

## AASB 15 revenue from contracts with customers

### Changing the lens on revenue recognition

#### Key challenges

Some key challenges that entities may face in assessing the impact of AASB 15 include:

- Determining whether contracts are in the scope of AASB 15 and their treatment if they fall outside the scope of the standard
- Increased requirement for management judgement and the determination of numerous and often complex estimates
- New rules and extensive application guidance addressing multiple topics, including the following:
  - The identification of distinct performance obligations and stand-alone selling prices where bundled goods/services are provided to customers
  - Accounting for contract modifications, licences, warranties and rights of return
  - Assessing the timing and amount of revenue to be recognised, including variable consideration and separately accounting for financing elements
- Current 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
  - Capture key contract information and track contract modifications
  - Track and measure variable revenue and pricing adjustments
  - Account for new revenue streams previously bundled with other goods/services
  - Capture, amortise and impair contract costs recognised
  - Collate and document elections, basis of allocation and other significant judgements
- Significant additional disclosures required, some of which may be commercially sensitive.

#### The knock-on effect

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



##### Systems

- Impact on IT systems, data capture and reporting, business models, accounting policies, internal controls.



##### Commercial

- Impact on long term contract negotiation, banking covenants, forecasts.



##### Managing stakeholders

- Shareholders, financiers, regulators, board audit committee, customers.



##### Taxation

- Impact on taxable income and deferred tax.



##### Employees

- Impact on remuneration schemes, KPIs, communication strategy, training needs.

#### 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:



#### Assess the impact

- Establish project management team
- Identify stakeholders and assess their needs
- Evaluate significant revenue streams and their components
- Identify, evaluate and summarise key contracts
- Capture and define key accounting issues and new policy requirements
- Determine additional disclosure needs
- Analyse data capture requirements, capabilities, identify gaps
- Assess other potential process and business impacts, e.g. KPI, bonus structures, forecasting, loan covenants, etc.

#### Design the solution

- Draft implementation plan
- Design and develop accounting, systems and process solutions
- Pilot testing of solution design.

#### Implement the plan

- Deployment of accounting systems and process solutions across organisation
- Training of employees.

#### Review the result

- Post implementation review, verification and monitoring.

#### 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
- Retrospective 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.

Regardless of the transition method selected, the extensive disclosure requirements mean an entity will need to run dual systems for at least one reporting period.

#### 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 applies)
- 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.

#### A new five step approach to revenue recognition



##### Step 1

##### Identify the contract with the customer

- Consider nature of transaction, contract combination, contract approvals and contract modifications.



##### Step 2

##### Identify separate performance obligations in the contract

- Consider whether performance obligations are 'distinct'
  - Performance obligations are distinct if they are both capable of being distinct AND distinct within the context of the contract
  - Consider the impact of warranties, options to acquire additional goods/services, set-up activities and implicit promises.



##### Step 3

##### Determine the transaction price

- Consider variable consideration, time value of money, non-cash consideration, rights of return and amounts payable to the customer.



##### Step 4

##### Allocate the transaction price to separate performance obligations

- Consider stand-alone selling prices of each performance obligation identified in step 2, allocation of variable consideration and discounts.



##### Step 5

##### Recognise revenue when each performance obligation is satisfied

- Consider timing and method of revenue recognition: point in time vs. over time.





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