result of “null” and running the test will be considered successful if null is indeed returned.

To run a specific test, click the box next to the test name and click “Create Test”. To run all tests, click Run All Tests.

![Assignment Rule Test Cases Image](image-url)
How does it Work?

If Policies are defined, or contingencies are assigned to transaction lines, the Revenue Management Engine determines whether revenue should be recognized or deferred. This Engine is invoked when completing a manual invoice or importing an invoice. Note that it is still the accounting process that creates the actual distributions either by AutoInvoice (for invoices without rules) or by the Revenue Recognition program (for invoices with rules).

Contingencies cannot be manually applied to an invoice using the transaction workbench. However they can be added if the invoice is created through AutoInvoice via entries in the AR_INTERFACE_CONTS_ALL table. See MOS note 1130963.1 “Understanding and Troubleshooting Event-Based Revenue Management” for explanation of this process and the tables involved.

The Revenue Management Engine will not analyze collectability for invoices that have deferred accounting rules. For this type of invoice, the Revenue Accounting Management (RAM) wizard (discussed later in this paper) must be used.

Contingencies will stop recognition of revenue until the contingency is removed or it expires. The concurrent program “Revenue Contingency Analyzer” must be run to periodically monitor contingencies and evaluate whether they have expired or an event has occurred that removes the contingency. In addition to any schedules set in the concurrent manager, this program runs automatically when Submit (not Create) Accounting is run.
If the contingency requires payment to be made, the Revenue Contingency Analyzer recognizes the revenue in proportion to the amount of the invoice that is paid. This proportion is made to all lines with a payment-based contingency. Note that miscellaneous receipts have no impact on revenue recognition.

If any manual deferment or recognition has been made for an invoice, the Revenue Contingency Analyzer will not process that transaction. Any remaining revenue recognition will have to be made manually.

The Account Receivable Users Guide, Chapter 3, contains multiple examples of how/when revenue is recognized based on the rules and contingencies applied and the receipt of cash or passage of time.

**How can I Monitor what is Happening?**

Oracle provides a screen and one report to assist in monitoring the application and removal of contingencies. 11i had a couple of additional reports, but they have been disabled for R12. MOS note 1113667.1 “R12 Is There Any Standard Reports To Identify How Much Revenue Recognized And/Or Deferred In AR Invoices” states “There is no seeded report available”. MOS note 1121944.1 “Understanding and Troubleshooting Revenue Recognition in Oracle Receivables” and 1130963.1 “Understanding and Troubleshooting Event-Based Revenue Management” and 1116934.1 “How to Setup and Troubleshoot Invoicing Rules and Accounting Rules” contain information about the underlying tables which can enable you to write your own reports.

The Contingency-Based Deferred Revenue Report displays the current deferred revenue and contingency statuses for each invoice that has deferred revenue. This report will exclude invoices that are assigned deferred accounting rules and invoices whose revenue was originally deferred, but which has since been removed from further collectability analysis. The following actions constitute removing an invoice from analysis:

- Manually adjusting revenue using the Revenue Accounting Management (RAM) wizard
- Adjusting the invoice when the GL Account Source for the specified adjustment activity is Revenue on Invoice
- Modifying distributions in the Transaction workbench by changing the distribution to a revenue account or by rerunning AutoAccounting after modifying sales credits in the Sales Credits window (it is better to use the RAM wizard to perform sales credit adjustments)
- Incompleting the invoice

The Users Guide explains the impact of applying a credit memo or reversing a receipt on an invoice that had contingencies applied and provides several examples.

In addition to the reports, there is the Revenue Accounting and Sales Credit screen. This is accessible from the Receivables Manager responsibility (Control | Accounting | Revenue Accounting). Enter the search criteria and click Find. When the screen returns you can see the accounting for the lines (even when Submit Accounting has not been run), the sales credits and if contingencies were applied, which contingencies.
In addition to providing a view of the invoice line distributions, the sales credits, and line revenue contingencies, this screen also provides a mechanism to manually remove the contingency and thus recognize the revenue. Thus the screens invoked by the Manage Revenue button are the RAM (Revenue Accounting Management) wizard.

If you want to provide inquiry capability but not access to the RAM wizard, use a personalization to avoid displaying this button (and the Manage Sales Credits button).

**Revenue Accounting Management (RAM) Wizard**

The RAM Wizard is used to:
- Adjust revenue
- Adjust sales credits
- Adjust contingency expiration dates
- Record early customer acceptances or customer acceptances where Order Management isn’t used

In order to use this wizard to adjust revenue, the “Require Salesperson” system option must be enabled. If the only reason for enabling this option is to use this wizard, then all invoices can use the seeded salesperson “No Sales Credit”. While a salesperson is now required, it is not required to derive any segment in the accounting Flexfield (using AutoAccounting) from the salesperson table. Additionally, Revenue Adjustment Reason Lookup Codes must be defined. Oracle seeds 3 codes, but additional ones can be added.
The RAM wizard will not allow adjustments to any transaction with Invoice/Accounting rules until Revenue Recognition has been run (the button doesn’t display).

The RAM wizard can be used to adjust on-account credit memos if the profile option “AR: User invoice Accounting for credit” is set to No. If this profile option is set to Yes or the credit memo has been applied, the RAM wizard cannot be used (note, applied credit memos recognize revenue in the same proportion as the invoice to which they are applied).

After the “Adjust Revenue” portion of the RAM wizard is used, the transaction is no longer eligible for automatic revenue recognition. Thus if the adjustment did not recognize all the revenue, the wizard will be required to recognize the remaining revenue. Additionally, the program that recognizes the expiration of the contingencies will no longer evaluate these transactions or the contingencies applied to these transactions.

**Example – Record Customer Acceptance**

In order to show how this wizard works, let’s first show the invoice.

![Specify Invoicing Rule](image1)

And the Accounting Rule

![Accounting Rule](image2)

Remember to specify the Invoicing rule before clicking the Line Items button. And because the Invoicing Rule was specified, the Accounting Rule became a required field.
Clicking on the Distributions tab shows the “place holders” because Revenue Recognition has not been run.

Run Revenue Recognition.

After running Revenue Recognition, returning to the Transactions Workbench, Distributions tab shows:
So if the rule was “Immediate”, why is revenue still deferred? The Assignment rule defined earlier placed a contingency on the line. This can be seen from the Revenue Accounting page (or the Contingency Based Deferred Revenue Report).

Customer Acceptances can be recorded using the RAM wizard. As stated earlier, the RAM wizard is accessed by pushing the “Manage Revenue” button on the Revenue Accounting and Sales Credit screen. When the button is clicked, the Manage Revenue Step 1 screen shows 4 choices:

- Modify Revenue Contingencies
- Unschedule Revenue
- Schedule Revenue
- Record Acceptance

Clicking ‘Record Acceptance’ and clicking next shows the Step 2 screen. In step 2, you select whether you want to recognize all lines or a specific item or line. You also enter the GL Date and can enter a comment as to why you are recording the acceptance.

Clicking Next shows the lines that will be accepted based on the criteria entered in Step 2. Click Finish.
The screen now shows the lines and the proposed distributions with revenue recorded.

You can select the Line Revenue Contingencies option and see the contingency removal and date.

You must click Save to record the change. You can click Discard and the transaction will revert to the state prior to starting the wizard.
Example – Adjust Contingency
The Invoice and lines... (this time no Invoicing / Accounting Rule was entered)

And the assignment rule that placed the contingency.

Because there was no Invoicing Rule, Revenue Recognition does not have to be run in order to display the “Manage Revenue” button.

This time, after clicking the “Manage Revenue” button, choose “Manage Revenue Contingencies”. This time the form displays all the transaction lines with the contingency applied Estimated Expiration Date (and Num Days). Adjust either the Number of Days or the Estimated Expiration Date. Click Finish.
Because this does not remove the contingency, you will get the following message (the first picture is from 12.2.3, the second picture is from 12.1.3) indicating that changing the date does not allow revenue to be scheduled. This will happen even if you enter today’s date. You will have to run the Contingency Analyzer to remove the contingency (and recognize the revenue). So click Yes to accept or No or Cancel to undo your change.

MOS note 1399626.1 “RAM WIZARD RAISING INVALID MESSAGE” and 1407368.1 “Revenue Accounting Wizard Shows Invalid Message” report that there is a bug in 12.1.3 for this form and to apply patch 10235208. The patch seems to have removed the verbiage for the error message. A SR has been filed for this, but no solution has been provided yet.

So this time, when the form returns to show the “new” line distributions, there aren’t any as the revenue is still deferred. You still must click Save to save the change to the expiration date.
Example – Schedule Revenue
Manually recognizing revenue can be done for any invoice where it is deferred regardless of why (any Accounting Rule or any Contingency). Query the invoice in the Revenue Accounting form. Choose the ‘Manage Revenue’ button again. This time click “Schedule Revenue”, then Next. Step 2 asks if you want to credit a specific salesperson. You can select the salesperson or click Next (and it will use the salesperson on the invoice). On Step 3, select “All Lines”, a specific line, a specific item or item category and click Next.

On Step 5, Click “All Adjustable Revenue”, or enter a % to be applied to all selected lines, or enter an amount equal to or less than the Adjustable Revenue total. Click Next. Step 5 provides the ability to enter the GL date for the recognition, a reason, and comments. Click Finish.

Again the Results page shows. Click Save to commit your changes or Cancel to discard your changes and start over.
When the form returns, you can click the Actions History tab and see your actions.

You can also return to the Transaction workbench and see the recognized revenue from the Distributions tab. However, the reason and comments are not reflected here.
If you are running Oracle Order Management, Release 12 will recognize COGS at the same time as revenue (Matching Principle). This applies to:

- Sales orders of both non-configurable and configurable items (Pick-To-Order and Assemble-To-Order)
- Sales orders from customer facing operational units where drop shipment is used when the new accounting flow introduced in 11.5.10 is used
- RMAs that reference a sales order whose COGS is deferred (the RMA will maintain the same COGS/Deferred COGS ratio)

How to manage deferred COGS happens during the “SO Issue transaction”. If the SELLING_OU equals the SHIPPING_OU, the deferred COGS account is used and COGS is accounted when revenue recognition happens. If the SELLING_OU is NOT equal to the SHIPPING_OU, then if an intercompany flow exists, Oracle checks if “Advanced Accounting” is enabled. If so, then the deferred COGS account is used otherwise the COGS account is used.

Note that Deferred COGS cannot be customized like COGS.

The Deferred COGS account is set at the Inventory Org level. The navigation from the Inventory user is: Setup | Organizations | Parameters. Select the “Other Accounts” tab. If upgrading from 11i, this account will be populated with the COGS account, but it can be changed at any time.

Invoicing and Accounting Rules are set at the item level on the Invoicing tab.
The Process

Assume the customer orders an item with material on-hand, a defined cost, and the item has an assigned accounting rule of “3 Months, Fixed, Non Deferred”. When the order is booked, picked, and ship confirmed, the accounting for the SO issue is a credit to the Inventory Valuation Account and a debit to the Deferred COGS account (because of the inventory rule). Autoinvoice creates the transaction in Receivables and brings over the accounting rule for the line referencing the item. When revenue recognition is run, assuming there are no assignment rules that would place a contingency on the line, accounting is generated to recognized 1/3 of the revenue each month.

COGS will follow the revenue recognition by running the Collect Revenue Recognition Information program to detect changes in revenue recognition, then running Generate COGS Recognition Events. The second program creates transactions if the COGS recognition doesn’t match the revenue recognition. Both of these programs are concurrent programs that are initiated from the COGS Recognition menu from the Cost Management responsibility. These programs assume that the Cost Manager has costed all the transactions. If not, then run “Record Order Management Transactions”.

After running the programs, (from Cost Management, View Transactions | Material Transactions, Distributions Tab) view the results in the Material Transactions screen. You MUST click the “Include Logical Transactions”
checkbox in the Find Material Transactions form or only the Deferred COGS will show. A credit of 1/3 will be charged to the Deferred COGS account and a debit of 1/3 will be charged to the COGS account.

There are two COGS Revenue Matching Reports, both available from the Cost Management responsibility. Both display Earned/Unearned Revenue and COGS amounts and accounts. Both have the parameter “Display Match Lines”. If you specify Yes, the report is restricted to matched lines. If you specify No, the report shows both matched and unmatched. The Periodic report adds three additional parameters, Legal Entity, Cost Type, and Cost Group.

MOS note 1307906.1 “COGS Dataflow and Diagnostics [Video]” shows the following diagram to explain the process.
Where to Find More Information
For Revenue Recognition

- MOS note 1130963.1 “Understanding and Troubleshooting Event-Based Revenue Management”
- MOS note 1121944.1 “Understanding and Troubleshooting Revenue Recognition in Oracle Receivables”
- MOS note 1116934.1 “How To Setup And Troubleshoot Invoicing Rules and Accounting Rules”
- MOS note 1059164.1 “How to Test ‘Explicit Acceptance’ Contingency and ‘Customer Acceptance’ Removal Event? An Event-Based Revenue Management Example [Video]”
- MOS note 1389972.1 “Unable To Add Credit Memo Transaction Type In Revenue Contingency Assignment Rules in R12”
- MOS note 1065572.1 “How to Create and then Remove a Payment-Base Contingency?. An Example with Creditworthiness Contingency and Receipt Application Removal Event.”
- MOS note 808705.1 “Need To Know How Transactions Using Payment-Based Revenue Management Are Identified”
- MOS note 564185.1 “Where is the Contingency “Proof of Delivery” Entered in Oracle Receivables (AR)?”
- MOS note 1059164.1 “How to Test ‘Explicit Acceptance’ Contingency and ‘Customer Acceptance’ Removal Event? An Event-Based Revenue Management Example [Video]”
• MOS note 1113667.1 “R12 Is There Any Standard Reports To Identify How Much Revenue Recognized And/Or Deferred In AR Invoices”
• Receivables Users Guide Release 12.1 (Part No. E13622-02), Chapter 3 – Revenue Management
• Receivables Users Guide Release 12.2 (Part No. E48904-02), Chapter 3 – Revenue Management

For COGS
• Oracle Cost Management Users Guide Release 12.1, Chapter 7 – Revenue and COGS Matching
• Oracle Cost Management Users Guide Release 12.2, Chapter 7 – Revenue and COGS Matching
• MOS note 1307906.1 “COGS Dataflow and Diagnostics [Video]”
• MOS note 416678.1 “R12 : Deferred COGS Accounting”
• MOS note 1113274.1 “How TO Transfer Deferred COGS To Actual COGS Account For Ship Only Business”
• MOS note 580360.1 “R12: Can We Customize The Deferred COGS Account?”
• MOS note 867912.1 “COGS and DCOGS Workflow”
• MOS note 1607921.1 “FAQ in COGOS / DCOGS”
• MOS note 1060202.1 “COGS and DCOGS Recognition Accounting Useful Tips”
• MOS note 1314335.1 “COGS/ Deferred COGS common problems”
• MOS note 1267115.1 “Deferred COGS Not Transferring to COGS Account After Running Generate COGS Recognition Events”
• MOS note 1351764.1 “Deferred COGS Is By-passed For Direct Shipments”

**Conclusion**

Recognition of revenue and matching COGS to that revenue are governed by accounting principles. The functionality in Release 12 is a giant step in compliance to these principles. The functionality is easy to setup and easy to use. The biggest opportunity for improvement in this area would be to provide some reports to aide in reconciliation.