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Accounting Alert
IFRS 15: Does it impact my business?

Key messages:

- IFRS 15 is more prescriptive than its predecessors and will impact your business
- If any element is incorrectly determined, the timing and/or amount of revenue recognised will be incorrect
- We need to act now. Regulators are expecting to see quantified impacts in 2017 financials. Are you in a position to make these disclosures?

The transition date for IFRS 15 *Revenue from Contracts with Customers* is fast approaching. Do you know how it will affect your business? Below are just some of the questions you need to address to understand how IFRS 15 applies to your business:

Step 1: Identify the Contract

- **Don't have written contracts with customers?** It doesn't matter, a contract can still exist either verbally or implicitly.
- **Is there more than one contract/ agreement with the same customer? Were they entered into at roughly the same time?** The separation of items into different contracts may not achieve the desired accounting treatment. These may be required to be combined.
- **Has the scope/price of a sales/service agreement changed during the contract period?** Modifications may result in termination of the old contract and commencement of a new contract, or may result in an adjustment to revenue already recognised.

Repurchase agreements

- **Does the entity enter agreements with a right/obligation to repurchase the good(s)?** Such agreements may not be in the scope of IFRS 15.

Step 2: Identify the Performance Obligations

- **Do sales/service agreements have multiple goods/services?** Consider an entity that designs and manufactures a product, delivers and installs the product for the customer and provides on-going servicing and a warranty. How many separate performance obligations exist? … 1? … 3? … 6? It depends!
- **Is each item in the agreement distinct? Is each item sold separately? Are all items dependent on other items in the contract, such that one without the rest is worthless?** This will determine how many distinct items exist, or if items need to be bundled.
- **Are customised/made-to-order products manufactured over a substantial period of time?** These arrangements may not qualify for recognition over a period of time (i.e. the percentage of completion basis may not be appropriate).

Payment milestones

- **Is revenue currently recognised in accordance with payment milestones?** Milestones are unlikely to tie to performance obligations in accordance with IFRS 15 and the pattern of revenue recognition. Differences may result in a financing component.

Warranties

- **Is a warranty a separate good/service?** It depends.

Customer options

- **Does the customer have a right to a discount in the future/additional goods?** If so, this could be a separate performance obligation if they gain an incremental benefit as a result of the agreement. A portion of the revenue will need to be deferred into the future.
- **Does the entity have a loyalty program?** This may impact the timing of revenue recognition.

Non-refundable upfront fees

- **Does the entity charge a non-refundable deposit/joining/set up/ registration fee? Does this give rise to a separate performance obligation? What good/service has been provided?** In most instances upfront fees do not qualify for immediate revenue recognition.

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Step 3: Determine the Transaction Price

- **Does the entity provide discounts, rebates, refunds, credits (i.e. price concessions)? What about incentives, performance bonuses or penalties?** Such items will need to be estimated at the outset and will impact the amount of revenue to be recognised.
- **Is the duration of an agreement longer than 12 months?** A financing component may exist regardless of whether the agreement explicitly or implicitly specifies one.
- **Are vouchers given to the customer along with the goods purchased?** If so, is this payment for a different good/service or is it a reduction to the revenue received?

Contract costs

- **Are costs incurred in obtaining a contract (e.g. sales commission)? Are such costs expensed as incurred?** If not, when are they recognised?
- **Recognition of a contract receivable may not coincide with the satisfaction of a performance obligation.** If not, when is the receivable recognised?

Right of return

- **Does the entity have a customary practice of allowing customers to return products?** Revenue may not be recognised when products are 'sold' to the customer.

Step 4: Allocating the transaction price to each performance obligation

- The absence of stand-alone prices does not infer items are not distinct. In certain circumstances, the stand alone price may need to be estimated. If so, what method is used?
- **Are discounts provided on agreements with more than one good/service? Is the discount applied to all items proportionately or just one of the goods/services?** It depends.
- **Do long term agreements have fixed pricing? Are the future years priced at market rates?** A discount may exist impacting timing and amount of revenue recognised.
- **If a change to the price occurs during the contract, how is this change allocated to the separate goods/ services?** It depends. And can be complicated if one of the goods/services has already been provided and the revenue already recognised.

Step 5: Recognising revenue

- **A contract asset is recognised excluding any amounts presented as a receivable.** What is the difference between a contract asset and a receivable?
- **What if the receivable is impaired (under IFRS 9) on day 1?** Is this a reduction of revenue or an expense?
- **Are inventory sales made on consignment?** Indicators of consignment arrangements are now included in IFRS 15 and may result in gross or net recognition.
- **Is the entity responsible for fulfilling some of the obligations in the agreement, while it arranges for someone else to handle the rest? (i.e. is the entity the Principal or Agent, or both?)** The indicators for this distinction are different under IFRS 15 and can change the revenue recognition pattern for different obligations in the same contract.
- **Does the entity licence intellectual property?** Revenue may be recognised immediately or over time depending on classification.
- **Does the entity have take-or-pay arrangements?** Can unexercised rights be estimated? Revenue may be recognised earlier than under IAS 18.
- **Does the entity enter agreements where the entity invoices the customer, but retains physical possession of the good(s) (i.e. bill and hold arrangements)? If so, when does the customer obtain control of the good(s). Can the customer have control without physical possession?** It depends.

Key contacts

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