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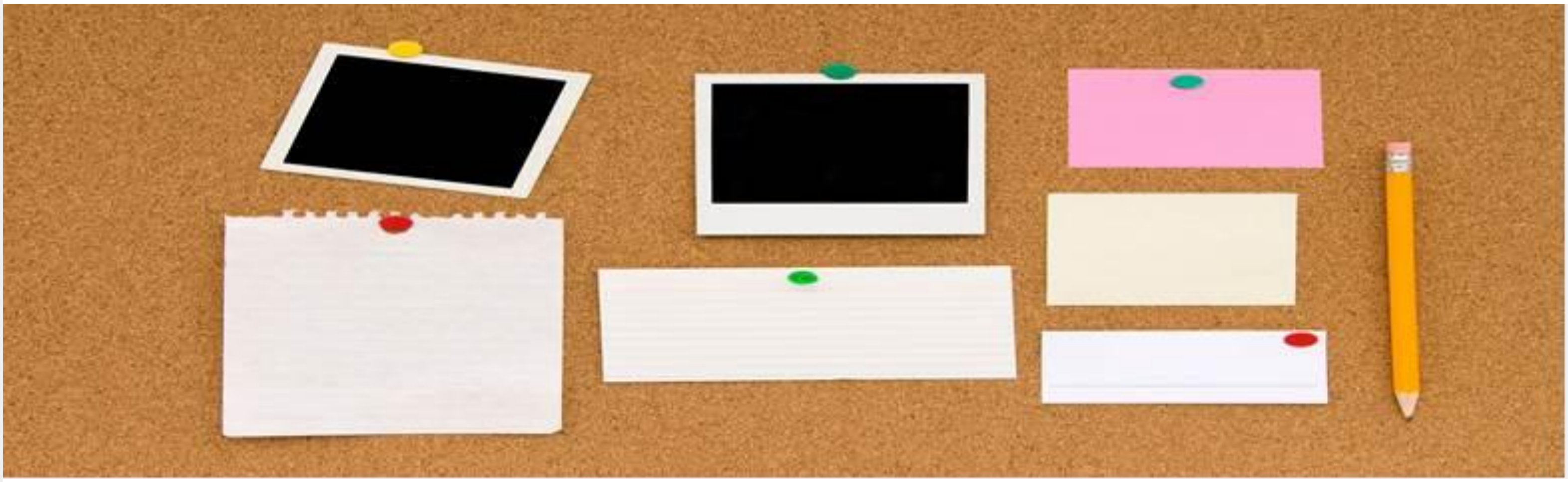

# Accounting & Auditing News

# IFRS 15 — *Revenue from Contracts with Customers*: Part 3J – Impact on Investment Management Sector

**<u>Should contract costs be capitalized?</u>**

### 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.

**Effect**

This becomes an issue for investment company sector where significant costs are incurred that are directly attributable to obtaining contracts with customers, for example through “success fees” (i.e. commissions that are only payable if a contract is obtained). Success fees will be capitalized under the new standard as they are incremental costs of obtaining a contract. At present, different entities might treat various types of cost differently so there may be an impact on operating profits. 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.

**When should “upfront” fees be recognized?**

**Background**

In the investment management sector, it is common for entities to receive an initial “sign-on” fee. New detailed guidance may lead to a change in practice when accounting for such fees.

**Effect**

Unless control of distinct goods and services is transferred to the customer at the outset, an upfront fee should be regarded as an advance payment for future goods and services and should be recognized as revenue when those future goods and services are provided. Often, upfront fees are charged in order to cover initial sign-up cost, but this is not in itself sufficient to justify upfront revenue recognition.

**When should variable or uncertain revenues be recognized?**

**Background**

Contracts in the investment management sector will often include significant variable elements, such as performance bonuses or penalties. There are new specific requirements in respect of variable consideration such that it is only included in the transaction price if it is highly probable that the amount of revenue recognized would not be subject to significant future reversals as a result of subsequent re-estimation.

**Effect**

This approach to variable and contingent consideration is different from that previously reflected in IFRSs and, in certain scenarios, will require a significant degree of judgment to estimate the amount of consideration that should be taken into account. Accordingly, the profile of revenue recognition may change for some entities as a result.

**Please contact the Technical Research Group at +63 2 581 9000 local 9088/9165/9078 or e-mail phtr@deloitte.com for questions regarding this publication.**

Deloitte.

Member of Deloitte Touche Tohmatsu Limited

19th Floor Net Lima Plaza
5th Avenue corner 26th Street
Bonifacio Global City, Taguig
Philippines 1634