Are you good to go?

IFRS 15 will change the way many retailers and wholesalers account for their contracts.

To help you drive your implementation project to the finish line, we’ve pulled together a list of key considerations that many retailers and wholesalers need to focus on.
For each of the following, documenting your analysis and the conclusions drawn will be essential.
Distinct goods and services

Do several goods and services promised in the contract meet the new ‘distinct’ test to be accounted for separately?

A good or service is distinct if it is...

- Capable of being distinct
- Distinct in the context of the contract

Think about…
Customer options | Warranties | Shipping and handling | Installations
Customer options

Do you need to defer revenue because your sales transactions give rise to material rights?

A material right is an option to acquire additional goods or services...

- Obtained by entering into the original contract
- At a price lower than their stand-alone selling prices

Think about...
Loyalty schemes | Coupons and vouchers | Free gift cards | Discounts on future purchases
Warranties

Do your arrangements include warranties that need to be accounted for as separate performance obligations?

A warranty is a performance obligation if it...

- Is sold separately
- Provides more than assurance on compliance with specifications

Warranties that meet neither criteria are accounted for under IAS 37
Variable consideration

If the contract price contains variable consideration, have you decided on the estimation method and applied the constraint?

- Expected value
- Most likely amount

Could there be a significant revenue reversal?

Think about…
Rights of return | Rebates | Discounts | Price concessions | Incentives
Sales with a right of return

Does your accounting policy for sales with a right of return meet the requirements of IFRS 15?

When an entity makes a sale with a right of return it recognises...

- Revenue net of expected returns
- Liability for expected returns
- Asset for carrying amount of expected returns less recovery costs

Expected returns are estimated using the variable consideration guidance
Is your policy for recognising breakage consistent with IFRS 15?

Think about…
Non-refundable gift cards and vouchers
Significant financing components

Do deferred payment terms in your contracts give rise to a significant financing component?

Interest income

Sale date

Deferred payment

Practical expedient – No need to recognise if period between sale and payment is < 1 year

‘0% finance’ arrangements can include significant financing components
Have you reassessed whether you are acting as principal or agent under IFRS 15?

Principal vs agent questions can be complex for e-commerce transactions
Payments to customers

Have you determined whether payments to customers should be netted against revenue?

A payment to a customer that is not for a distinct good or service is netted against revenue...

At the later of when you...
— recognise revenue for related goods or services, or
— pay, or promise, the amount

Think about…
Slotting fees  |  Coupons and vouchers  |  Credits  |  Payments to distributors
Transition adjustments

Have you identified all of the areas where differences exist between IFRS 15 and your existing accounting?

Use the helpful guidance in our Transition Options and Issues In-Depth publications

IFRS 15 is more detailed than the existing revenue requirements, so you may find unexpected changes in your accounting.
Disclosure requirements

Have you identified the additional information and processes needed to meet the disclosure requirements?

Read our Guide to annual financial statements – IFRS 15 supplement

Under IFRS 15, you’ll need to provide more detailed information about contract terms, as well as how and when you recognise revenue
# Checklist of actions

<table>
<thead>
<tr>
<th>Have you...?</th>
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<tbody>
<tr>
<td><strong>Determined whether your contracts include more than one performance obligation?</strong></td>
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<tr>
<td><strong>Assessed whether customer options mean you need to defer revenue?</strong></td>
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<tr>
<td><strong>Determined whether you need to account for warranties as separate performance obligations?</strong></td>
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<tr>
<td><strong>Revised your estimates of variable consideration elements – e.g. rights of return, rebates and discounts?</strong></td>
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<tr>
<td><strong>Assessed whether your accounting policy for sales with a right of return meets the requirements of IFRS 15?</strong></td>
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<tr>
<td><strong>Assessed whether your accounting policy for breakage meets the requirements?</strong></td>
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<tr>
<td><strong>Identified and calculated any significant financing components?</strong></td>
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<tr>
<td><strong>Reassessed whether you are acting as principal or agent under IFRS 15?</strong></td>
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</tr>
<tr>
<td><strong>Determined whether payments to customers should be netted against revenue?</strong></td>
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<tr>
<td><strong>Identified and quantified your transition adjustments?</strong></td>
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<tr>
<td><strong>Identified the additional information needed to meet the disclosure requirements?</strong></td>
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How did you do?

How many of our 11 questions have you answered ‘yes’?

All 11 – You’re good to go!
5-10 – You’re on your way
0-4 – You really need to engage
Don’t forget the broader business impacts

Have you…

— updated your management reporting, including KPIs?
— developed a transition plan for parallel runs, including reconciliations?
— thought about the tax implications?
— calculated the impact on bonus schemes?
— compared your approach with peers?
Find out more

Talk to your usual KPMG contact

Use our Transition toolkit

Follow the discussion on LinkedIn