A PRACTICAL GUIDE

SaaS Revenue Recognition

Plain-language walkthrough of IFRS 15 for B2B SaaS founders. Includes worked examples.

INTRODUCTION

Why this guide exists

Revenue is the single most analysed line on a SaaS company's income statement. It signals product–market fit to investors, anchors valuation multiples, and frames every conversation with a board or acquirer. And yet, for a category of company that prides itself on operational rigour, revenue recognition is often where the rigour breaks down.

We see the same pattern across early-stage and growth-stage SaaS businesses. Bookings, billings, and revenue are used interchangeably in internal reporting. Multi-year contracts get pulled forward into the current period. Implementation fees that should be deferred sit in revenue the day the invoice goes out. None of this is malicious — most of it stems from a finance function that scaled headcount before it scaled discipline.

This guide is written for the people who have to fix that: founders preparing for a first audit or a financing round; in-house controllers building out the close process; CFOs inheriting a revenue policy that was never really a policy. It is a plain-language walkthrough of the five-step model under **IFRS 15** (and its US GAAP counterpart, **ASC 606**), grounded in the contract structures we see most often in B2B SaaS.

By the end, you should be able to

- Identify performance obligations in a typical SaaS contract, including implementation, support, training, and premium features.
- Allocate transaction price across those obligations using standalone selling price.
- Build a revenue recognition schedule and a deferred revenue waterfall.
- Recognise the most common pitfalls before they reach your auditor.

We have kept the worked examples concrete and the citations specific. Where the standard genuinely calls for judgement, we say so.

IMPORTANT NOTICE

Disclaimer

EDUCATIONAL USE ONLY

This document uses illustrative examples only. All entity names, contract terms, and figures are fictional. No real client data is portrayed. This document is provided for educational purposes only and does not constitute professional accounting, tax, or legal advice. Consult your accountant for advice on your specific situation.

THE FRAMEWORK

The five-step model

IFRS 15 (*Revenue from Contracts with Customers*) and ASC 606 share the same core model. Both standards require revenue to be recognised when control of a good or service transfers to a customer, in an amount that reflects the consideration the entity expects to be entitled to.

The model is built around five sequential steps:

01

STEP 1

Identify the contract

A contract exists when the parties have approved it, the rights and payment terms are identifiable, it has commercial substance, and collection is probable.

02

STEP 2

Identify performance obligations

A performance obligation is a promise to transfer a distinct good or service — one the customer can benefit from on its own and that is separately identifiable from the other promises in the contract.

03

STEP 3

Determine the transaction price

The amount of consideration the entity expects to be entitled to, including fixed amounts, variable consideration, significant financing components, and any consideration payable to the customer.

04

STEP 4

Allocate the transaction price

Allocate to each performance obligation based on relative standalone selling price (SSP).

05

STEP 5

Recognise revenue

Recognise as each performance obligation is satisfied — either over time, or at a point in time.

The remainder of this guide walks through each step in the context of a typical B2B SaaS arrangement.

STEP 1

Identify the contract

What counts as a contract

Under IFRS 15.9 and ASC 606-10-25-1, a contract exists only when **all** of the following criteria are met:

- The parties have approved the contract and are committed to performing their respective obligations.
- The entity can identify each party's rights regarding the goods or services to be transferred.
- The entity can identify the payment terms.
- The contract has commercial substance.
- It is probable the entity will collect the consideration to which it will be entitled.

The form does not matter. A signed Master Services Agreement, a clicked-through online Order Form, and a verbally accepted purchase order can all be contracts, provided the criteria are met. What does matter is enforceability — both legal and through customary business practice.

Common SaaS contract structures

In B2B SaaS, the most common patterns we see are:

- **Annual subscription with auto-renewal.** A 12-month commitment renewing automatically unless cancelled with notice. Often paid annually in advance.
- **Multi-year subscription with annual billing.** Customer commits to two or three years; vendor invoices on each anniversary. Each invoice does *not* create a new contract — the original commitment is the contract.
- **Order Form referencing an MSA.** The MSA sets the legal terms; each Order Form is treated as a contract (or a contract modification, if it amends an existing arrangement).
- **Pilot or proof-of-concept agreement.** Frequently short, often free or heavily discounted, sometimes auto-converting to a paid subscription.

Combining contracts

If two or more contracts are entered into at or near the same time with the same customer (or related parties), and they are negotiated as a package, priced as a single commercial objective, or contain interdependent goods and services, IFRS 15.17 / ASC 606-10-25-9 requires them to be **combined**

and accounted for as one contract. This catches a frequent SaaS pattern: a subscription Order Form signed alongside a separate “professional services agreement” for implementation. Treating them as two contracts and recognising the services upfront is, in most cases, wrong.

WORKED EXAMPLE

XYZ Inc. — signed Order Form

XYZ Inc., a fictional logistics platform, signs an Order Form on 1 January for a 24-month subscription to Acme SaaS Corp's platform. The Order Form references Acme's MSA. Pricing is $10,000 per month, invoiced annually in advance. XYZ has a strong credit history and the contract is countersigned by both parties.

All five criteria are met: the parties have signed, rights and payment terms are clear, the arrangement has commercial substance, and collection is probable. **One contract exists** for accounting purposes, with a total committed value of $240,000 over 24 months.

If, two weeks later, XYZ signs a separate $30,000 Statement of Work for onboarding services — negotiated as part of the original sales cycle — those two documents must be combined and accounted for as a single contract under IFRS 15.17.

STEP 2

Identify performance obligations

Step 2 is where most SaaS accounting errors begin. The question is straightforward but consequential: **what, exactly, has the customer been promised?**

Distinct goods and services

A good or service is **distinct** when both of the following are true (IFRS 15.27 / ASC 606-10-25-19):

- The customer can benefit from it on its own, or together with other readily available resources (capable of being distinct).
- The promise to transfer it is separately identifiable from other promises in the contract (distinct in the context of the contract).

The first test is usually easy. The second is where judgement comes in. The standard provides indicators (IFRS 15.29): the entity does not use the good or service as an input to produce a combined output; the good or service does not significantly modify or customise another promised good or service; the good or service is not highly interdependent or interrelated with the others.

Performance obligations in a typical SaaS contract

The promises typically embedded in a B2B SaaS arrangement, and how we usually assess them:

Element	Description	Usually distinct?	Recognition pattern
Subscription / platform access	Right to access the hosted software for the term	Yes	Over time, typically straight-line
Implementation / onboarding	Configuration, data migration, initial setup	Depends — see below	Over time during implementation, or combined with subscription
Customer support	Help desk, ticket-based support included in standard fee	No — generally part of subscription	Same pattern as subscription
Premium support	Named CSM, SLA-backed response times, paid separately	Yes	Over time, typically straight-line over support period
Training	Discrete instructor-led or recorded sessions	Yes, where customer can benefit independently	Over time during delivery, or at point in time
Premium features / add-on modules	Add-on functionality with separate price	Yes	Over time, straight-line over access period

The implementation question

The most common Step 2 dispute in SaaS is whether implementation is a separate performance obligation. The test is whether the customer could obtain comparable implementation services elsewhere (third-party integrator, in-house team) and still receive the benefit of the subscription. Where the platform is genuinely usable only after vendor-specific configuration that no third party can perform, implementation is likely **not** distinct and is combined with the subscription. Where third parties routinely implement the same platform, or where the implementation is largely standardised configuration, it is likely distinct.

This is a judgement, and it should be documented in your revenue recognition memo.

> WORKED EXAMPLE
>
> **Acme SaaS Corp — Sample Co. contract**

> Sample Co. signs a one-year contract with Acme SaaS Corp containing: platform subscription $60,000; implementation services $20,000; annual administrator training (4 sessions) $4,000; premium support tier $12,000. Total contract value: **$96,000**.
>
> Acme's implementation is standardised and is routinely performed by two independent integrator partners. Training sessions are recorded and also sold separately to non-customers. Premium support is offered as an optional upgrade with its own price list.
>
> **Assessment:** Four performance obligations — (1) Subscription, recognised over 12 months straight-line; (2) Implementation, recognised over the ~2-month delivery period; (3) Training, recognised as each of the four sessions is delivered; (4) Premium support, recognised straight-line over 12 months.
>
> Had Acme's implementation been genuinely vendor-specific and indispensable to platform use, the assessment would likely combine subscription and implementation into a single performance obligation recognised over the subscription term.

STEP 3

Determine the transaction price

The transaction price is the amount of consideration the entity expects to be entitled to in exchange for transferring the promised goods or services (IFRS 15.47 / ASC 606-10-32-2). It is **not** the invoiced amount. The two often differ.

Fixed consideration

The straightforward case. A 24-month contract at $10,000 per month yields fixed consideration of $240,000. Treat this as the starting point, then adjust.

Variable consideration

Variable consideration arises wherever the amount the vendor expects to receive is not contractually fixed. In SaaS, the common sources are:

- **Usage-based fees.** Per-seat overages, API call charges, GB-of-data fees.
- **Discounts and rebates.** Volume tiers, loyalty credits, MDF arrangements.
- **Refunds and credits.** Service-level credits for downtime; pro-rata refunds on cancellation.
- **Performance bonuses or penalties.** Outcome-based pricing tied to customer KPIs.
- **Contingent fees.** Fees that crystallise only on a future event.

IFRS 15.53 requires variable consideration to be estimated using either the **expected value** method (probability-weighted sum across outcomes — better for large populations of similar contracts) or the

most likely amount method (better for contracts with binary or limited outcomes). The estimate is then **constrained** (IFRS 15.56): included only to the extent that it is highly probable a significant reversal will not occur.

In practice, this means most usage-based revenue is **not** included in the initial transaction price and is instead recognised as the usage occurs.

Significant financing component

Where the timing of payment differs materially from the timing of service delivery, and the gap exceeds one year, a financing component may exist (IFRS 15.60). The practical expedient at IFRS 15.63 allows entities to ignore the financing component when the gap is one year or less — which covers most annual-billed SaaS contracts. A 24-month contract paid 100% upfront, however, may require imputed interest expense.

Non-cash consideration

Less common in pure SaaS, but watch for situations where part of the consideration is equity, vouchers, or barter for services. Measured at fair value at contract inception (IFRS 15.66).

WORKED EXAMPLE

XYZ Inc. — usage-based pricing

XYZ Inc. enters a 12-month contract with Acme SaaS Corp comprising: a base platform fee of $60,000 (fixed); usage fees of $0.50 per API call above 1,000,000 calls per month; and a 5% discount on the base fee if XYZ achieves $500,000 in transactions processed on the platform during the year.

Acme's historical data shows that customers in XYZ's segment exceed the API threshold in roughly 30% of months, with overage averaging 150,000 calls. The transactions-discount has been earned by approximately 60% of comparable customers.

Component	Treatment
Base fee	$60,000 — fixed, included
API overage	Excluded from initial transaction price; recognised as usage occurs
Transactions discount	Estimated at 60% probability × $3,000 = $1,800 reduction, **if** Acme concludes this is not constrained

If Acme concludes the discount estimate is sufficiently reliable not to trigger constraint, initial transaction price = **$58,200**. Usage fees are added to revenue period-by-period as earned.

STEP 4

Allocate the transaction price

Once you have identified your performance obligations (Step 2) and your transaction price (Step 3), Step 4 distributes the price across the obligations based on **relative standalone selling price** (SSP) — IFRS 15.74 / ASC 606-10-32-31.

Standalone selling price

SSP is the price at which the entity would sell the good or service separately to a customer in similar circumstances. The hierarchy:

1. **Observable price.** If you sell the item separately, use that price.
2. **Estimated price.** If you do not, estimate using an acceptable method: adjusted market assessment, expected cost plus a margin, or — for a limited population of items — a **residual approach** (IFRS 15.79).

The residual approach is permitted only when (a) the entity sells the same good or service to different customers for a broad range of amounts, or (b) the entity has not yet established a price. It is **not** the default and is frequently misapplied in SaaS.

Common allocation challenges in SaaS

- **Promotional discounts.** Where a customer receives a discount, IFRS 15.81 generally requires it to be allocated proportionately across all performance obligations, unless evidence shows the discount relates to specific obligations.
- **Free trial periods or ramp pricing.** Months at $0 or reduced rate are typically smoothed across the contract; effective monthly revenue equals total transaction price divided by total months.
- **Bundled implementation.** Where implementation is “free” but the subscription is priced above the SSP of the platform alone, a portion of the subscription price effectively belongs to implementation. Allocate accordingly.

WORKED EXAMPLE

Sample Co. — allocation under SSP

Returning to the Sample Co. contract from Step 2 (four performance obligations, $96,000 total). Suppose Acme SaaS Corp offered a 10% bundled discount on the deal, so the actual contract value is **$86,400**, not $96,000. Acme's observable SSPs are: subscription $60,000; implementation $20,000; training $4,000; premium support $12,000.

Performance obligation	SSP	% of SSP	Allocated price
Subscription	$60,000	62.50%	$54,000
Implementation	$20,000	20.83%	$18,000
Training	$4,000	4.17%	$3,600
Premium support	$12,000	12.50%	$10,800
Total	**$96,000**	**100.00%**	**$86,400**

The 10% discount is spread proportionately. If Acme could demonstrate that the discount was negotiated specifically against implementation (for example, a sales-incentive scheme tied to that line), a different allocation might be defensible — but that argument needs evidence, not assertion.

STEP 5

Recognise revenue

Revenue is recognised as each performance obligation is satisfied — either **over time** or **at a point in time** (IFRS 15.31).

Over time vs. point in time

A performance obligation is satisfied over time if **any one** of the following is met (IFRS 15.35):

- The customer simultaneously receives and consumes the benefits as the entity performs (e.g., access to a hosted platform).
- The entity's performance creates or enhances an asset the customer controls.
- The entity's performance does not create an asset with alternative use, and the entity has an enforceable right to payment for performance to date.

The first criterion captures virtually all SaaS subscriptions: the customer benefits continuously from platform access as it is delivered. Subscriptions are therefore recognised **over time**. If none of the three over-time criteria are met, revenue is recognised at the **point in time** at which control transfers — relevant in SaaS for things like one-off perpetual licences or completed milestone deliverables.

Measuring progress over time

Where revenue is recognised over time, IFRS 15.39 requires the entity to choose a single method for measuring progress:

- **Output methods.** Units delivered, milestones completed, contract value of work to date. Useful for implementation or fixed-deliverable services.
- **Input methods.** Time elapsed, costs incurred, labour hours expended. Most SaaS subscriptions use straight-line over the subscription term — an input method based on time, justified by the fact that the customer's benefit is broadly uniform across the period.

When to accelerate or defer

Several SaaS-specific patterns alter the basic straight-line treatment:

- **Material rights granted at contract inception** (e.g., a discount on renewal that exceeds what a new customer would receive) are separate performance obligations and may shift revenue forward or back.
- **Setup or activation fees with no standalone value** are deferred and recognised over the *expected customer life* — not the initial contract term — because the customer benefits from the setup across all renewals.
- **Free months at the start of a contract** are typically smoothed (see Step 4) rather than recognised as zero revenue in those months.

WORKED EXAMPLE

Acme SaaS Corp — recognition schedule for Sample Co.

Continuing the Sample Co. allocation: subscription $54,000 straight-line over 12 months = **$4,500/month**; implementation $18,000 over a 2-month delivery = **$9,000/month** in months 1–2; training $3,600 across four quarterly sessions = **$900 per session**; premium support $10,800 straight-line over 12 months = **$900/month**.

PO	M1	M2	M3	M4	M5	M6	M7	M8	M9	M10	M11	M12	Total
Subscription	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	54,000
Implementation	9,000	9,000	—	—	—	—	—	—	—	—	—	—	18,000
Training	—	—	900	—	—	900	—	—	900	—	—	900	3,600
Premium support	900	900	900	900	900	900	900	900	900	900	900	900	10,800
Total	**14,400**	**14,400**	**6,300**	**5,400**	**5,400**	**6,300**	**5,400**	**5,400**	**6,300**	**5,400**	**5,400**	**6,300**	**86,400**

> This pattern — heavy front-loading from implementation, modest mid-year bumps from training delivery, stable underlying subscription — is typical and is one reason GAAP revenue rarely matches MRR-based dashboards.

END-TO-END

A complete SaaS contract, start to finish

This section walks through a single contract end-to-end. Every figure is fictional and chosen for clarity.

The contract

On **1 January 2026**, XYZ Inc. signs a 24-month subscription agreement with Acme SaaS Corp. The Order Form contains:

- **Platform subscription:** $120,000 per year, billed annually in advance ($240,000 total)
- **Implementation:** $50,000, billed at contract signing, delivered over the first 3 months
- **Premium support tier:** included at no separate charge (list price $24,000 per year)

Acme's price list shows the platform alone at $120,000/year and premium support at $24,000/year. Implementation is sold separately by two third-party partners at comparable rates and is therefore distinct.

Step 1 — Contract

The Order Form is signed by both parties, rights and payment terms are clear, commercial substance exists, and collection is probable. **One contract**, term 24 months, gross commitment value before allocation = **$290,000** ($240,000 subscription + $50,000 implementation; premium support has no separate charge but is part of the bundle).

Step 2 — Performance obligations

Three performance obligations: (1) Platform subscription, over time, 24 months; (2) Implementation services, over time, 3 months; (3) Premium support, over time, 24 months.

Step 3 — Transaction price

Total fixed consideration: **$290,000**. No variable consideration, no significant financing component (annual billing falls within the one-year practical expedient).

Step 4 — Allocation

Performance obligation	SSP	% of SSP	Allocated price
Subscription (24 months)	$240,000	71.64%	$207,761
Implementation	$50,000	14.93%	$43,284
Premium support (24 months)	$48,000	14.33%	$41,552

Performance obligation	SSP	% of SSP	Allocated price
Total	**$335,000**	**100.00%**	**$290,000**

The bundled “free” premium support is reallocated $41,552 from the gross transaction price — a useful illustration of why “free” in a SaaS contract is rarely free in revenue terms.

Step 5 — Recognition

- Subscription: $207,761 / 24 = **$8,657/month** for 24 months
- Implementation: $43,284 / 3 = **$14,428/month** for months 1–3
- Premium support: $41,552 / 24 = **$1,731/month** for 24 months

Monthly revenue recognised: **$24,816** in months 1–3 (subscription + implementation + premium support); **$10,388** in months 4–24 (subscription + premium support).

Journal entries

At contract inception (1 January 2026) — billing the first year and implementation

```
Account                              Debit       Credit
──────────────────────────────────────────────────────
Accounts Receivable                170,000
  Contract Liability                            170,000
(Y1 subscription $120,000 + implementation $50,000)
```

On receipt of cash

```
Account                              Debit       Credit
──────────────────────────────────────────────────────
Cash                               170,000
  Accounts Receivable                           170,000
```

End of month 1 — recognising revenue earned

```
Account                              Debit       Credit
──────────────────────────────────────────────────────
Contract Liability                  24,816
  Subscription Revenue                            8,657
  Implementation Revenue                         14,428
  Premium Support Revenue                         1,731
```

End of month 4 — implementation complete, subscription continues

```
Account                              Debit       Credit
─────────────────────────────────────────────────────────
Contract Liability                  10,388
  Subscription Revenue                          8,657
  Premium Support Revenue                       1,731
```

Deferred revenue waterfall

Contract liability balance over the 24 months:

Month	Opening	Additions	Releases	Closing
1	—	170,000	(24,816)	145,184
2	145,184	—	(24,816)	120,368
3	120,368	—	(24,816)	95,552
4	95,552	—	(10,388)	85,164
5	85,164	—	(10,388)	74,776
6	74,776	—	(10,388)	64,388
…	…	…	…	…
12	22,164	—	(10,388)	11,776
13	11,776	120,000	(10,388)	121,388
…	…	…	…	…
24	**10,388**	**—**	**(10,388)**	**—**

Total revenue recognised across 24 months: **$290,000**. Total cash billed: $170,000 (Year 1) + $120,000 (Year 2) = $290,000. The two reconcile, but the timing differs materially — which is exactly the point of revenue recognition.

WATCH FOR

Common pitfalls

The following are the issues we encounter most frequently when reviewing a SaaS revenue policy for the first time.

01 Booking implementation as upfront revenue

WHAT HAPPENS. A customer is invoiced $50,000 for implementation at contract signing. The amount lands in revenue the same month.

WHY IT IS WRONG. Even where implementation is a distinct performance obligation, it is satisfied *over time* as services are delivered. Recognising it on invoice date front-loads revenue, overstates the current period, and creates a mismatch with the underlying contract liability.

HOW TO FIX. Defer implementation fees on billing. Recognise over the implementation period using a defensible measure of progress (time elapsed, labour hours, or milestones). If implementation is not distinct from the subscription, defer over the subscription term — or, where setup has no standalone value, over the expected customer life.

02 Treating a multi-year contract as point-in-time revenue

WHAT HAPPENS. A three-year, $360,000 contract is billed in full at signing. The accounting team books $360,000 to revenue, reasoning that the customer has paid and the contract is non-cancellable.

WHY IT IS WRONG. Payment timing does not change recognition timing. The performance obligation — providing platform access — is satisfied over time across the full 36 months. Recognising the whole amount on day one accelerates revenue by up to three years and overstates earnings.

HOW TO FIX. Recognise straight-line across the 36 months, regardless of when cash is received. Consider whether a significant financing component exists where prepayment exceeds 12 months (IFRS 15.60).

03 Mishandling contract modifications

WHAT HAPPENS. A customer adds 20 seats to an existing 12-month subscription, mid-term. The increased monthly revenue is recognised prospectively, with no adjustment to allocation or the underlying schedule.

WHY IT IS WRONG. Modifications can be (a) a separate contract, (b) a termination of the old contract and creation of a new one, or (c) a continuation of the existing contract with cumulative catch-up — and the right treatment depends on whether the additional goods or services are distinct and whether the price reflects standalone selling price (IFRS 15.20–21). Defaulting to “just bill the new amount” misses two of the three pathways.

HOW TO FIX. For each modification, document whether the change is a separate contract or a modification of the existing one, and apply the correct treatment. Build a contract-modification log so the assessment is not redone from scratch every audit.

04 Confusing billing with revenue

WHAT HAPPENS. The monthly board pack shows “revenue” that is actually invoiced amounts. Annual upfront billings appear as a revenue spike; mid-month new customer additions are invisible until billed.

WHY IT IS WRONG. Billings, bookings, MRR, ARR, and GAAP revenue are five different numbers. They reconcile to one another, but they are not interchangeable. Reporting billings as revenue produces volatile, lumpy results that bear no relation to economic performance and that no auditor will accept.

HOW TO FIX. Maintain a recognition schedule per contract per performance obligation, roll up to a monthly revenue figure, and reconcile that figure to billings via the deferred revenue waterfall. Report the GAAP figure as revenue; report MRR and bookings separately if useful for operational purposes.

05 Missing variable consideration

WHAT HAPPENS. A contract has a 5% volume rebate clause that is rarely earned. The team ignores it. In a strong quarter, the rebate triggers and the prior period's revenue has to be revised.

WHY IT IS WRONG. IFRS 15.53–56 require variable consideration to be estimated at contract inception and updated each period, subject to the constraint. Ignoring it is not the same as constraining it, and the rebate liability accumulates off-book until it is too large to absorb in a single period.

HOW TO FIX. Identify every source of variability in standard contract templates. Estimate using expected value or most likely amount. Reassess each reporting period. Document the constraint analysis.

06 Allocating discounts arbitrarily

WHAT HAPPENS. A 15% deal-level discount is applied entirely to the implementation line, making it look “free.” The subscription is recognised at full list price; implementation revenue is suppressed.

WHY IT IS WRONG. IFRS 15.81 requires discounts to be allocated proportionately across all performance obligations unless there is observable evidence the discount relates to a specific obligation. “We applied it to the implementation line on the order form” is not evidence — pricing-page history and pattern of discounting are.

HOW TO FIX. Default to proportionate allocation. Reserve targeted allocation for cases with clear evidence (e.g., a documented promotion specific to one element).

07 Failing to identify material rights

WHAT HAPPENS. A customer receives a 50% discount on Year 2 renewal as a sweetener. No accounting is recorded for the discount until renewal.

WHY IT IS WRONG. A renewal discount that exceeds the discount a new customer would receive in the same circumstances is a *material right* — itself a performance obligation under IFRS 15.B40. Part of the original transaction price should have been allocated to it and deferred until renewal.

HOW TO FIX. Identify renewal discounts, loyalty credits, and similar arrangements at contract inception. Allocate a portion of the transaction price using SSP (or estimate using likelihood of exercise).

OPERATIONS

Tools and ongoing operations

A defensible revenue recognition process is not a once-a-quarter exercise. It is a system, and like any system, it needs the right records.

What to track

- **Contract register.** A single source of truth for every active contract: customer, signed date, term, total contract value, billing schedule, and links to the underlying documents.
- **Performance obligation register.** For each contract, the list of distinct performance obligations identified, their SSPs, allocation, and the recognition method chosen. This is the record an auditor will ask for first.
- **Recognition schedule.** For each performance obligation, the period-by-period revenue to be recognised, with a clear link to the underlying allocation. Aggregated, this produces the monthly revenue figure.
- **Deferred revenue waterfall.** A roll-forward of contract liability balances: opening, additions, releases, closing. Reconciles billings to revenue and is one of the most-asked-for audit schedules.
- **Contract modification log.** Every amendment, add-on, downgrade, and renegotiation, with the accounting assessment for each (separate contract, termination-and-new, or continuation with catch-up). Build this from day one; reconstructing it later is painful.
- **Variable consideration estimates.** Where applicable, the estimate, the method used, the constraint analysis, and the reassessment history.
- **Revenue policy memo.** A standing document covering your performance obligation analysis, SSP methodology, treatment of common contract structures, and the reasoning behind any significant judgements.

A note on tooling

Spreadsheets remain the most common approach below roughly $5–10M ARR and can be made to work with discipline. Above that scale, the volume of contracts and modifications usually justifies a dedicated revenue subledger. We do not endorse specific vendors in this document; what matters is that whatever you use produces an auditable trail from contract to recognition schedule to general ledger, and that the schedules above are reproducible on demand.

WHEN TO ESCALATE

When to involve a specialist

Most SaaS revenue recognition is workable in-house once the policy is in place. The situations below typically warrant a CPA-level technical memo from your external advisor:

- **Multi-element arrangements** with unclear distinctness — particularly where implementation, customisation, or professional services are material to the contract.
- **Significant contract modifications** — large up-sells, scope reductions, term extensions, or renegotiations of pricing on existing contracts.
- **New product or pricing models** — outcome-based pricing, usage-based pricing introduced for the first time, or a shift from term licence to subscription.
- **M&A activity** — acquired contracts must be aligned with the acquirer's accounting policy and may require purchase accounting adjustments to deferred revenue.
- **Audit readiness** — the first external audit, a change of auditor, or remediation of a prior-period misstatement.
- **Material rights and customer loyalty programmes** — renewal discounts, credits, and similar arrangements that introduce performance obligations beyond the obvious ones.

A short technical memo at the right time is almost always cheaper than the audit adjustment, restatement, or diligence finding that follows from getting it wrong.

Next steps

If you have read this far and recognise one or more of the pitfalls in your own books, you are not unusual — and the fix is rarely as disruptive as it first appears. Most of what we have described can be brought into compliance within a single close cycle, provided the underlying contracts are accessible and the policy choices are made deliberately.

We work with B2B SaaS companies of all sizes, and revenue recognition is the single area where we spend the most time.

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