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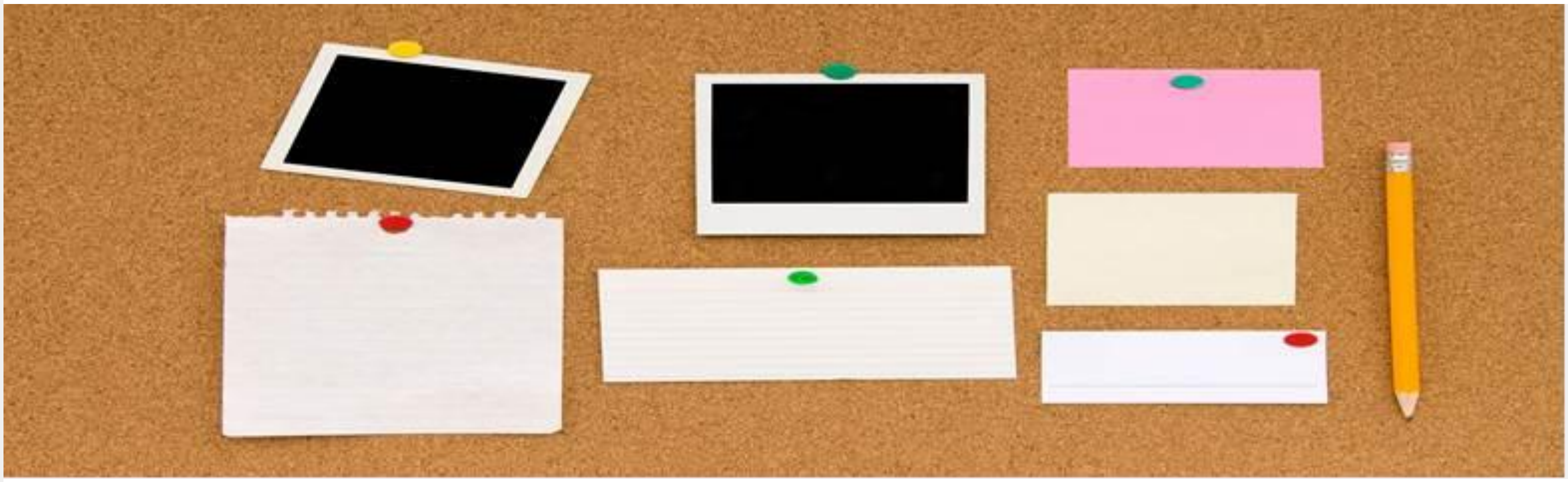

Accounting & Auditing News

IFRS 15 — *Revenue from Contracts with Customers*: Part 3F – Impact on Telecommunications Sector

<u>How should revenue be allocated to different goods and services identified?</u>

Background

Given the lack of specific guidance in IFRSs, there was greater room for judgment when identifying the goods and services within a contract and then allocating the revenue to those goods and services identified. Entities may have to amend their current accounting policies as a result of the more detailed guidance in IFRS 15. The new standard requires that the revenue from a contract is to be allocated to each distinct good or service provided on a relative standalone selling price basis, though a 'residual' approach is permitted in limited circumstances.

Effect

This may significantly change the profile of revenue recognition for some entities and, due to the sheer volume of customers with different tariffs and service plans, entities may have to overcome significant practical challenges to ensure systems are in place to deal with the new requirements.

Should contract costs be capitalized?

Background

The new standard introduces specific criteria for determining whether to capitalized certain costs, distinguishing between those costs associated with obtaining a contract (e.g. sales commissions) and those costs associated with fulfilling a contract. In the telecommunications sector, this becomes an issue because significant costs are incurred that is directly attributable to obtaining contracts with customers, for example through 'success fees' (i.e. commissions that are only payable if a contract is obtained). At present, different entities might treat these costs differently, although most have previously been expensing them.

Effect

The new standard will require entities to capitalized success fees, which will have an impact on operating profits. In addition, the new standard requires capitalized contract costs to be amortized on a systematic basis that is consistent with the pattern of transfer of the goods or services. Entities will need to exercise judgment to determine the appropriate basis and time period for this amortization.

Should revenue be adjusted for the effects of the time value of money?

Background

IFRS 15 introduces new and more extensive guidance on financing arrangements and the impact of the time value of money. Sale by industrial products entities may include financing arrangements in that the timing of cash inflows from the customer may not correspond with the timing of recognition of revenue.

Effect

Under the new standard, the financing component, if it is significant, is accounted for separately from revenue. This applies to payments in advance as well as in arrears, but subject to an exemption where the period between payment and transfer of goods or services will be less than one year. This new guidance may change current accounting practices in some cases.

What is the impact if a contract is modified?

Background

In the past, IFRSs included only limited guidance on how to account for modifications to a contract. IFRS 15 includes detailed guidance on whether a contract modification should be accounted for prospectively or retrospectively.

Effect

It is very common in the telecommunications industry to allow customers to modify their contracts. This may result in a change of practice for some entities and may pose a logistical challenge for the industry as a result of the vast number of different permutations of goods and services within contracts. It will be important to assess whether it is practical to deal with such adjustments by working with current accounting systems , or changes may be required to those systems.

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