The new revenue recognition standard

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Building a better working world

IFRS 15: new requirements for revenue recognition

The IASB and the FASB have jointly developed new revenue standards, IFRS 15/ASC 606 *Revenue from Contracts with Customers*, which will replace all existing IFRS and virtually all US GAAP revenue recognition requirements.

- IFRS 15 provides accounting requirements for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers.
- This has consequences for the type of financial and non-financial data that is captured in order to achieve compliance, as well as the way in which the data is processed and reported. It will affect many activities across an organisation, from sales and marketing through to commercial and finance functions.
- It will require the disclosure of new information about customer contracts that hasn't previously been required and the creation of budgets and forecasts on a new basis of measurement.
- The new IFRS standard is effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.
- Being proactive is important to support cost effective accounting and operational changes, to achieve compliance in a timely manner.

This brochure provides an overview of the new requirements, as well as our recommended approach for an effective transition in a way that mitigates disruption, cost and risk. EY can advise and support you in delivering the outcomes that matter to you through the design of a smart and bespoke road map to manage your IFRS 15 change journey.

IFRS 15: five-step model

The principles in the standard will be applied using a five-step model

1	Identify the contract(s) with the customer
2	Identify the performance obligations in the contract
3	Determine the transaction price
4	Allocate the transaction price to the performance obligations in the contract
5	Recognise revenue when (or as) each performance obligation is satisfied

[a]This requires a thorough review of all aspects of the commercial relationship, including but not limited to documented commercial contracts.

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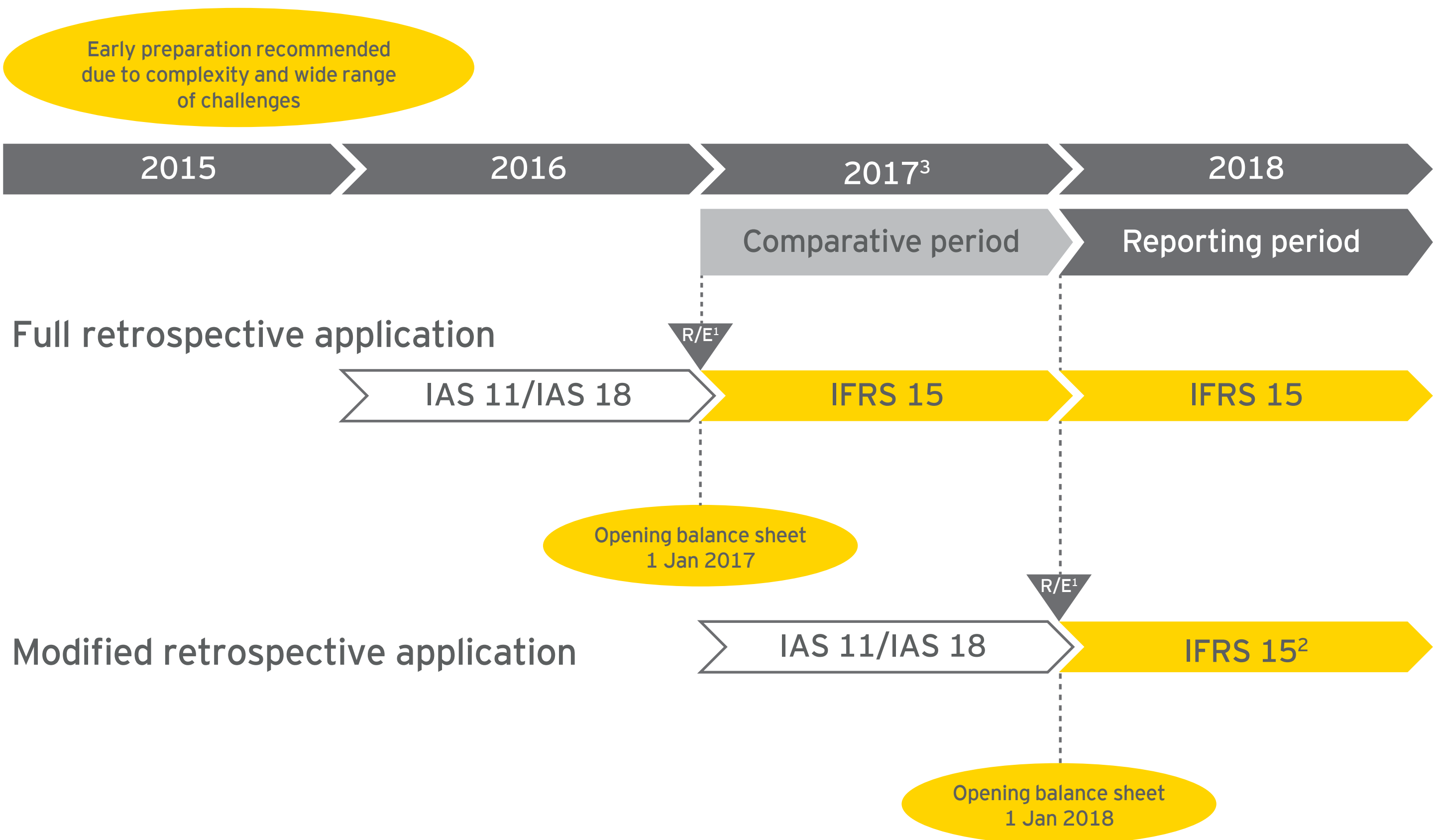
IFRS 15: relevant commercial issues

Contracts with customers have both an accounting and an operational impact are set out below:

- Combining contracts
- Contract modifications
- Variable consideration
- Rights of return, guarantees and warranties
- Costs to obtain a contract
- Costs to fulfil a contract
- Royalties and licences
- Portfolio approach
- Customer loyalty programmes
- Methods for measuring progress for each performance obligations
- Non-refundable upfront fees
- Put and call options
- Principal versus agent considerations
- Bill-and-hold arrangements
- Customers' unexercised rights (i.e., breakage)
- Presentation and disclosures
- Transition requirements

IFRS 15: initial application

Early preparation will be key to a successful implementation of the new standard.



1. Retained earnings.
2. Disclose all line items in the year of adoption as if they were prepared under current revenue guidance: quantifying the transition impacts.
3. Assumes one comparative period. Some jurisdictions or regulatory environments may require two comparative periods.

IFRS 15: scope of business impact

The new standard will affect companies in a wide range of industries. The scale of impact is driven by each company's commercial relationships with its customers, as well as current changes, to system and data capabilities.

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IFRS 15: implementation

Becoming compliant with minimum disruption. A successful step-by-step approach.

Before getting started with the implementation, you may benefit from:

1 | Sample contract review (commercial, operational, accounting)

2 | Contract management capability review

3 | Disclosure review, including traceability testing

Phases

1a. Assess	1b. Analyse and plan	2. Develop and pilot	3. Deploy and monitor	4. Monitor post-implementation
‣ Assess financial statement and operational impact ‣ Create plan	‣ Assess wider business impact ‣ Draft road map and a high-level solution	‣ Complete detailed design ‣ Pilot solution and refine ‣ Draft policies and procedures ‣ Plan deployment	‣ Deploy solution to all sites ‣ Parallel run ‣ Monitor and test ‣ Remediate and regression test	‣ Verify judgements made ‣ Update documents ‣ Remediate systems changed ‣ Embed training

Work streams

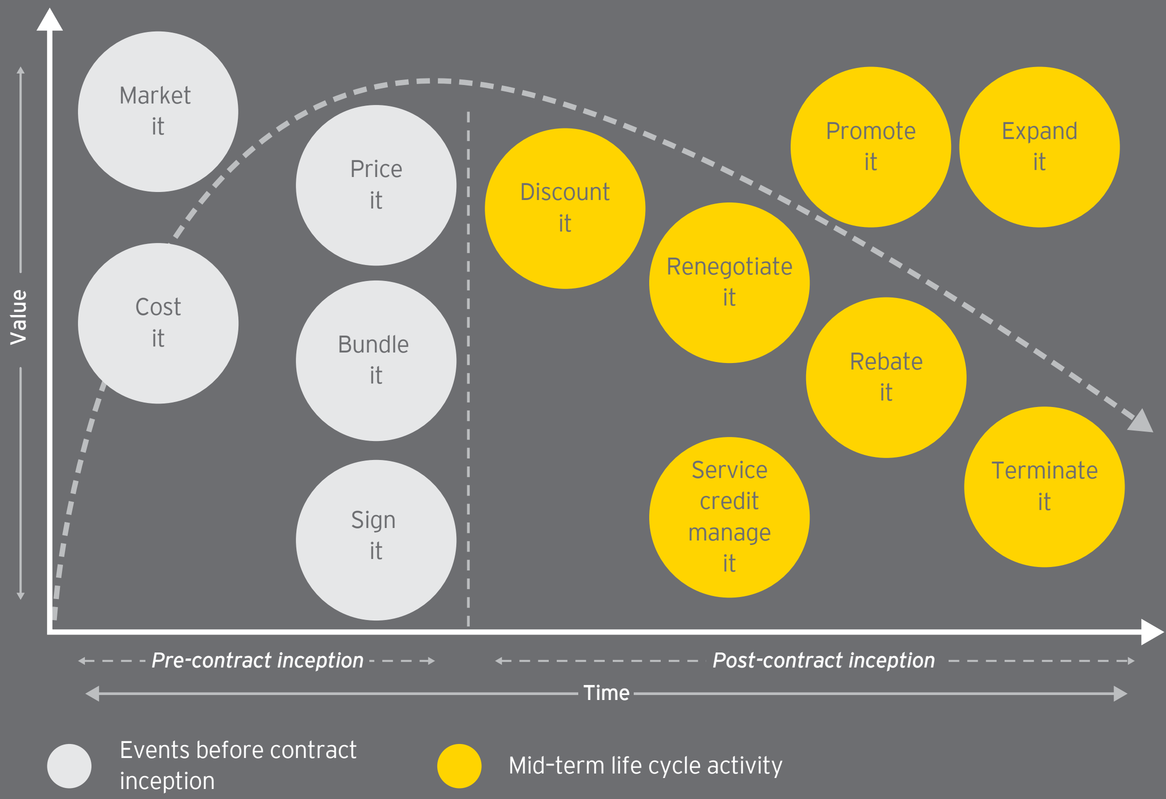
- Governance and programme management
- Accounting and disclosure, forecasting, budgeting and planning
- Systems and data
- Process and control
- Change management and training

IFRS 15: get started by performing a walk-through of a contract life cycle approach

A proven way of getting started is to assess the accounting and business impact of the standard for a representative sample of commercial relationships.

This includes identifying the accounting impact, both before and after contract signature, and assessing where the data will come from to deliver transactional values and event based data items.

The contract is subject to many activities.



Events before contract inception

- Create the POs
- Generate expected values and predicted events

Events after contract inception

Events during contract performance:

- Require event-based data to know if and when it has happened
- Require incident rates to monitor frequency
- Require accounting adjustments

Deliver on it:

- Drives recognition of revenues for each of the POs
- Requires both transactional data and event based data

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