



Project Revenue Recognition Blueprint

What is this document | Accounting Seed is a flexible accounting platform where you can add, build and layer your own customizations on top of the platform. Accounting Seed Blueprints provide an example of a specific use case that can serve as a template to implement a feature for your organization, but also can be tweaked or modified in any way you need to achieve your exact requirements. Blueprints serve as a design template or starting spot for your own feature.



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What is the feature?

Project Revenue Recognition is a procedure for recognizing revenue on project activity when it is earned. Generally, revenue is recognized when work is completed and you have earned the income, but it doesn't necessarily dictate when you bill a customer. Many times, revenue recognition schedules are independent of billing schedules.

For this Project Revenue Recognition blueprint, the focus is only on the recognition of project revenue when earned using the percentage of completion method. Accounting Seed provides separate blueprints for other forms of project revenue recognition.

When is this feature set used?

This feature set is used to recognize revenue in accordance with project activity, to enable more comprehensive and logical GAAP-based financial statements for a services company.

What terms or definitions do I need to understand?

Percentage of Completion	A method for recognizing revenue based on a percentage of work that has been completed.
Recognition Method	The method used to determine how much revenue to recognize for a given period. There are various methods that can be used to measure progress on a project. For this blueprint, revenue is recognized based on costs incurred over total budgeted expenses.
Contract Value	The total amount awarded to the company in the contract.
Budgeted Expense	Total budgeted expenses for the project.
Project to Date (PTD) Expenses	Expenses incurred to date on the project.
Project to Date (PTD) Revenue	Revenue recognized to date on the project.
Other Direct Costs (ODC)	Costs not specifically identified in a contract, and when authorized, can be billed to the customer as the costs are incurred. Note, this blueprint will not be addressing ODCs.

Can you give me an overview of how this works?

The user navigates to the Accounting Period for which revenue is to be recognized and selects the button called Recognize Project Revenue. When the script is run, it does the following for each project that is using the percentage of completion method for recognizing revenue:

- Determines if any recognition records exist for the selected period and if so, those records are deleted.
- Calculates total expenses to date by summing the total expenses posted to each project, up to the selected period. Note, if you want to include items on a PO not yet received you can accrue those expenses and they will be included in the calculation of revenue to be recognized for the period.
- Calculates total revenue recognized to date.
- Calculates revenue to be recognized for the period.
- Creates a “% Complete Revenue Recognition” record for each project.
- Posts the “% Complete Recognition Recognition” record(s) with a debit to the Work in Progress GL Account and a credit to the Project Revenue GL Account.

Can you show me an example of how this works?

Let’s say a project is initiated with the following contract value and budgeted expense:

Contract Value: \$60,000

Budgeted Expense: \$31,500.

Expenses recorded to date against this project are as follows:

March, 2020:

Date	Source	Amount
3/25/2020	Accounts Payable	\$1,400
3/27/2020	Accounts Payable	\$1,600

April, 2020:

Date	Source	Amount
4/10/2020	Accounts Payable	\$2,500
4/14/2020	Accounts Payable	\$800
4/20/2020	Accounts Payable	\$1,200

Let’s say the user runs the Recognize Project Revenue procedure first at the end of March 2020 and then again at the end of April 2020. After the script is run each time it will create “% Complete Revenue Recognition” records as follows:

Accounting Period	PTD Expense	% Complete	PTD Revenue	Current Period Revenue
2020-03	\$3,000	10%	\$6,000	\$6,000
2020-04	\$7,500	24%	\$14,400	\$8,400

Let's review how each of the numbers above were calculated:

PTD Expense: sum of all expenses posted against the project for all Accounting Periods up to the Accounting Period in which the script is run.

2020-03: \$3,000 (\$1,400 + \$1,600)
 2020-04: \$7,500 (\$1,400 + \$1,600 + \$2,500 + \$800 + \$1,200)

% Complete: PTD Expense / Budgeted Expense

2020-03: 10% (\$3,000 / \$31,500)
 2020-04: 24% (\$7,500 / \$31,500)

PTD Revenue: Total Contract Value * % Complete

2020-03: \$60,000 * 10% = \$6,000
 2020-04: \$60,000 * 24% = \$14,400

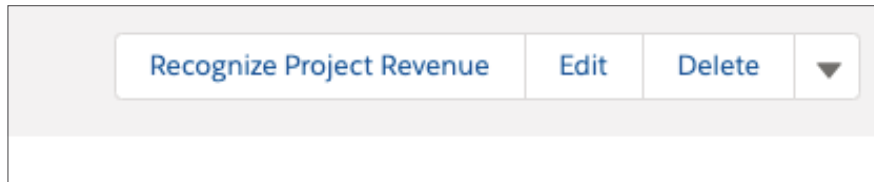
Current Period Revenue: PTD Revenue for the current period - PTD Revenue for the previous period

2020-03: \$6,000 (\$6,000 - 0)
 2020-04: \$8,400 (\$14,400 - \$6,000)

What object model changes are required?

Custom Button on Accounting Period

Create a custom button called "Recognize Project Revenue" on the Accounting Period object. This will allow the user to run the Project Revenue Recognition procedure on demand.



Custom Metadata Type

Create a custom metadata type and fields to set the Work in Progress and Project Revenue GL Accounts.

Custom Metadata Type Name: Project Revenue Recognition

Custom Fields:

Field Label	Data Type
Project Revenue GL Account	Text (80)
Work in Progress GL Account	Text (80)

After configuring this custom metadata type, it should look like this:

Plural Label		Project Revenue Recognition	Visibility		Public		
Object Name		Project_Revenue_Recognition	Protection Level				
API Name		Project_Revenue_Recognition__mdt	Record Size		301		
Created By		Mary Balmer, 3/26/2020, 1:30 PM	Modified By		Mary Balmer, 3/26/2020, 1:30 PM		
Standard Fields							
Action	Field Label	Field Name	Data Type	Indexed			
	Created By	CreatedBy	Lookup(User)				
Edit	Custom Metadata Record Name	DeveloperName	Text(40)				
Edit	Label	MasterLabel	Text(40)				
	Last Modified By	LastModifiedBy	Lookup(User)				
Edit	Namespace Prefix	NamespacePrefix	Text				
Edit	Protected Component	IsProtected	Checkbox				
Custom Fields New							
Action	Field Label	API Name	Data Type	Field Manageability	Indexed	Controlling Field	Modified By
Edit Del	Project Revenue GL Account	Project_Revenue_GL_Account__c	Text(80)	Upgradable			Mary Balmer, 3/26/2020, 1:32 PM
Edit Del	Work in Progress GL Account	Work_in_Progress_GL_Account__c	Text(80)	Upgradable			Mary Balmer, 3/26/2020, 1:31 PM

Project Custom Fields

Create the following custom fields on the Project object:

Field Label	Data Type
Contract Value	Currency (16,2)
Recognize Project Revenue	Checkbox
PTD Revenue	Currency (16,2)

After configuring these changes, the Project Record will look like this:

Project Name	Bluegroove Percentage of Completion Project	Owner	Mary Balmer
Account	Bluegroove	Template Project	<input type="checkbox"/>
Opportunity			
Status	Active		
Contract Value	\$60,000.00		
Budgeted Expense	\$31,500.00		
Recognize Project Revenue	<input checked="" type="checkbox"/>		
PTD Revenue	\$14,400.00		

Amortization Entry

Rename the Amortization Entry object to “% Complete Revenue Recognition” and add the following custom fields:

Field Label	Data Type
Contract Value	Formula (AcctSeed__Project__r.Contract_Value__c)
PTD Expense	Currency (16,2)
% Complete	Formula (PTD_Expense__c / AcctSeed__Project__r.AcctSeed__Budgeted_Amount__c)
PTD Revenue	Currency (16,2)
Current Period Revenue	Currency (16,2)

After renaming the Amortization Entry object and adding the fields above, update the page layout to include these fields.

Note, if you need to use Amortization Entry for other purposes you don’t have to rename this object, rather just add these additional custom fields to this object.

What code is needed for this process?

When the user clicks on Recognize Project Revenue, the script will perform the following steps:

Step 1 - Delete any previous % Complete Revenue Recognition records. The script will query all % Complete Revenue Recognition records for the selected period and any records that exist for that period will be deleted. This allows the user to re-run this process if needed for a selected Accounting Period.

Step 2 - Calculate “PTD Expense” for the selected Accounting Period. Sum all transactions posted and tagged to each project WHERE GL Account Type = Expense.

Step 3 - Calculate PTD Revenue. Contract Value (from the Project) * % Complete (formula field)

Step 4 - Calculate Current Period Revenue. PTD Revenue for the current period (from Step 3) - PTD Revenue for the previous period

Step 5 - Create a % Complete Revenue Recognition record and Post the record. Create a record in the selected Accounting Period WHERE the checkbox called “Recognize Project Revenue” is checked AND Current Period Revenue is not equal to zero. After the record is saved, post it.

The fields on this record will be populated as follows:

Field Label	Data Type
Project	Selected Project
Contract Value	Contract Value from the selected Project
Accounting Period	Selected Accounting Period
PTD Expense	Calculated Value - refer to Step 2
% Complete	Formula field
PTD Revenue	Calculated Value - refer to Step 3
Current Period Revenue	Calculated Value - refer to Step 4

What does a successful outcome look like?

With the successful run of the script, % Complete Revenue Recognition records are created for the selected period for all projects using the percentage of completion method for recognizing revenue and these records are posted to the GL Accounts identified in the custom metadata type called Project Revenue Recognition.

What process or policy changes should I consider with implementing this solution?

1. Update the Project page layout to include the related list called “% Complete Revenue Recognition”.
2. Run the script each period so that revenue is properly recognized in the appropriate period.
3. Before running the script make sure all expenses are posted against the period.

About Accounting Seed

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