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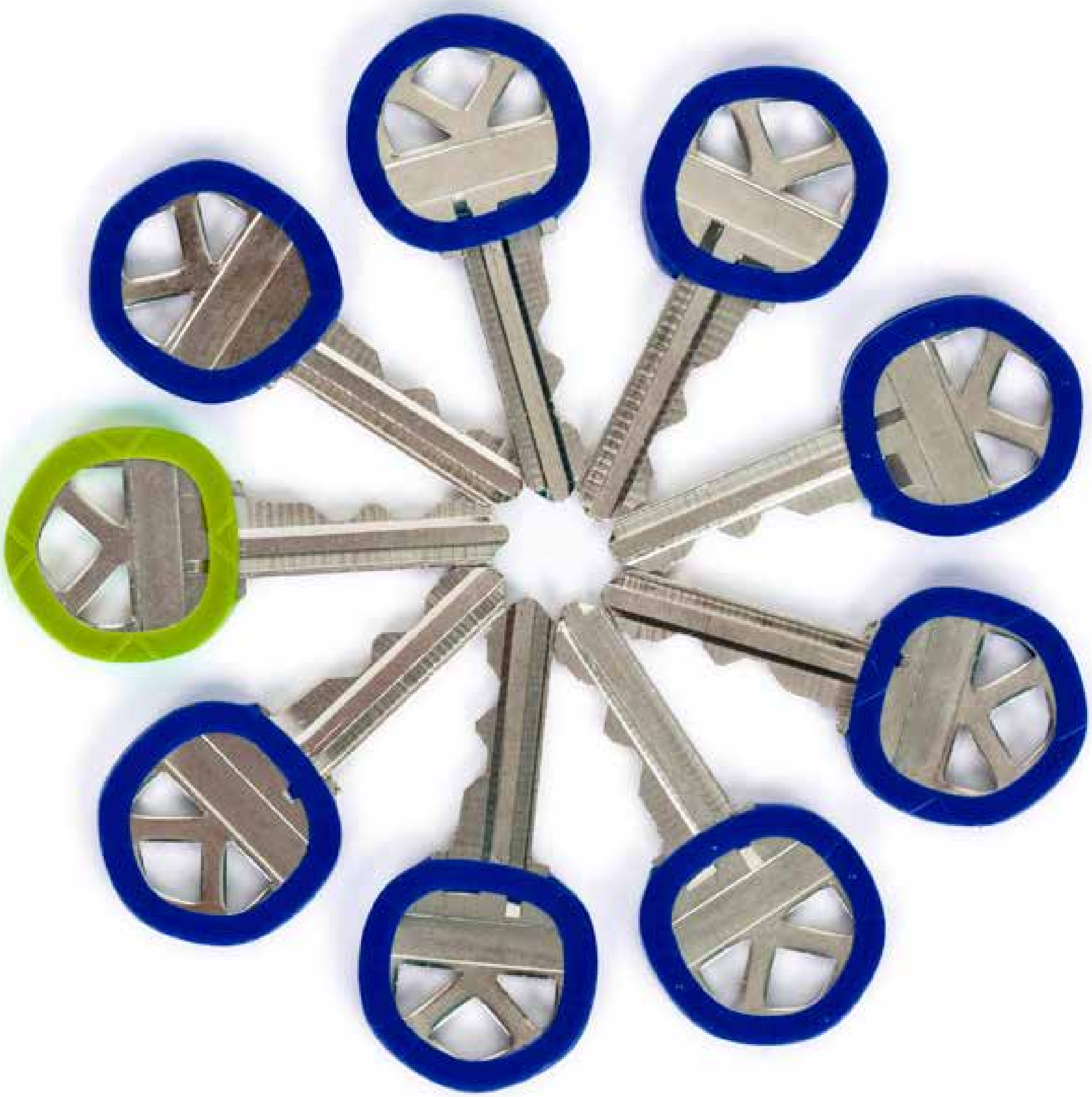


Accounting for revenue under MFRS 15

Achieving a head start

Background

MFRS 15 Revenue from contracts with customers is intended to bring revenue accounting principles centrally into one standard and will replace several existing standards and interpretations, such as MFRS 111 Construction Contracts, MFRS 118 Revenue and IC Int. 15 Agreements for the Construction of Real Estate. New concepts are introduced which may impact the amount and/or timing of revenue recognition.

MFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. It is also to be applied retrospectively, with some available options and expedients.

Key executives should be concerned as the impact goes beyond just accounting.

As a key executive, why should you be concerned about MFRS 15?

Getting your organisation ready for any new accounting requirements enables directors to fulfil their duties and ensure quality financial reporting.

However, MFRS 15 readiness is not only a matter of accounting compliance. For numerous organisations, the amount and/or timing of revenue recognition would change. Your stakeholders (both internal and external) need to be informed early on the potential change in future results. Your future business plans and budgets would need to take into account any potential changes in revenue accounting, and the associated implications on, inter-alia, key metrics, distributable profits, investments in new systems and processes and employee compensation plans. Income tax implications, from both cash flow and accounting perspectives, would need to be addressed as taxable income could potentially be accelerated or deferred under the new standard. In addition, if system and process changes are needed, due to the complexity of certain requirements of MFRS 15, it may take more than a year to for those systems and processes to be fully implemented.

While MFRS 15 is a very comprehensive standard, there are numerous areas that are subject to judgement and interpretation. You will need professionals with good understanding of its requirements and the interpretation issues, in order to help you identify the other significant implications on your business that go beyond just compliance.

Tax cashflows may change

Key metrics and distributable profits may change

Systems may need to change, especially for high volume revenue transactions

Industry KPIs may change

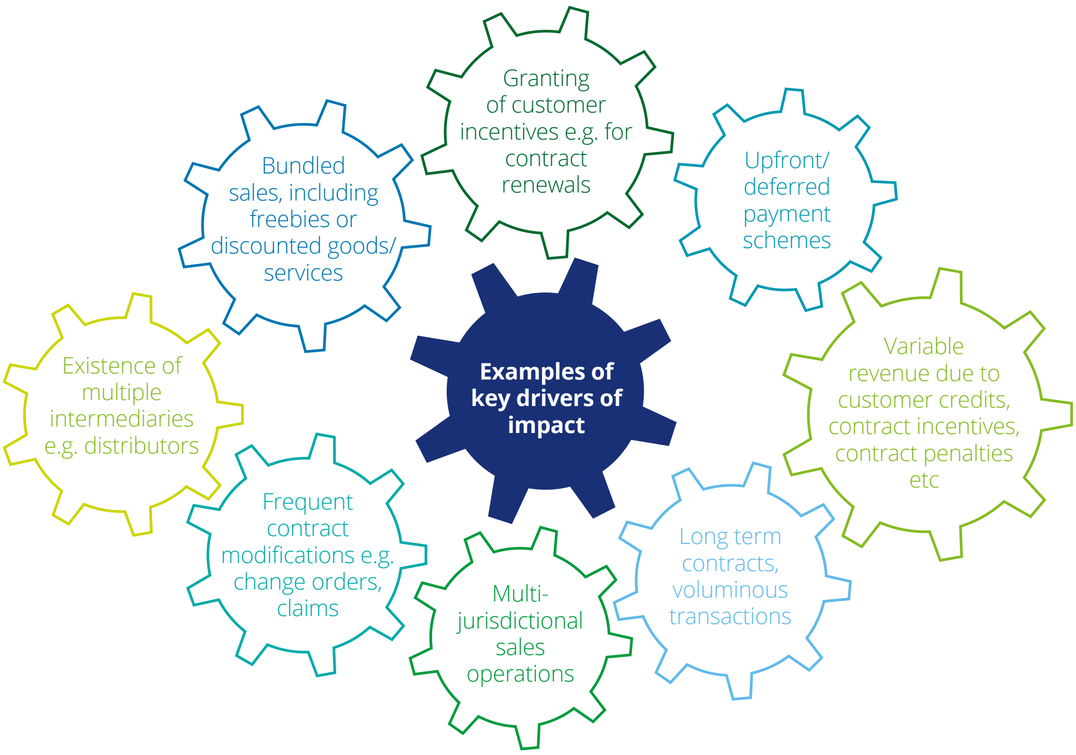
What are the expected key changes on accounting?

Currently, there is limited guidance to address the increasing types of arrangements with customers, leading to possible diversity in practice in revenue accounting. MFRS 15 introduces a single comprehensive model (a five-step approach) for revenue accounting across different industries, and includes more prescriptive guidance to achieve consistency.

This new approach to revenue recognition is to be applied on an individual contract basis. For companies with numerous transactions, each contract will have to be first assessed on whether it falls into the scope of the standard. As a practical expedient, the portfolio approach may be applied when certain criteria are met.

The extent of impact depends on the nature of your arrangements with your customers. We highlight below some key drivers in revenue arrangements that could increase the extent of the accounting impact.

Each of the key drivers below entails specific accounting requirements in MFRS 15, which can be very complex and subject to judgement and interpretation.



Summary of a possible approach that organisations could consider in addressing the requirements of MFRS 15

Key activities

- Evaluate significant revenue streams
- Identify, evaluate and summarise key contracts
- Capture and define key accounting issues and new policy requirements
- Identify key data gaps, process requirements
- Assess opportunities to automate key accounting steps
- Assess other potential system impacts
- Analyse / determine additional disclosure needs
- Determine long-term training requirements

Revenue streams/ Areas of business focus

- Bundled sales arrangements
- Long-term sales contracts
- Customer incentives
- Frequent contract modifications

Key issues

- Definition of contract and performance obligation
- Bundled offers/ services
- Variable pricing
- Allocation and measurement of performance
- Contract modifications
- Onerous contracts
- Disclosures/ presentation

Deliverables

- Evaluation of contract types and summary of issues
- Data gap identification
- Accounting and tax issue summary
- Operational issues and process changes
- Implementation roadmap and workplan

There are various practical measures available within the new standard, including the transitional relief on initial application, which companies can consider applying to facilitate their transition in implementing the new requirements.

How Deloitte can help

Globally and within Southeast Asia, Deloitte is at the forefront in successfully executing MFRS 15 implementation projects. With our integrated "As One" network of professionals in Malaysia and Southeast Asia, Deloitte has all the capabilities to provide your organisation with an "End-to-End" solution for MFRS readiness.

Our MFRS-Implementation teams comprise of cross functional professionals from accounting advisory, systems consulting, accounting analytics and corporate tax advisory practices, We have also taken the lead in facilitating industry based forums to discuss and resolve issues on MFRS 15 implementation.

Our proven approach is scalable and we can tailor the solution components to align with your requirements and fit within your budget.

Our team offers organisations assistance with the following on MFRS 15 readiness:

- Performing gap assessment on accounting, systems and processes
- Using Deloitte Analytics to perform simulations of proforma revenue numbers.
- Performing design and implementation of systems and processes
- Drawing up accounting policy documentation
- Providing technical subject matter expertise and support on:
  - √ Training
  - √ Project and business change management
  - √ Technical research and documentation
  - √ Corporate tax advisory

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