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IFRS 15: Revenue recognition

IFRS 15 is the new standard on revenue recognition and it specifies how and when an IFRS reporter will recognise revenue. Implementation of this standard may also have corporate income tax consequences. Action is required; IFRS 15 should be applied in an entity's IFRS financial statements for annual reporting periods beginning on or after January 1, 2018.

Background

Before the publication of IFRS 15, IFRS contained limited specific guidance in relation to revenue recognition policies. IFRS 15 is applicable for entities reporting in accordance with IFRS for periods beginning on or after January 1, 2018. The standard provides guidance on how and when revue should be recognized.

IFRS 15 applies to all contracts, except for those that are within the scope of other IFRS standards, for example IFRS 16 Leases, IFRS 17 Insurance contract and IFRS 9 Financial instruments.

The new revenue recognition standard may significantly impact revenue and profit recognition.

Highlights IFRS 15

- Core principle is that an entity should recognize revenue in a manner that depicts the patterns of transfer of goods and services to customers. The amount recognized should reflect the amount to which the entity expect to be entitled in exchange for those goods and services.

The implementation of IFRS 15 requires an assessment of the accepted tax treatment for revenue recognition per jurisdiction and the corresponding tax accounting to be reported in the financial statements

- IFRS 15 has defined a five step model to apply the core principle: (i) Identify the contract(s) with a customer, (ii) Identify the performance obligations in the contract, (iii) determine the transaction price (iv), Allocate the transaction price to the performance obligations in the contract, (v) recognise revenue when (or as) the entity satisfies a performance obligation.
- IFRS 15 is expected to have an impact to the following situations (not limited to): bundled products, milestone payments, non-refundable upfront fees, rights of return, bill and hold arrangements,
- warranty, Customer loyalty programs, modification of customer contracts during the contract term, slotting fees, contract manufacturing, financing arrangements and real estate development

Tax Implications

The tax treatment is determined separately per jurisdiction. Hence, to properly assess the income tax (accounting) effects of IFRS 15, an entity needs to perform an assessment on a jurisdiction level. It should be assessed per jurisdiction what the accepted tax treatment is.

The timing of revenue recognition for tax purposes may differ with the revenue recognition under IFRS 15. If so, (additional) temporary differences arise which should be reported for in the financial statements in line with IAS 12.

There could be an incentive to align the current tax treatment with IFRS 15. This should be properly disclosed in the financial statements and local tax authorities have to be informed about the change in tax policy /treatment.

Previous years

The implementation of IFRS 15 could trigger the question as to which tax treatment has been applied with respect to revenue recognition in previous years and whether it is in line with local tax regulations. This could impact the tax position for the respective periods.

Action required

The implementation of IFRS 15 requires an assessment of the accepted tax treatment for revenue recognition per jurisdiction and the corresponding tax accounting to be reported in the financial statements. In addition, an assessment should be performed to determine any impact in relation to previous years.

Interest limitation rules

The implementation of IFRS 15 will have an impact on financial ratios and common performance measures, for example EBITDA and EBIT, ultimately impacting the application of certain interest limitation rules (since these rules are applied with reference to EBITDA and/or EBIT).

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