

MFRS Hot Topics

July 2014

A shift in the top line – the new global revenue standard is here at last

The IASB has published IFRS 15 ‘Revenue from Contracts with Customers’.

IFRS 15:

- replaces IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’ and some revenue-related Interpretations
- establishes a new control-based revenue recognition model
- changes the basis for deciding whether revenue is recognised at a point in time or over time
- provides new and more detailed guidance on specific topics
- expands and improves disclosures about revenue.

This special edition of MFRS Hot Topics explains the key features of the new Standard and provides practical insights into its application and impact.



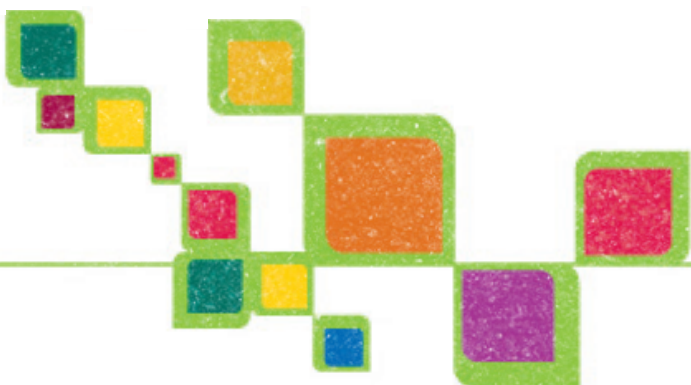
A message from Andrew Watchman, the Global Head of IFRS Grant Thornton International Limited

“After more than five years in development the IASB and FASB have at last published their new, converged Standard on revenue recognition – IFRS 15 ‘Revenue from Contracts with Customers’. IFRS 15 replaces IAS 18 and IAS 11 and will affect almost every revenue-generating entity that applies IFRSs. We applaud the two Boards for delivering a converged Standard in this critical area. Convergence has been challenging and sometimes controversial. Against that background, we see this Standard as a landmark achievement that will provide a major boost for investors looking to compare company performance across borders.

IFRS 15 will apply to most revenue contracts, including construction contracts. Among other things, it changes the criteria for determining whether revenue is recognised at a point in time or over time. IFRS 15 also has more guidance in areas where current IFRSs are lacking – such as multiple element arrangements, variable pricing, rights of return, warranties and licensing.

The actual impact on each company’s top line will depend on their specific customer contracts and how they have applied existing Standards. For some it will be a significant shift, and systems changes will be required, while others may see only minor changes. Although IFRS 15 only takes effect in 2017, management should begin their impact assessment much sooner.”

Andrew Watchman
Global Head – IFRS



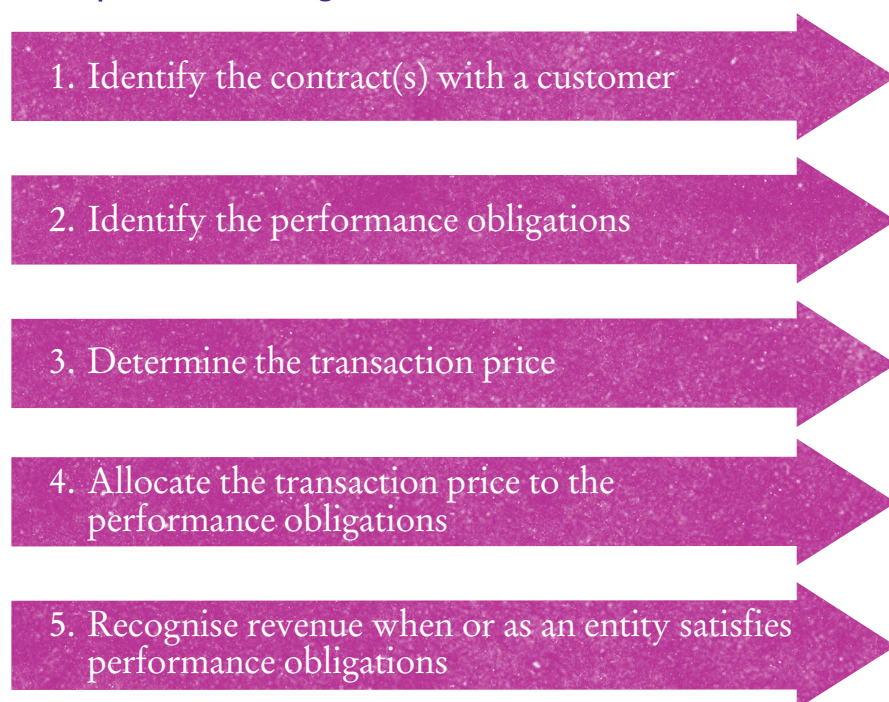
A single model for revenue recognition

IFRS 15 is based on a core principle that requires an entity to recognise revenue:

- in a manner that depicts the transfer of goods or services to customers
- at an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services.

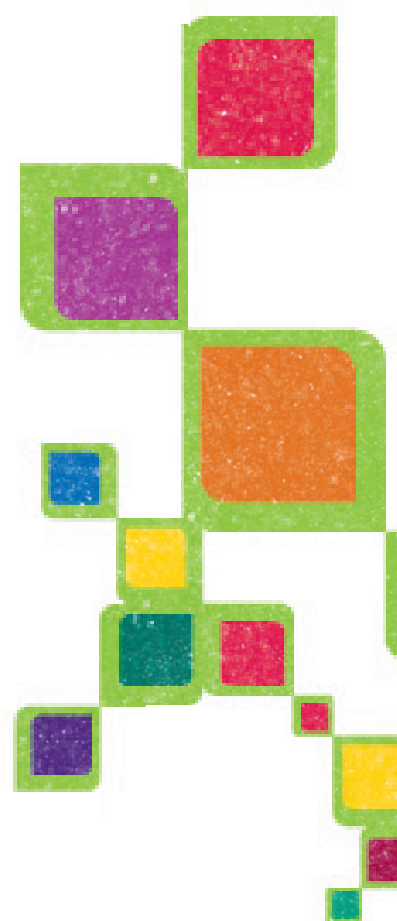
A “customer” is defined as “a party that has contracted with an entity to obtain goods or services that are an output of the entity’s ordinary activities.” Applying this core principle involves the following five steps:

Five steps for revenue recognition



IFRS 15 at a glance

Situation	Details
Who's affected?	<ul style="list-style-type: none">• all entities that enter into contracts with customers with few exceptions.
What is the impact?	<ul style="list-style-type: none">• entities affected will need to reassess their revenue recognition policies and may need to revise them• the timing and amount of revenue recognised may not change for simple contracts for a single deliverable but most complex arrangements will be affected to some extent• IFRS 15 requires more and different disclosures.
When are the changes effective?	<ul style="list-style-type: none">• annual periods beginning on or after 1 January 2017• early application is permitted.



Practical insight – some industries will be affected more than others

Some of the industries that will be most affected by revenue recognition changes include:

- **telecoms and IT** – where multiple deliverables are commonplace and current practice is mixed. Cell-phone businesses that account for a “free” handset as a marketing cost will need to change this policy and instead allocate revenue based on relative standalone selling prices
- **real estate** – when to take revenue for “off plan” apartment sales has been a difficult issue and the new model will shift the boundary between percentage-of-completion and on-completion revenue recognition
- **asset management, legal and professional services and other sectors where performance-based or contingent fees are commonplace** – under the new model variable payments are accounted for on a best estimate basis subject to a constraint
- **retail** – accounting for rights of return, customer loyalty schemes and warranties could all be affected.

Other areas that could be affected include deferred and advanced payments, licensing arrangements, breakage and non-refundable upfront fees.

Scope

IFRS 15 applies to contracts with customers to provide goods or services. It does not apply to certain contracts within the scope of other IFRSs such as lease contracts, insurance contracts, financing arrangements, financial instruments, guarantees other than product warranties, and non-monetary exchanges between entities in the same line of business to facilitate sales to third-party customers.

Practical insight – scope

Although the scope of IFRS 15 is described differently, for practical purposes we expect it will be very similar to the scope of IAS 18 and IAS 11 taken together.

IFRS 15 also covers arrangements currently in the scope of IFRIC 13 ‘Customer Loyalty Programmes’, IFRIC 15 ‘Agreements for the Construction of Real Estate’ and IFRIC 18 ‘Transfers of Assets from Customers’.

Scope of IFRS 15

In scope

- revenue from contracts with customers (subject to specific exceptions), including contracts for
 - sales of goods
 - rendering of services, including construction services
 - licensing of intellectual property
- exchanges of non-monetary assets other than scoped-out exchanges (see below).

- non-contractual income eg fair value of agricultural produce recognised under IAS 41 ‘Agriculture’
- contracts within the scope of:
 - IAS 17 ‘Leases’
 - IFRS 4 ‘Insurance Contracts’
 - IAS 39 ‘Financial Instruments: Recognition and Measurement’ (or IFRS 9 ‘Financial Instruments’)
- contracts that are not with customers (eg some risk-sharing contracts)
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers.

Not in scope

In the coming issues, we will cover the topics of:

August 2014 : Details of Five Steps for Revenue Recognition

September 2014 : Other topics related to IFRS 15, namely:

- Contract costs
- Warranties
- Licensing, and
- Rights of return and repurchase obligations



If you have further enquiries, do not hesitate to contact your usual point of contact at our offices.

KUALA LUMPUR

Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50774 Kuala Lumpur

T +603 2692 4022
F +603 2721 5229
E info@my.gt.com

PENANG

51-8-A,
Menara BHL Bank
Jalan Sultan Ahmad Shah
10500 Penang

T +604 228 7828
F +604 227 9828
E info.pg@my.gt.com

KUANTAN

A-105A, 1st Floor
Sri Dagangan, Jalan Tun Ismail
25000 Kuantan
Pahang

T +609 515 6124
F +609 515 6126
E info.ktn@my.gt.com

JOHOR BAHRU

Unit 29-08, Level 29
Menara Landmark
12 Jalan Ngee Heng
80000 Johor Bahru, Johor

T +607 223 1848
F +607 224 9848
E info.jb@my.gt.com

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