K-Notes: Comparing Master Service Agreements

from three sources

Work Together at the Start

Lawyers need to be aware of the downstream financial implications of the clauses they draft. Accountants need to work with lawyers early in the negotiating process to explain the financial impact of various clauses and strategies.

Andrew Antos
Founder, CEO
Klarity

"As lawyers, we often think about the legal implications of the language that we're negotiating or putting in the agreement. But once we actually get that agreement signed, there's lots of accounting implications."

Nick Tiscornia
Founding Member,
Klarity

"I might account for the contract at a lower value for the entire contract until that option expires, or until they exercise that option."
(on Right to Reduce clause)

KEY TAKEAWAYS

- **Right to Reduce clauses = financial impact**
  Account for the contract at a lower value for the entire contract until the reduction option expires, or until that option is exercised.
- **Termination for "convenience"**
  A revenue accountant must interpret factors like larger non-recoupable fees, penalties, remaining fees, and other issues to correctly determine the length of the contract from an accounting perspective and how to recognize the revenue.
- **Acceptability Clause**
  Where the acceptance clause is unilateral in favor of the customer, it is unlikely that an accountant would recognize the revenue until acceptance.
- **Legally Sound Does Not Mean Financially Sound**
  As a lawyer negotiating on behalf of a business, it's essential to understand that your contract language might be acceptable from a legal perspective but can have profound financial impacts on your clients and their customers.