

IFRS 15 revenue recognition

What does it mean to you?



All IFRS reporters will be impacted by the new IFRS 15 standard when it becomes effective in 2018, and you will need comparatives. Some industries will experience greater changes than others. However, the impacts to your business, systems, data needs and financial reporting will be far reaching.

The key issues

Do you know that







- Existing IFRS revenue recognition guidance is being replaced
- IFRS 15 introduces a new 5-step model with a focus on when 'transfer of control' occurs (rather than when 'risk and rewards' pass)
- You might have to maintain dual GAAP
- More judgements and estimates are required
- The impact extends beyond accounting (e.g. contracts, executive compensation agreements, tax, debt covenants, investor relations, operational processes and systems, business models, pricing)

How would you

- Assess the impact that the new standard will have across all operations, revenue streams and contracts?
- Plan and execute potentially extensive changes to your systems and data?
- Revise your KPIs and other performance measures?
- Change T&Cs in your commercial contracts?

Where will you be most affected?

IFRS 15 may change the pattern of revenue and margins. Some of the more significant areas of impact are illustrated below.

	Relevant technical issues	Possible impact
 Step 1 Identify the contract	<ul style="list-style-type: none"> Contract modifications 	<ul style="list-style-type: none"> ↑ Revenue for the year as certain modifications will now result in cumulative catch-up adjustment
 Step 2 Separate performance obligations	<ul style="list-style-type: none"> Complex contracts with many deliverables Implementation, installation and customisation services Implicit promises to the customer (not necessarily listed in the contract) 	<ul style="list-style-type: none"> Distinct performance obligations need to be reassessed
 Step 3 Determine transaction price	<ul style="list-style-type: none"> Variable consideration (e.g. rebates, discounts, performance bonuses) Time value of money 	<ul style="list-style-type: none"> Often earlier revenue recognition when contingencies exist ↑ Revenue, ↑ Finance income if financing element is significant
 Step 4 Allocate transaction price	<ul style="list-style-type: none"> Standalone selling prices (major impact for complex contracts with many performance obligations) Free goods or services 	<ul style="list-style-type: none"> More estimation and different revenue profile ↑ Revenue for the year as an allocation must be made to these
 Step 5 Recognise revenue	<ul style="list-style-type: none"> Transfer of control must be assessed Explicit guidance on over-time recognition 	<ul style="list-style-type: none"> Potentially ↓ revenue for a year if the timing of recognition changes Re-assessment needed to support any current over-time basis, which could lead to a change to 'point in time' if unsupported
 Other considerations	<ul style="list-style-type: none"> Contract cost capitalisation now a requirement, not an option Disappearing revenue upon adoption 	<ul style="list-style-type: none"> ↑ Assets, ↓ Operating expense, ↑ Amortisation expense. Consider impact on EBITDA presentation Previously deferred revenue may be recognised as credit in equity

Multiple areas and functions across your organisation will be impacted

The new standard will bring financial, operational and commercial change.

1 Financial Reporting:

Top line (revenue) may change significantly from 2018, including the amount, timing and pattern which can then have an impact on KPIs including the bottom line.

2

Operations and IT:

The implementation of IFRS 15 will impact multiple functions, including Accounting, Financial Planning & Analysis, IT, Sales & Marketing, HR, Investor Relations. Existing IT systems will no longer be able to depict revenue without major changes.

3

Commercial:

IFRS 15 provides an opportunity to review contracts, analyse and amend terms and conditions in line with business objectives, modify certain offerings to achieve revenue recognition objectives, and streamline business processes.

What is key for successful transition?

- Start preparing now to work out how the standard affects your financial picture, your investors, and the way you do business
- Develop an approach that effectively leverages the transition period
- Establish a robust governance structure and consider resource needs
- Agree project management and change management protocols
- Document as you go – maintain an audit trail
- Timely engage others in your organisation who will be affected by the new standard

We can help

Our team has skills, industry experience and technical expertise with complex accounting change projects. We use an embedded, flexible approach.



Assess

- Establish governance, project and change management approach
- Inventory revenue arrangements and review contracts
- Review current accounting policies and practices
- Identify relevant differences under the new standard



Convert

- Determine adoption method (full retrospective or modified retrospective)
- Map accounting policy differences to process and systems impacts
- Consider dual-GAAP approach, including interim solutions
- Establish roadmap and communication plan



Embed

- Educate and communicate within the organisation
- Effect process and systems changes
- Collect and convert data, perform calculations
- Draft disclosures (both transition and ongoing)

PwC's knowledge and experience

We have worked with many businesses already to consider the impact IFRS 15 will bring. This has allowed us to develop a suite of useful templates and project enabling tools to help facilitate an efficient and effective conversion project. We would welcome the opportunity to discuss how we can assist you.

For more information visit: www.pwc.co.uk/ifrs15

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