SedonaOffice

The #1 Financial Software for Security Companies

Recurring Revenue

Reference Guide

Last Updated: January 15, 2010

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Overview

The purpose of this guide is to review recurring revenue and its function and process within SedonaOffice. This guide will review all the aspects of recurring revenue, how to set it up for a customer, create invoices, recognize deferred revenue and audit the recurring revenue.

Definitions & Terms

RMR

The term RMR in SedonaOffice stands for Recurring Monthly Revenue. RMR is the monthly recurring revenue that is invoiced to a customer.

RAR

The term RAR in SedonaOffice stands for Recurring Annual Revenue. RAR is the annual recurring revenue that is invoiced to a customer.

RMR in Force

The RMR in Force is the RMR that is or was active at any given period of time.

RMR Reason Code

The RMR Reason Code is the reason why RMR was modified. All changes to RMR will contain a RMR Reason Code.

Recurring History

The Recurring History is the "net" change to RMR.

Cycle

The Cycle is the period for with the RMR will be invoiced. Valid cycles are Monthly, Quarterly, Semi-Annual and Annual.

Cycle Amount

The Cycle Amount is the amount that will be invoiced, it is normally the RMR times the Cycle. The Cycle can be modified for Quarterly, Semi-Annual or Annual recurring if the amount is not equally divisible by the monthly amount.

Recurring Start Date

The Recurring Start Date is the date the Recurring Revenue line item first became active. The Recurring Start Date is equal to the RMR History Effective Date.

Recurring End Date

The Recurring End Date is the date the Recurring Revenue line item will be cancelled.

Next Cycle Date

The Next Cycle Date is the date the Recurring Revenue line item will next be invoiced (Cycled).

Deferred Revenue

Deferred Revenue is the amount of Recurring Revenue that is deferred from income until such time as recognized. Deferred Revenue is based on the period for which the Recurring Revenue is created.

Recurring Revenue

Recurring Revenue in SedonaOffice is the RMR that is setup to be invoiced for a Customer.

AR_Customer_Recurring

The AR_Customer_Recurring table in the SedonaOffice database is the table that contains the Recurring Revenue.

Active Recurring Revenue

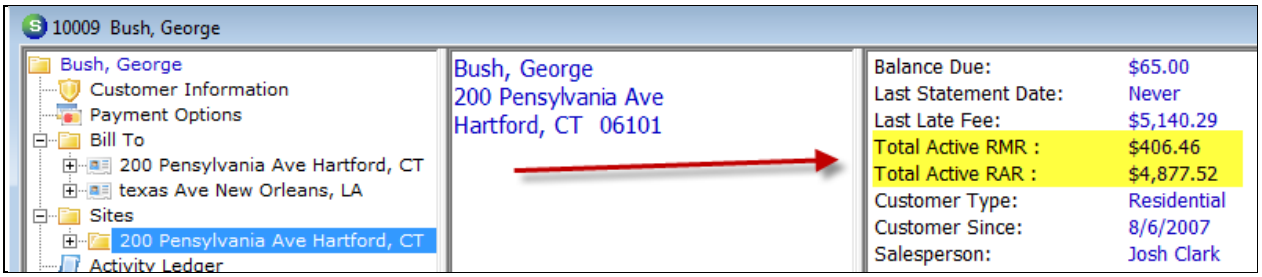
Recurring Revenue is considered active in SedonaOffice when it is within the Cycle Start Date and Cycle End Date. If the Recurring Revenue is not cancelled (or have a future cancellation pending) then there would not be a Cycle End Date.

Future | Active | Cancelled

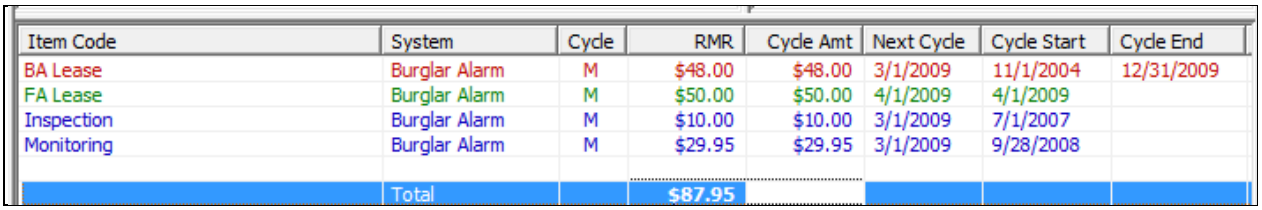
| Cycle Start Date | Cycle End Date

Total Active RMR

On the Customer Explorer the Total Active RMR displays the Active RMR.



Display of RMR on the Customer



Item Code	System	Cycle	RMR	Cycle Amt	Next Cycle	Cycle Start	Cycle End
BA Lease	Burglar Alarm	M	$48.00	$48.00	3/1/2009	11/1/2004	12/31/2009
FA Lease	Burglar Alarm	M	$50.00	$50.00	4/1/2009	4/1/2009	
Inspection	Burglar Alarm	M	$10.00	$10.00	3/1/2009	7/1/2007	
Monitoring	Burglar Alarm	M	$29.95	$29.95	3/1/2009	9/28/2008	
	Total		$87.95				

RED: Displays RMR that will be cancelled in the Future (this may or may not be active).

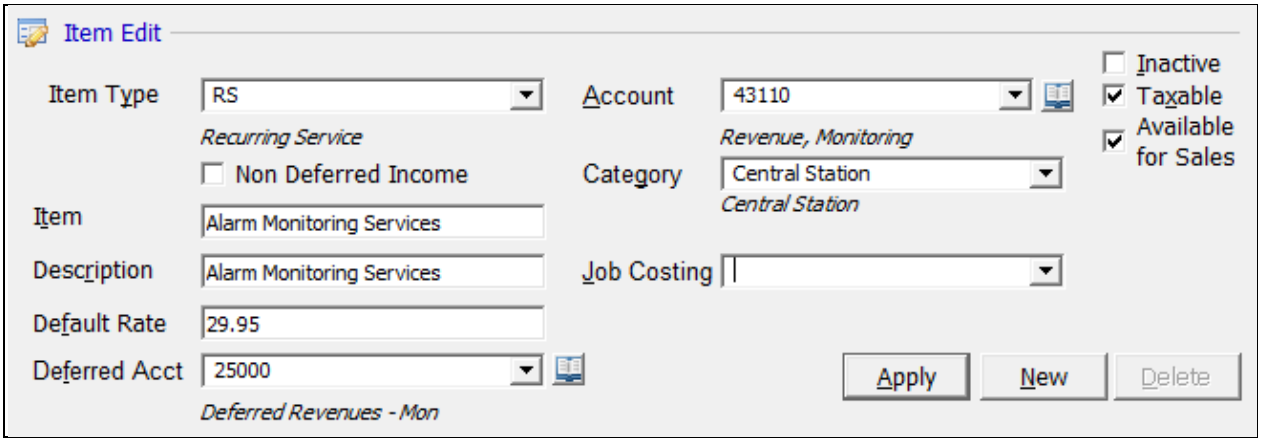
GREEN: Displays RMR that will become active in the Future

BLUE: Displays Active RMR

TOTAL: Is the Total of the Active RMR (based on the Cycle Start Date and the Current Date)

Recurring Item Setup (Invoice Items)

The following explains the setup of a Recurring Item. A Recurring Item is an Invoice Item which the Item Type is defined as Recurring. Only Recurring Items can be setup as Recurring Revenue for Customers.



Item Type

The Item Type must be a Recurring Item Type. SedonaOffice allows you to create and define additional Item Types. The Item Type is used for many purposes including sales tax processing, revenue reporting and linking with central station software such as Manitou.

Non Deferred Income

This flag determines if this Recurring Item Type is deferred revenue. The default is yes, all income should be deferred. If you select this option, the income will not defer and will be recognized 100% based on the transaction date of the invoice, regardless of the Cycle.

Item

This is the Item Code to be used to identify the Recurring Item.

Description

The Description is the default description to be used for the Recurring Item. This can be overwritten when setting up the Recurring Revenue for the Customer.

Deferred Account

The Deferred Account is the GL Account the Deferred Income will be tracked in. If this field is left blank, the system default Deferred Income account will be used. It is most important you setup this account properly. For most companies, one Deferred Income account is all you will need.

Account

The Account is the GL Account the Income will be posted to; either when recognizing the Deferred Revenue or directly if the Recurring Item is setup as Non Deferred Income.

Category

The Category is the GL Category that is assigned to the Recurring Service.

Taxable

The Taxable flag determines if this is a Taxable service (based on the tax setup for the Customer).

Available for Sales

This flag determines if this Recurring Item is available for the integration with sales quoting systems such as QuoteWerks or WeSuite.

Creating New Recurring Revenue

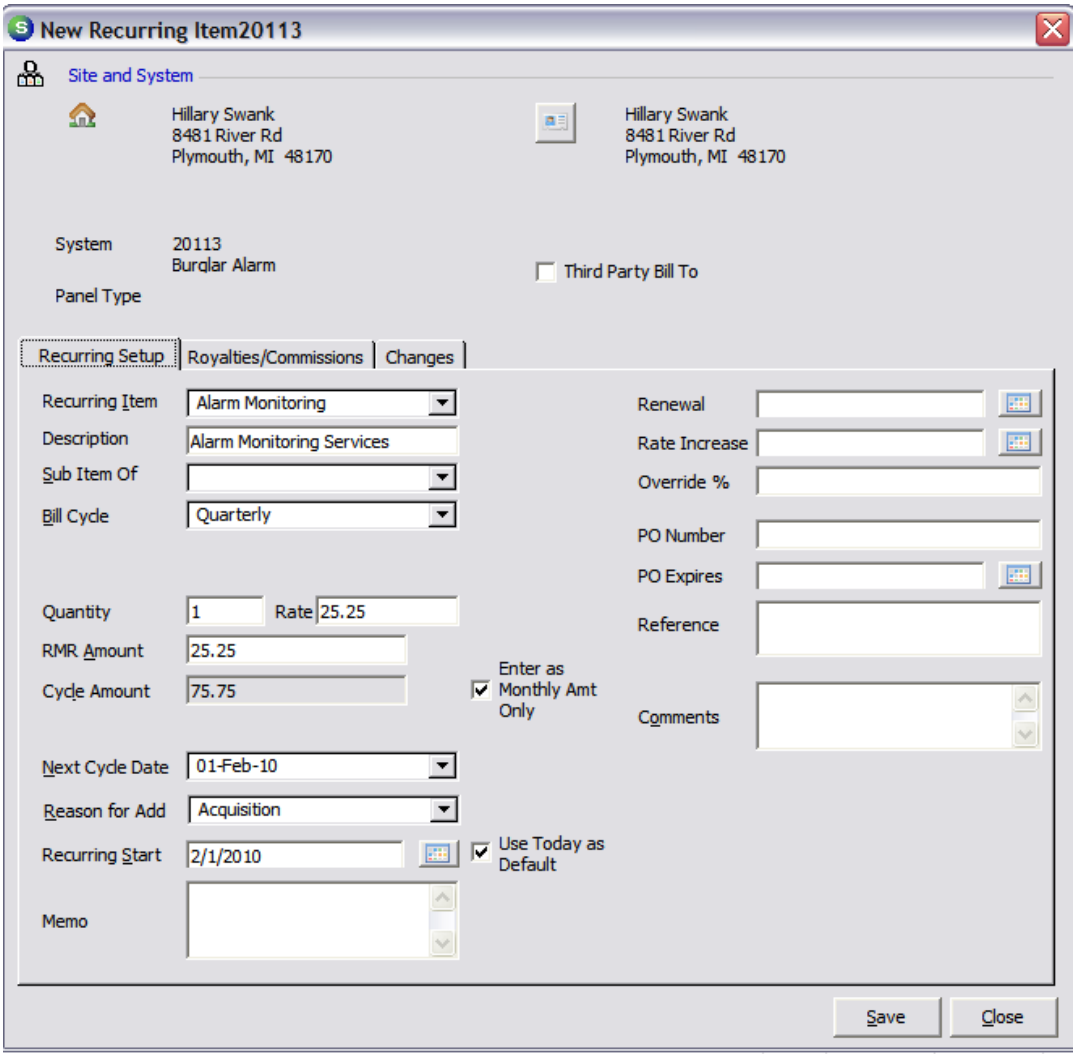
Recurring Revenue can be added in various means throughout SedonaOffice, this guide will review the properties of manually creating new Recurring Revenue.

System or Site Level Recurring Revenue

The default in SedonaOffice is that all Recurring Revenue is defined under a System. As an option you can turn on SedonaOffice to allow Site level Recurring Revenue. If you turn on this option, you can then setup Recurring Revenue under the Site for a Customer, without defining a System. If you use this feature be careful, as this may affect your ability to report on your RMR.

Setting Up New Recurring Revenue

Here are the key elements in setting up new Recurring Revenue.



Recurring Item

This is the Recurring Item Code.

Description

This will default to the Description from the Recurring Item; you can override this if you wish.

Cycle
This is the Cycle when creating the invoice; your options are Monthly, Quarterly, Semi-Annual or Annual.

Quantity
If you are using quantity based recurring revenue, you can insert a quantity.

Rate
If you are using quantity based recurring, you can enter the Rate per item.

Next Cycle Date
This is the Date this Recurring Service will next be Cycled (processed for invoicing). We will discuss this more later.

Reason for Add (Reason Code)
This is the reason this Recurring Item is being added.

Recurring Start Date
This is the date the recurring service become active.

Understanding the Next Cycle Date and Recurring Start Date
The usage of the Next Cycle Date and the Recurring Start Date are very important, and will affect how the income is generated for a Customer. Be sure to understand this fully before just entering dates randomly.

In the table below are examples of setting up Recurring Revenue, and how the revenue will be invoiced when the first cycle is processed.

Next Cycle Date	Cycle Start Date	Cycle	RMR	First Cycle (2/1/2009)
2/1/2009	2/1/2009	Q	25.00	**2/1/2009 – 4/30/2009 $75.00**
2/1/2009	2/15/2009	Q	25.00	**2/15/2009 – 4/30/2009 $62.50**
2/1/2009	1/15/2009	Q	25.00	**2/1/2009 – 4/30/2009 $75.00**
1/1/2009	1/15/2009	Q	25.00	**1/15/2009 – 3/31/2009 $62.50**
11/1/2009	1/15/2009	Q	25.00	**1/15/2009 – 4/30/2009 $87.50**

RMR Tracking

Every time Recurring Revenue is added or cancelled it is tracked in the RMR Tracking file.

AR_RMR_Tracking

This is the SQL table file that contains all the RMR Tracking records.

Adding/Creating New Recurring Revenue

There are two means to adding Recurring Revenue.

- New Recurring Revenue – Creating RMR that did not exist prior.
- Increasing an existing Recurring Item – This is commonly known as a Rate Increase

Cancelling/Decreasing Recurring Revenue

There are two means to lower Recurring Revenue.

- Full Cancellation – This would be a full reduction of the RMR
- Partial Cancellation – This would be a partial decrease of the RMR, commonly known as a Rate Decrease.

RMR Tracking Effective Date

The effective date is the date the RMR change occurred. Based on the above 4 types of rate changes the table below identifies the RMR Tracking Effective Date.

Transaction Type	Change Amount	New RMR	Effective Date
New RMR	$25.00	$25.00	2/1/2009
Increase RMR	$5.00	$30.00	3/1/2009
Partial Decrease RMR	-$5.00	$25.00	3/31/2009
Full Cancellation	-$25.00	0	4/30/2009

RMR Reporting

When reporting the Changes of RMR, the increase of RMR takes place on the Date the rate went into effect, and the decrease of the RMR takes place on the Date the rate was lowered. RMR is considered active on its activation date through its completion date.

Effects on RMR Rate Increases

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	$5.00	$25.00	$30.00
2/1/2008	3/1/2009	2/28/2009	3/1/2009

Effects on RMR Rate Decreases

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	-$5.00	$25.00	$25.00
2/1/2008	2/28/2009	2/28/2009	3/1/2009

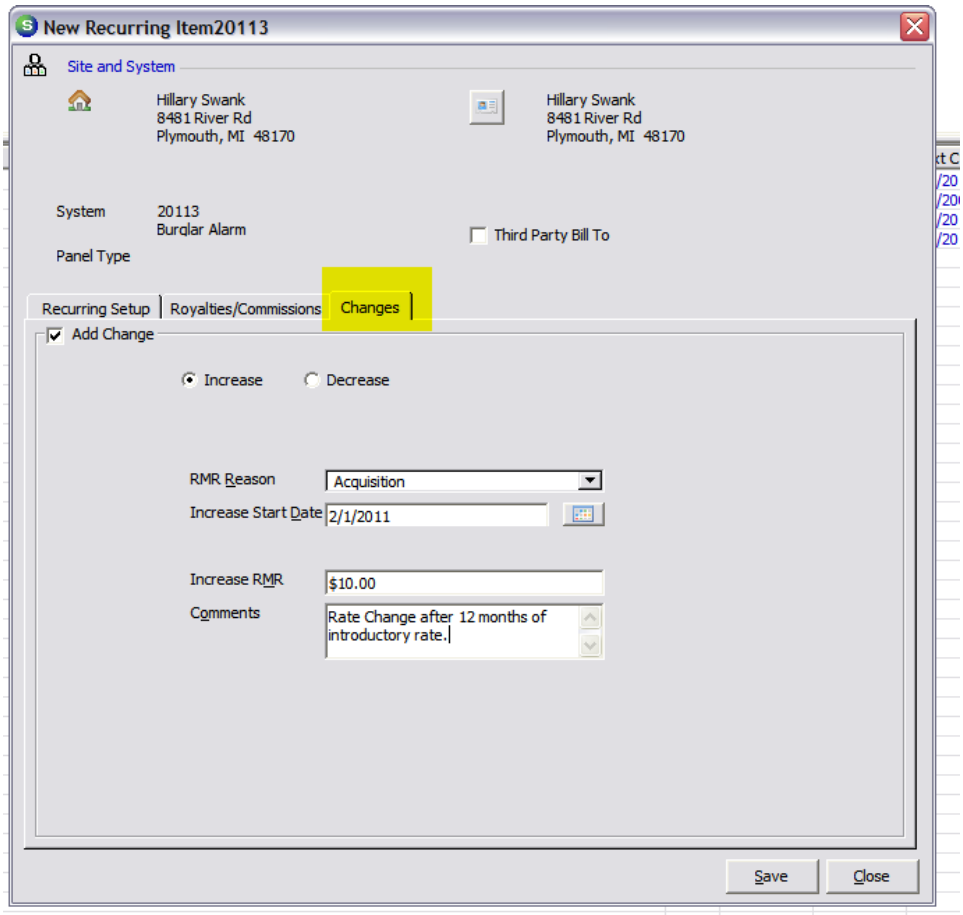
Effects on RMR Rate Cancellation

Active RMR	Change Amount Date	Active RMR Date	Active RMR Date
$25.00	-$25.00	$25.00	$0.00
2/1/2008	2/28/2009	2/28/2009	3/1/2009

Entering Changes at the time of Creation

A new feature in SedonaOffice allows you to enter a rate change to an RMR item at the time you enter it on to the customer record. This is useful if you know of a pending rate change based on things like,

1. Contracted Rates for the first X months
2. Known rate increases/decreases after X months.

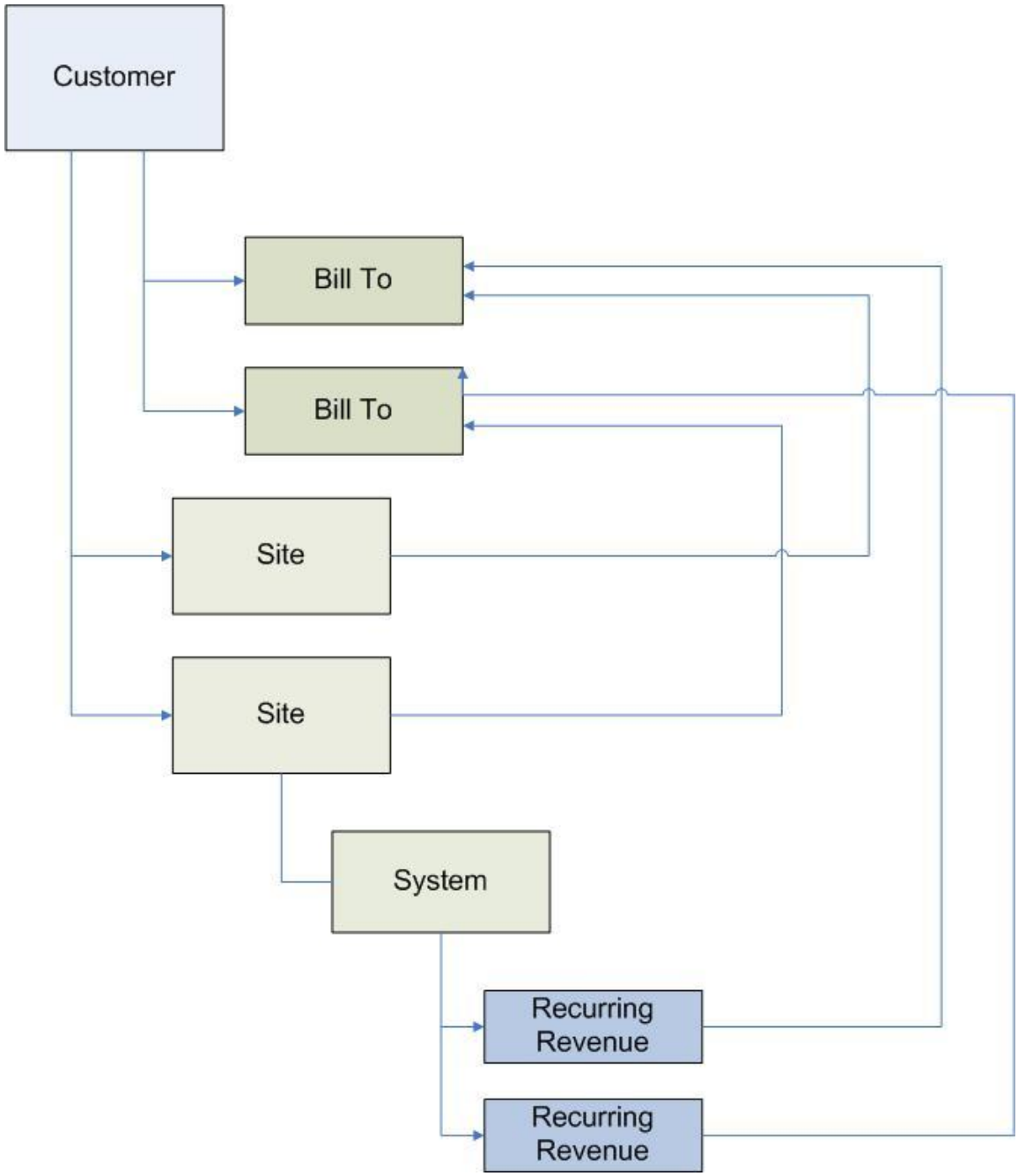


Bill To Record and Recurring Revenue

SedonaOffice now supports the ability to have different Recurring Revenue items for a Customer go to different Bill To records. The Recurring Items will be consolidated by Bill To and separate invoices will be created for each Bill To record.

Customer "Bill To" Feature

The diagram below outlines the Bill To relationship within a Customer record.



Impact on Recurring Revenue (RMR)

Each Recurring Revenue item now contains a Bill To record. It will default to the Bill To for the Site. Each Recurring Revenue can be changed to the appropriate Bill To record.

With this feature you can now have different recurring items invoiced to different addresses. For example you can send the monitoring invoices to location A while sending the maintenance invoices to location B.

NOTE: The use of the "Separate Cycle Invoice for Each Site" flag on the Customer record works just has it always has, but note: If this flag is set to NO and the Customer has multiple Sites, each with its own Bill To record it will create its own Invoice.

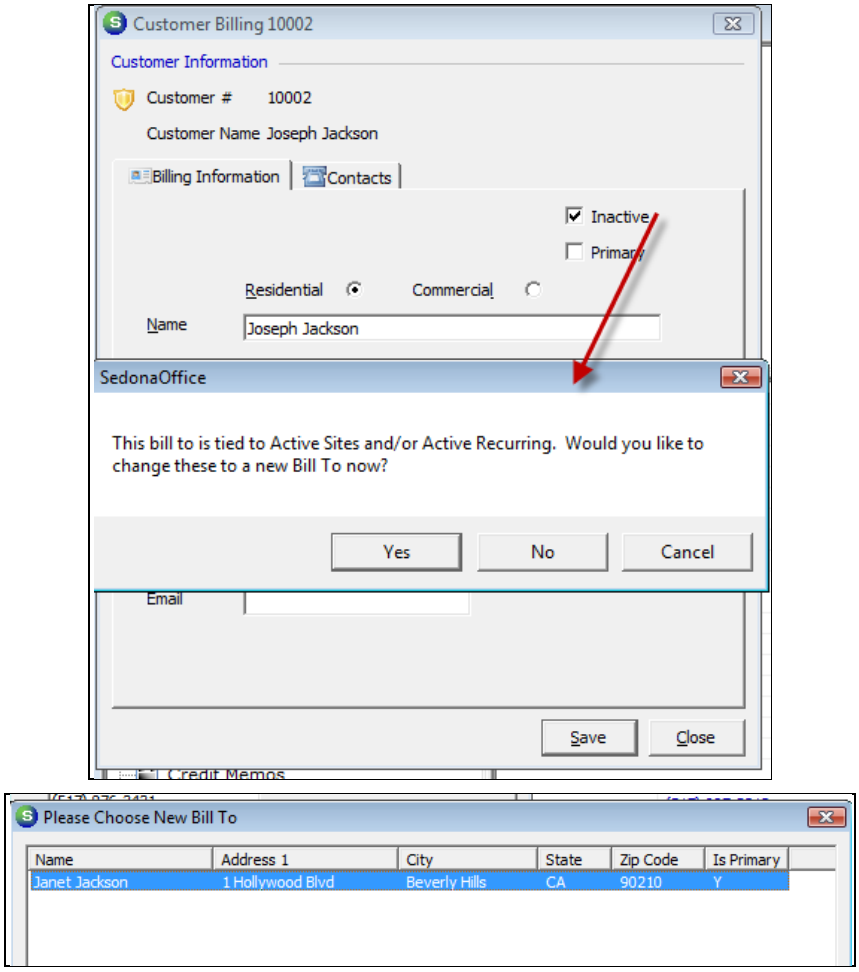
Important Things to Know when Using Multiple Bill To Records

Creating a New Primary Bill To

When you create a new Primary Bill To, it does not change the Bill To assigned to each of the Recurring Items. You have to change these manually.

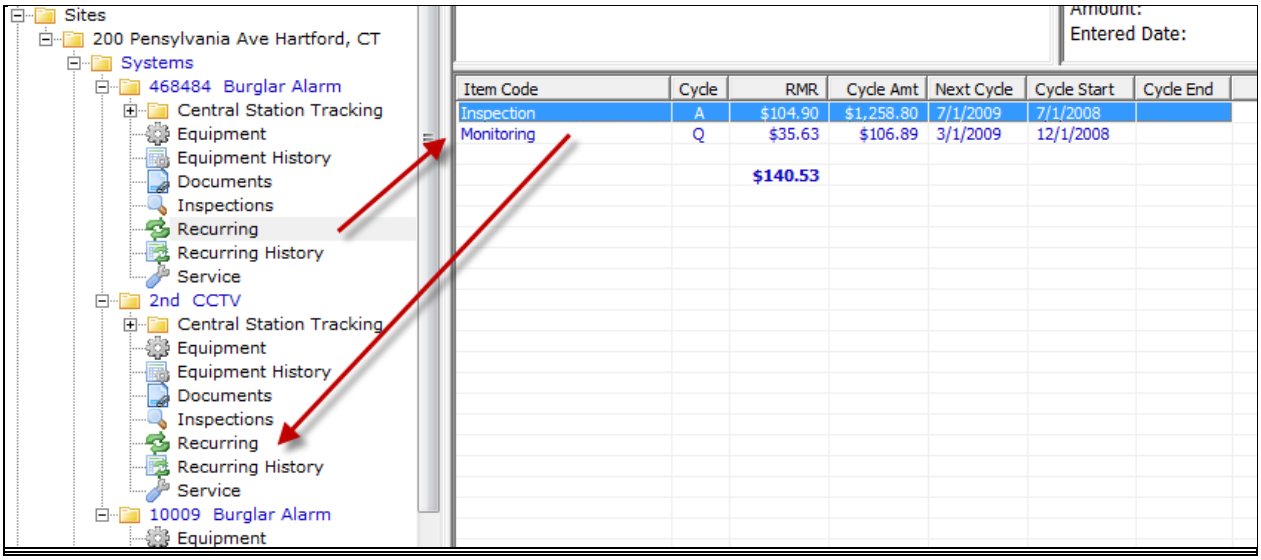
Making a Bill To Inactive

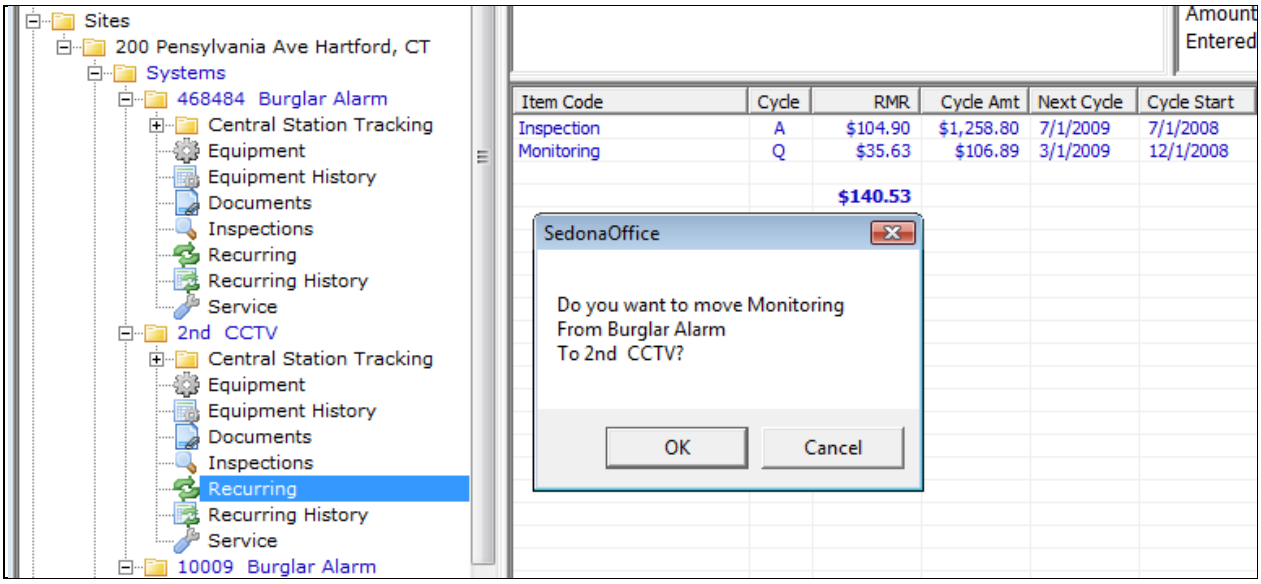
When you inactivate a Bill To, if there are Recurring Items assigned to the Bill To, you will be prompted with an option to change the Bill To on the Recurring Items.



Drag & Drop Recurring Revenue in a Customer

SedonaOffice allows you the ability to move Recurring Revenue within a Customer. With this feature you can drag and drop a Recurring entry from one System to another.





Deferred Revenue

When you generate recurring invoices with a Recurring Item that is setup as deferred (this is the norm) the amount Invoiced will flow through the Deferred Revenue GL Account. Here's how it works.

Service Period

Each line on an Invoice for a Recurring Service is based on a Service Period, the From and Thru dates. For example if your invoicing a Customer for quarterly Monitoring for February through April, the Service Period would be 2/1/2009 – 4/30/2009. *Each month is considered a Quantity of one (1), so in effect you are invoicing for a quantity of 3.*

Deferred Revenue Allocation

The Deferred Revenue is spread over the Service Period. Using the dates from above, since the Service Period is based on complete calendar months (this is the norm) the Deferred Revenue will be split in 3 equal amounts in each of the Accounting Periods.

Deferred Revenue Matrix

Here is an example how the Deferred Revenue is created.

Recurring Service	Deferred GL Account	For Period	Amount
MON	25000	2/1/2009	+25.00
MON	25000	3/1/2009	+25.00
MON	25000	4/1/2009	+25.00

Deferred Revenue GL Transaction

Here is an example of the Deferred Revenue as posted to the GL when the Invoice was created.

GL Account	Debit	Credit
11000 (AR)	75.00	
25000 (DR)		75.00

Posting of Deferred Revenue

When you post the Deferred Revenue to recognize the Income, here is an example of the posting. In this example we are recognizing the February 2009 revenue.

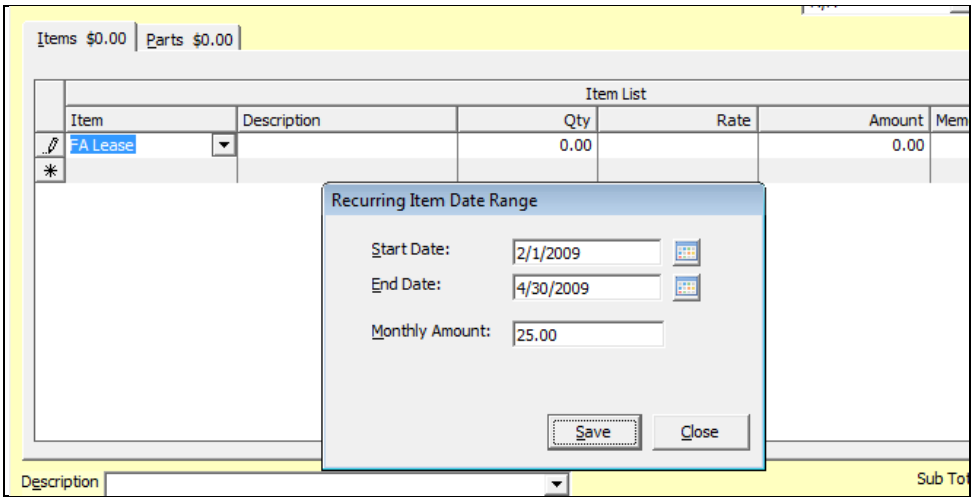
GL Account	Debit	Credit
25000 (DR)	25.00	
40100 (IN)		25.00

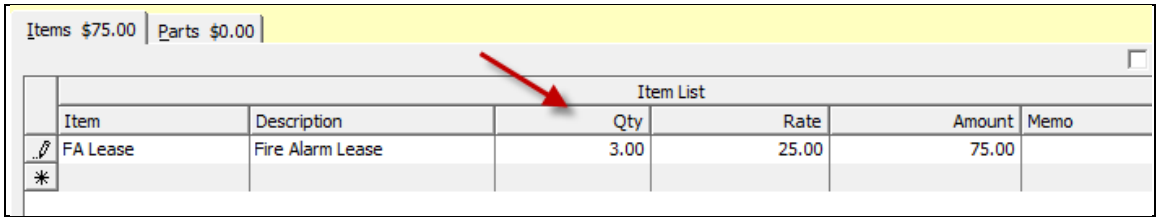
Creating a Manual Invoice (or Credit)

When creating a manual Invoice and you use a Recurring Service, you will need to enter the Date range for the Service Period.

NOTE: A manual invoice will not modify, change or in any way have an effect on the Recurring Services defined for the Customer.

The standard Deferred Revenue rules apply when creating a manual Invoice (or Credit)





Crediting Off Recurring Services

When you need to credit off Recurring Services, always be aware of the impact on the Deferred Revenue. If you are crediting off a previously invoiced Recurring Service, it is best to use the same Recurring Item code and enter the Service Period that covers the period being credited.

Back Dating the Service Period

When you back date the Service Period (either for an Invoice or a Credit), the Deferred Revenue will be brought forward for to the Current Period (based on the transaction date of the Invoice/Credit).

For example if you date an Invoice 2/1/2009, and the service period is 1/1/2009 – 3/30/2009 for $25 per month, the Deferred Revenue will be $50 for February and $25 for March.

Using the "Sub Item Of" Feature

The Sub Item Of feature works with selected Invoice forms to combine Recurring Items for a Customer into a single line. This is a nice feature if you want to allocate the services for reporting sales and financials to multiple accounts, while presenting the customer a single line for the services.

Set the Sub Item Of Field

In the Recurring Item, set the item codes to combine to the same Sub Item Of field.

- You cannot override the Description of the Sub Item Of field, the invoice will display the default value as setup in the Recurring Item.
- For the Recurring Items you want to combine, the Cycle and the Next Cycle Date must be the same value.

Item Code	Cycle	RMR	Cycle Amt	Next Cycle	Cycle Start	Cycle End
Alarm Services		$39.95				
Inspection	M	$10.00	$10.00	3/1/2009	1/1/2008	
Monitoring	M	$29.95	$29.95	3/1/2009	9/28/2008	

NOTE: When you view the invoice generated, you will see both recurring items, only on the Invoice will they be combined. (Not all Invoice Forms combine Sub Item Of items, be sure to test the form you use.)

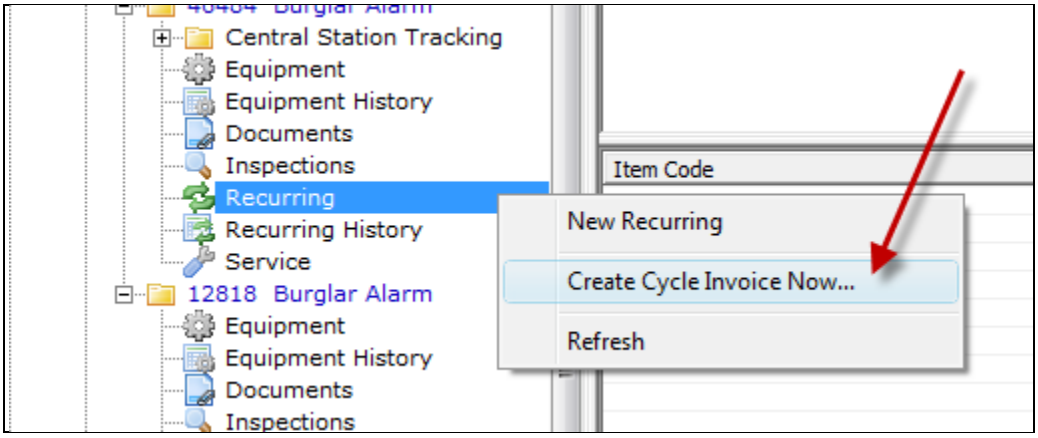
Other Recurring Revenue Topics

Quantity Based Recurring Items

A new feature in SedonaOffice allows you to turn on the ability to track Quantity based Recurring Services. This an enhanced feature, if you feel you may need this contact SedonaOffice support for further details.

Individually Cycle a Customer

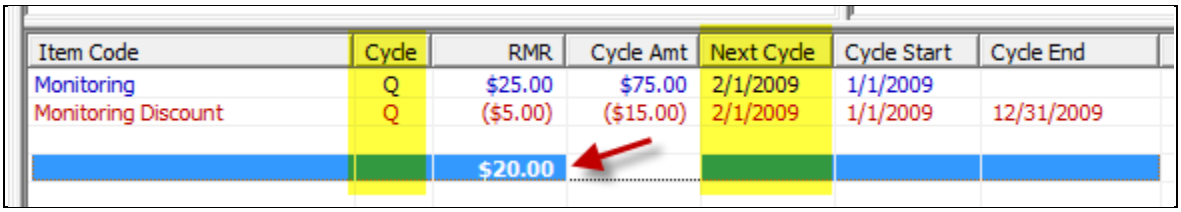
This option allows you to generate the Cycle Invoice for an individual Customer. You can use this if the Customer requests an Invoice in advance.



Using Negative Recurring Items

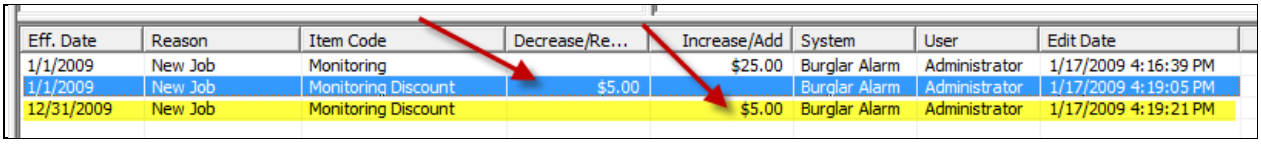
When using negative Recurring Items, here are a few rules you must follow.

- The Total RMR must be equal or greater than zero (0).
- The Cycle and Next Cycle Date for the Recurring Items must be the same.



Item Code	Cycle	RMR	Cycle Amt	Next Cycle	Cycle Start	Cycle End
Monitoring	Q	$25.00	$75.00	2/1/2009	1/1/2009	
Monitoring Discount	Q	($5.00)	($15.00)	2/1/2009	1/1/2009	12/31/2009
		$20.00				

NOTE: The RMR Tracking will display the creation of the negative RMR as a Decrease and the cancellation of the RMR as an Increase. (Be sure to consider this when tracking your RMR)



Eff. Date	Reason	Item Code	Decrease/Re...	Increase/Add	System	User	Edit Date
1/1/2009	New Job	Monitoring		$25.00	Burglar Alarm	Administrator	1/17/2009 4:16:39 PM
1/1/2009	New Job	Monitoring Discount	$5.00		Burglar Alarm	Administrator	1/17/2009 4:19:05 PM
12/31/2009	New Job	Monitoring Discount		$5.00	Burglar Alarm	Administrator	1/17/2009 4:19:21 PM

What is "Roll Forward" RMR

SedonaOffice provides reporting to manage your RMR as it rolls forward month to month. In order to do this, RMR must be identified as it changes. This is done through the RMR tracking data.

A good report to track what your RMR was at the beginning and end of each month is the "***Summary of RMR Changes***".

Here is an example of how the report manages the RMR flow.

At the beginning of Feb there are no changes yet done to the RMR.

January 7, 2010
9:37 AM

Summary of RMR Changes
February, 2010
All Branches
All Customer Types
Commercial, Residential

Page# 1

Effective Date	Customer #	Site Name	RMR Reason	RMR Amount
			Beginning Balance as of 2/1/2010	14,453,650.73
				0.00
			Ending Balance as of 2/28/2010	14,453,650.73

After entering rate increase and a cancellation in February,

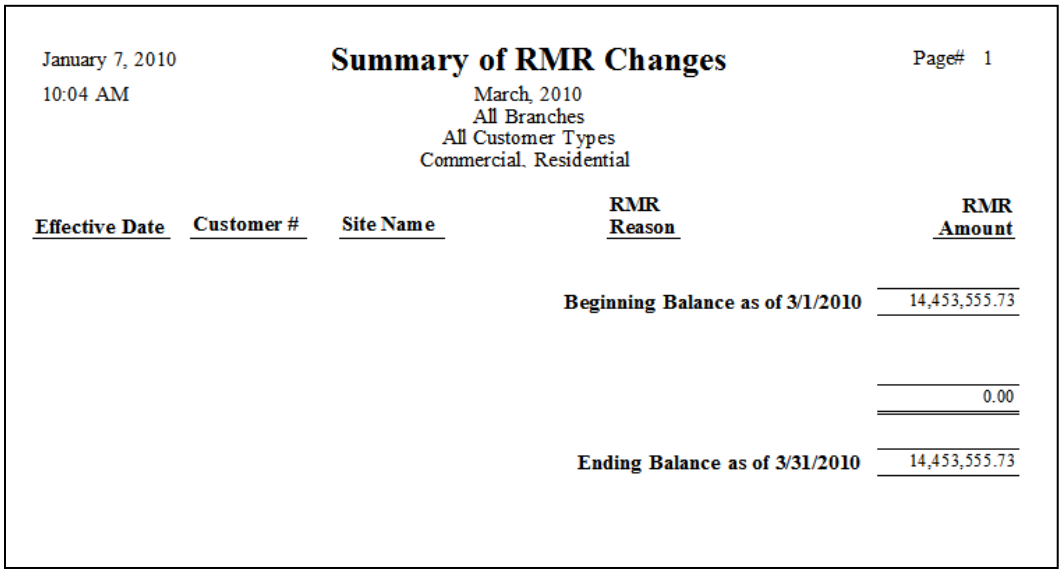
January 7, 2010
10:03 AM

Summary of RMR Changes
February, 2010
All Branches
All Customer Types
Commercial, Residential

Page# 1

Effective Date	Customer #	Site Name	RMR Reason	RMR Amount
			Beginning Balance as of 2/1/2010	14,453,650.73
Alarm Monitoring				
2/1/2010	20133	Megan Fox	Rate Increase	5.00
				5.00
FA Lease				
2/22/2010	20113	Hillary Swank	Poor Service	(100.00)
				(100.00)
			Ending Balance as of 2/28/2010	14,453,555.73

The beginning March RMR numbers roll forward from the ending February balance:



January 7, 2010
10:04 AM

Summary of RMR Changes

March, 2010
All Branches
All Customer Types
Commercial, Residential

Page# 1

Effective Date	Customer #	Site Name	RMR Reason	RMR Amount
			Beginning Balance as of 3/1/2010	14,453,555.73
				0.00
			Ending Balance as of 3/31/2010	14,453,555.73