The identification of distinct performance obligations

Allow appropriate allocation of contract costs recognised

Assessing the timing and amount of revenue to be recognised, including variable consideration and licences, warranties and rights of return

Identify the contract with the customer

The knock-on effect

AASB 15 is not merely a financial reporting issue. Entities need to consider:

- Developing project management teams and stakeholders, including accountants and lawyers.
- Ensuring that all relevant parties have the appropriate skills and knowledge.
- Establishing processes and procedures for ongoing management of the project.
- Communicating with all stakeholders on a regular basis.

Planning for implementation

Currently industries have adopted varying levels of response to AASB 15 - some are proactively raising complexities with the standard setters in an attempt to obtain guidance prior to the approaching effective date while others have not commenced their analysis. Transition and implementation is expected to be challenging with the extent of impact differing from entity to entity. Output from a comprehensive assessment of all of the requirements of AASB 15 (including understanding disclosures) may result in unexpected outcomes and therefore early assessment and planning will be critical to ensure implementation risks and exposures are appropriately managed.

Some of the key activities to be considered in developing a tailored project plan include:

- Determining whether contracts are in the scope of AASB 15 and their treatment if they fall outside the scope of the standard.
- Assessing the timing and amount of revenue to be recognised, including variable consideration and separately accounting for financing elements.
- Currently internal systems and processes may not be configured to capture key information requirements. Changes may be required:
  - To allow appropriate allocation of product and service revenue
  - To capture key contract information and track contract modifications
  - To track and measure variable revenue and pricing adjustments
  - To account for new revenue streams previously bundled with other goods/services
  - To capture, amortise and impair contract costs recognised
  - To collate and document elections, basis of allocation and other significant judgements
  - To evaluate significant revenue streams and their components
  - To assess the impact of AASB 15 on key performance indicators, KPIs, bonus structures, forecasting, loan covenants, etc.

Transition and effective date

The effective date of AASB 15 is for reporting periods beginning on or after 1 January 2018. Early adoption is permitted. For Australian entities with a June year end, this means that the effective date will be 1 July 2018 with the first reporting year end being 30 June 2019.

AASB 15 offers three approaches to transition:

- Full retrospective approach following the principles of AASB 108 accounting policies, changes in accounting estimates and errors
- Retroactive approach with practical expedients in relation to contracts completed prior to the effective date, modifications made prior to the earliest period presented, the use of hindsight when assessing variable consideration for completed contracts and exemptions from selected disclosure
- Modified approach, impacting the current period only but with significant disclosures explaining the impact of AASB 15 on each line item affected by the new standard.

Disclosures

AASB 15 requires a significant level of enhanced and detailed disclosures to enable users to understand the nature, amount, timing and uncertainty of revenue and cash-flows (those entities that are not required to prepare general purpose financial statements will have some relief from these requirements).

Key disclosures include the following:

- Disaggregation of revenue into categories that show how economic factors affect the nature, amount, timing and uncertainty of revenue and cash-flows (linked to segment reporting if AASB 8 operating segments apply)
- Reconciliation of contract balances
- Descriptive information about an entity’s performance obligations, including how the transaction price has been determined and when revenue is expected to be recognised
- Significant judgements applied in implementing the five steps and methods, inputs and assumptions used in developing estimates