IFRS 15 - Revenue Recognition

"IFRS 15 – Revenue from Contracts with Customers" will become applicable for annual periods beginning on or after January 1st, 2018. The standard has been developed as a joint project between the FASB and IASB. The core principle of IFRS 15 is that "an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services." IFRS 15 (or ASC 606) will have an accounting, business and technology impact for most entities that report under IFRS or US GAAP.

IFRS 15

The International Accounting Standards Board (IASB) issued IFRS 15 (Revenue from Contracts with Customers) together with the US Financial Accounting Standards Board (FASB). The new Revenue standard will take effect per January 2018.

Will you be affected by IFRS 15?

If you currently report under IFRS or US GAAP (or are planning to do so in the near future) you will likely be affected by IFRS 15, especially if your business model includes for example:

- Multiple elements arrangements
- Long term contracts
- Sales with a right of return
- Discounts or rebated

Please note this overview is not a complete list and IFRS 15 impacts more entities than often thought.

The impact will however not be the same for all entities. Every entity needs to be individually assessed to ensure all specifics are considered. As a guideline the following industries are at least impacted:

- High impacted industries: Automotive, Software & Telecom
- Medium impacted industries: Pharma, Media, Real Estate & Construction & Engineering
- Low impacted industries: Retail, Transportation & Logistics.

What is the impact of IFRS 15?

A common misconception is that IFRS 15 will only have implications for changing accounting and reporting methods. This itself is already challenging and complex but IFRS 15 will also impact business processes, technology next to the accounting implications.

Accounting & reporting impact

IFRS 15 offers greater leeway in how to price goods and services and setting up customer contracts. With this greater flexibility assurance of compliance to revenue accounting standards will become more complex. Another attention point will be the disclosure requirements of IFRS 15 which are more extensive than required by the current IAS 18 standard.

Business process impact

During transition workload can increase significantly. Existing contracts, company practices, accounting policies and business models need to be analyzed. Furthermore the impact of presenting the financials under both the current as the new standard. If not supported by automation the reconciliation of revenue accounting for bundled contracts can be sensitive to human errors.

Technology impact

Automation can support the entity in fulfilling the new requirements as set by IFRS 15. Examples are new reports, interfaces and data structures that are needed in order to comply with the new disclosure requirements. Also to operationalize estimates and streamline the standalone selling prices and multi-element arrangements. These and other changes may create new risks which will require new and/or updated controls.

Approach

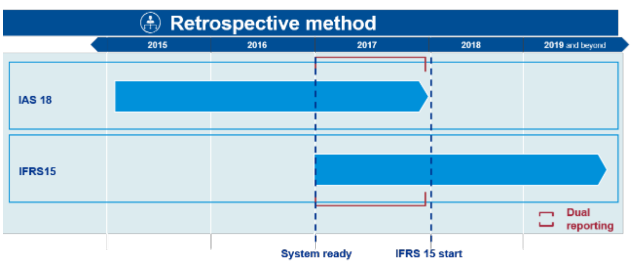
The standard approach for IFRS 15 revenue recognition recalculation (independent from your reporting system) are the 5 steps below (numbering):

1. Identify the contract(s) with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

In general there are 2 ways to implement the IFRS 15 rules into your ERP system:

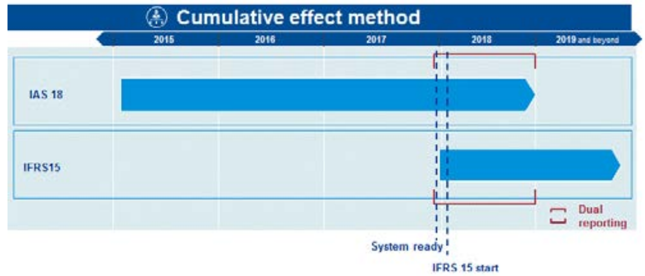
1. Retrospective method

By using the retrospective method it is possible to report on IFRS 15 before the standard will take effect. This enables companies to become acquainted with the new reporting methods before it becomes mandatory. By using dual reporting, companies will be able to see the differences and can anticipate accordingly. A downside to this is the shorter time to get ready.



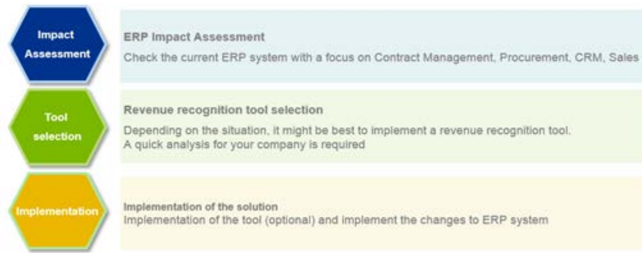
2. Cumulative effect method

The cumulative effect method is a more "Big Bang" type of approach. The dual reporting time is shorter and the go-live date is very close to due date when IFRS 15 becomes effective. This gives the organization more time to prepare the system changes but gives reporting departments a strong deadline for reporting according to the IFRS 15 standard.



Project way of working

KPMG will implement IFRS 15 in close cooperation with your IT and Finance & Reporting departments by using a 3-way approach:



- The first step is to assess the impact of IFRS 15 on accounting, financial reporting, business processes and technology.
- The second step is to determine which solution is the best match for your organization. This could also be an opportunity to implement changes/improvements other than the goal to comply with IFRS 15. Other changes are also expected in the near future, think of IFRS 16.
- The third step is the implementation of the selected solution in a controlled and structured manner.

Why KPMG

KPMG has a longstanding history in Accounting and Advisory services all over the world. Our ERP specialists have in-depth knowledge and insights in the latest technology developments and cover all key ERP applications such as SAP, Oracle and Microsoft. This in combination with our highly knowledgeable Accounting experts KPMG can offer you best of both worlds to support you and your organization in this and other challenging changes in financial reporting.

To find out more

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