Accounting for revenue is changing
Impact on power and utilities companies
In association with the KPMG Global Energy Institute

Have you planned for the effects on:

- transfers of assets from customers?
- take or pay arrangements?
- variable consideration?
- contract modifications?
- contract costs?
- contracts with multiple goods and services?
- non-monetary exchanges?
- new disclosures?
- transition options?

How could your business be affected?

Now that the IASB and FASB have published a new joint standard on revenue recognition, the real work for power and utilities companies is just beginning. IFRS 15 Revenue from Contracts with Customers was issued in May 2014, replacing most existing IFRS revenue guidance, and introducing a new revenue recognition model.

The new standard could impact the top line of power and utilities companies and related communications with investors. Companies need to assess how their financial reporting, information systems, processes and internal controls will be affected. In addition, the new disclosure requirements are extensive and might require changes to systems, processes and internal controls to collect the necessary data. Companies will need to engage with their investors and other stakeholders to establish expectations of how their key performance indicators or business practices may change as a result of the new standard.

The new standard takes effect in January 2017, although IFRS preparers can choose to apply it earlier. While the effective date may seem a long way off, decisions need to be made soon – especially regarding when and how to transition to the new standard. An early decision will allow you to develop an efficient implementation plan and inform your key stakeholders.
## Determining the impact

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<thead>
<tr>
<th>Potential impact</th>
<th>Actions to consider</th>
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| **Transfers of assets from customers** | • IFRS 15 supersedes current IFRS guidance on transfers of assets from customers.  
• Under the new standard, an entity assesses whether it obtains control of the assets received and applies the guidance on non-cash consideration. The entity measures non-cash consideration received from a customer at fair value if that can be reasonably estimated; if not, then the entity uses the stand-alone selling price of the good or service that was promised in exchange for the non-cash consideration.  
• The entity then applies the general guidance in IFRS 15 to determine the timing for revenue recognition – i.e. whether to recognise revenue immediately or to defer it. | • Review the contractual terms of arrangements involving transfers of assets from customers to assess if the timing of revenue recognition will be affected under the new standard. |
| **Take or pay arrangements** | • IFRS 15 introduces a new approach for arrangements in which customers do not exercise all of their contractual rights (i.e. breakage). This may affect take or pay arrangements in which customers may not take all of the output to which they are entitled.  
• Under IFRS 15, if an entity expects to be entitled to breakage, it recognises the estimated breakage amount as revenue in proportion to the pattern of rights exercised by the customer. Otherwise, breakage is recognised as revenue only when the likelihood of the customer exercising its rights becomes remote. This may change the timing of breakage revenue recognised. | • Review the contractual terms and business practices relating to take or pay arrangements and assess the implications on accounting and financial reporting.  
• Develop accounting procedures needed to determine the treatment of breakage in take or pay arrangements.  
• Develop processes, systems and internal controls needed to identify and report take or pay arrangements and their key features. |
| **Variable consideration** | • Variable consideration is included in the transaction price to the extent it is highly probable that there will be no significant reversal of the cumulative amount of revenue when any pricing uncertainty is resolved. This may include, for example, estimates of the price of unbilled energy supplied to customers and retrospective price adjustments.  
• This may require additional judgement to determine the appropriate amount of variable consideration to recognise as revenue. | • Identify contracts involving variable consideration and assess the implications for accounting and financial reporting.  
• Develop processes, adjust systems and internal controls to capture, report, monitor and reassess contracts with variable consideration and underlying features. |
| **Contract modifications** | • IFRS 15 introduces new guidance on contract modifications. Contract modifications are accounted for either prospectively or by a cumulative-catch adjustment depending on whether distinct goods are added to the arrangement and, if so, whether those goods and services are priced at their stand-alone selling price. | • Identify types of contract modifications that are customary for the business and determine whether they will require prospective or cumulative catch-up accounting.  
• Develop accounting procedures to ensure consistency of application.  
• Develop systems and internal controls to track modifications and methodology to ensure appropriate application of the new standard. |
| **Contract costs** | • Under IFRS 15, an entity is required to capitalise certain costs incurred in obtaining a contract and, if specified criteria are met, of fulfilling a contract. This will include capitalisation of sales commissions payable when a contact is obtained unless the practical expedient is applicable and elected by the entity.  
• Capitalised costs are amortised on a systematic basis consistent with the transfer of the associated goods and services, and will be subject to impairment.  
• Judgement will be needed to assess which costs should be capitalised and to determine the appropriate period and pattern of amortisation, e.g. whether the amortisation period should include anticipated contracts with the same customer. | • Review typical contract costs against the new capitalisation criteria and determine whether the timing of cost recognition will change.  
• Assess whether systems and internal controls are capable of identifying and tracking costs against individual contracts, including anticipated future contracts if relevant, and subsequently amortising over an appropriate period. |
### Potential impact

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<th>Contracts with multiple goods and services</th>
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<td>• IFRS 15 includes detailed new requirements on how to determine whether the various goods and services promised in a contract are distinct and so accounted for as separate performance obligations.</td>
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<tr>
<td>• If separate performance obligations are identified, then the total transaction price is allocated to each performance obligation based on the relative stand-alone selling prices of the goods and services.</td>
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<td>• This may affect, for example, arrangements in which the sale of multiple commodities is included in the same agreement.</td>
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<td>• Develop new processes and adjust systems and internal controls to capture, estimate and monitor stand-alone selling prices to allocate the transaction price to the performance obligations in the contract.</td>
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<td>• Assess whether billing management and related systems and internal controls are capable of supporting the allocation methodology and generation of journals to allocate revenue.</td>
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<th>Non-monetary exchanges</th>
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<td>• IFRS 15 explicitly excludes from its scope non-monetary exchanges between entities in the same line of business to facilitate sales to potential customers.</td>
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<td>• As a consequence, these exchanges may not result in the recognition of revenues and costs for the amounts exchanged – revenue will only be recognised to the extent that the counterparty is a customer.</td>
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<td>• Review non-monetary exchange arrangements to determine if they qualify for revenue accounting under IFRS 15.</td>
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<td>• Determine whether process and system changes are required to identify and report exchange arrangements and their key features.</td>
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<td>• Extensive new disclosures are required, incorporating both qualitative and quantitative information. There are no exemptions for commercially sensitive information.</td>
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<td>• Stakeholders and competitors may take a close interest in the new disclosures related to unsatisfied performance obligations which convey information about future activity.</td>
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<tr>
<td>• Perform an initial assessment of whether existing systems and processes can collect the necessary data required to provide the new disclosures.</td>
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<td>• IFRS 15 may be adopted retrospectively, by restating comparatives and adjusting retained earnings at the beginning of the earliest comparative period.</td>
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<td>• Alternatively, IFRS 15 may be adopted as of the application date, by adjusting retained earnings at the beginning of the first reporting year.</td>
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<td>• Quantify and evaluate the effects of the different transition options, including the available practical expedients under the retrospective approach.</td>
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<tr>
<td>• Perform a historical analysis of key contracts. Consider whether existing systems provide the data required to produce comparative information if the new standard is applied retrospectively.</td>
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You can find more detailed information about IFRS 15 in our publications First Impressions, Transition to the New Revenue Standard and Issues In-Depth.

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Launched in 2007, the GEI is a worldwide knowledge-sharing forum on current and emerging industry issues. This vehicle for accessing thought leadership, events, webcasts and surveys about key industry topics and trends provides a way for you to share your perspectives on the challenges and opportunities facing the energy industry – arming you with new tools to better navigate the changes in this dynamic area. A regional focus to the GEI provides decision makers with tailored insight within the North and South America, Asia Pacific and Europe, Middle East & Africa regions. To become a member of GEI visit kpmg.com/energy.
How we can help

KPMG’s Energy & Natural Resources practice

KPMG’s Energy & Natural Resources practice is dedicated to supporting power and utilities companies globally in understanding industry trends and business issues. Member firms offer customised, industry-tailored services that can lead to value-added assistance for your most pressing business requirements. Our extensive network of professionals combines in-depth industry knowledge with extensive experience helping clients managing accounting transitions with what they entail.

For those affected by the new revenue recognition requirements, the impact will be felt far beyond accounting change. The following are just a few examples of how our cross-functional team of experts has helped clients across various sectors – including energy & natural resources – with the accounting and operational challenges.

• Performing an overall impact assessment to identify the key revenue streams that may be impacted by IFRS 15.
• Performing a detailed accounting diagnostic to identify and prioritise the impacts on accounting policies and disclosures including information gaps.
• Reviewing key accounting policies and accounting manuals.
• Identifying and analysing key contracts under the IFRS 15 lens.
• Assisting in redrafting contract documentation.
• Identifying the impacts to internal management reporting including key financial measures and ratios.
• Assisting in developing clear communication with stakeholders regarding the impact of IFRS 15 on earnings.
• Mapping information requirements to existing sources and defining required information that is not currently available in your existing systems.
• Identifying data collection needs to meet the new disclosures requirements.
• Assisting in changing systems and processes to meet the new requirements.
• Providing training to finance teams.
• Identifying corporate and indirect tax implications and impact on distributable dividends.

Starting now will allow you to assess the impact and design an appropriate response plan that allows time for unanticipated complexity.

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