The KPMG logo is displayed in a small, dark, sans-serif font at the top left of the slide. The background of the slide features a blurred image of a person's legs in black pants and boots, carrying several colorful shopping bags (plaid, blue, and white) on a cobblestone street.

KPMG

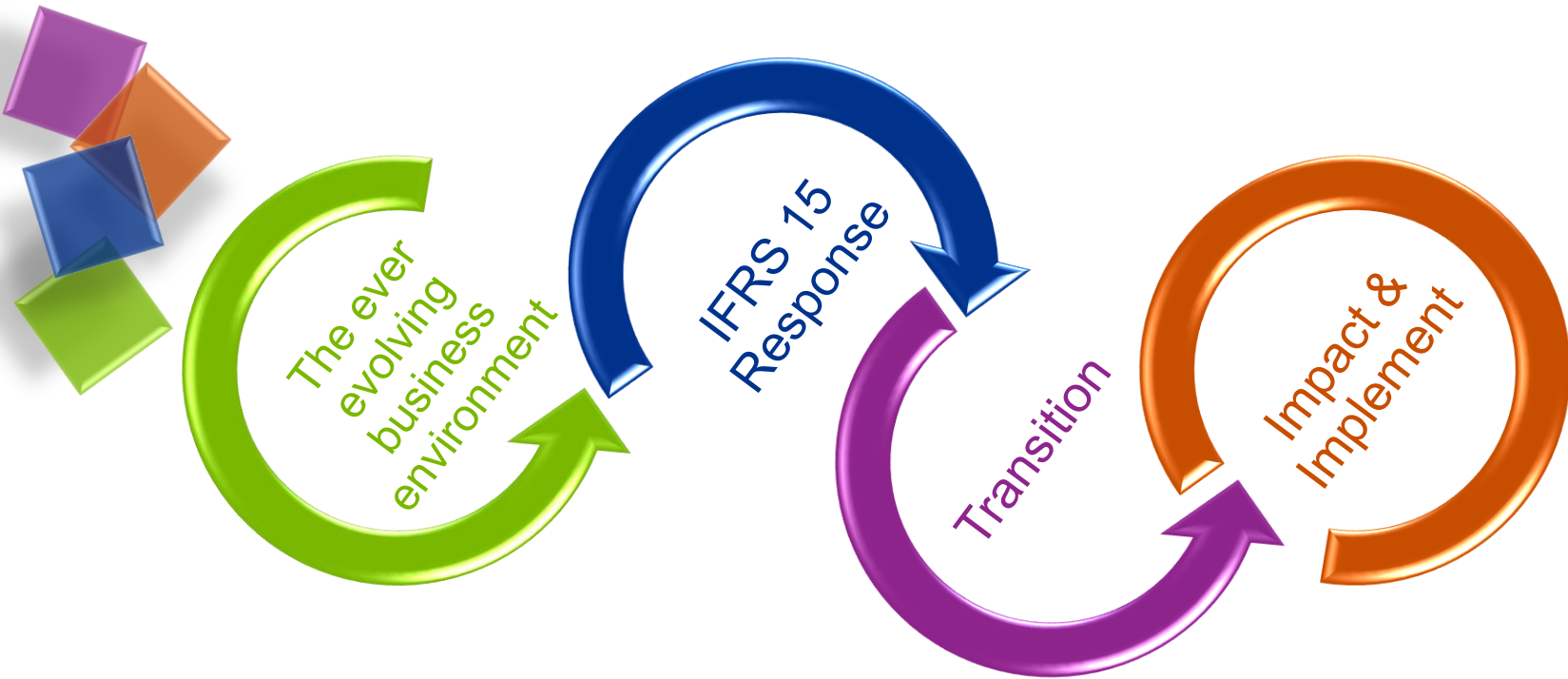
IFRS 15 Revenue

It's time to engage

**ICPAK
conference**

August 2016

Agenda





The ever evolving business environment





What are the implications?

Pricing of service offerings

Recognition of direct and indirect costs

Identifying onerous/marginal contract positions

Timing of revenue and costs

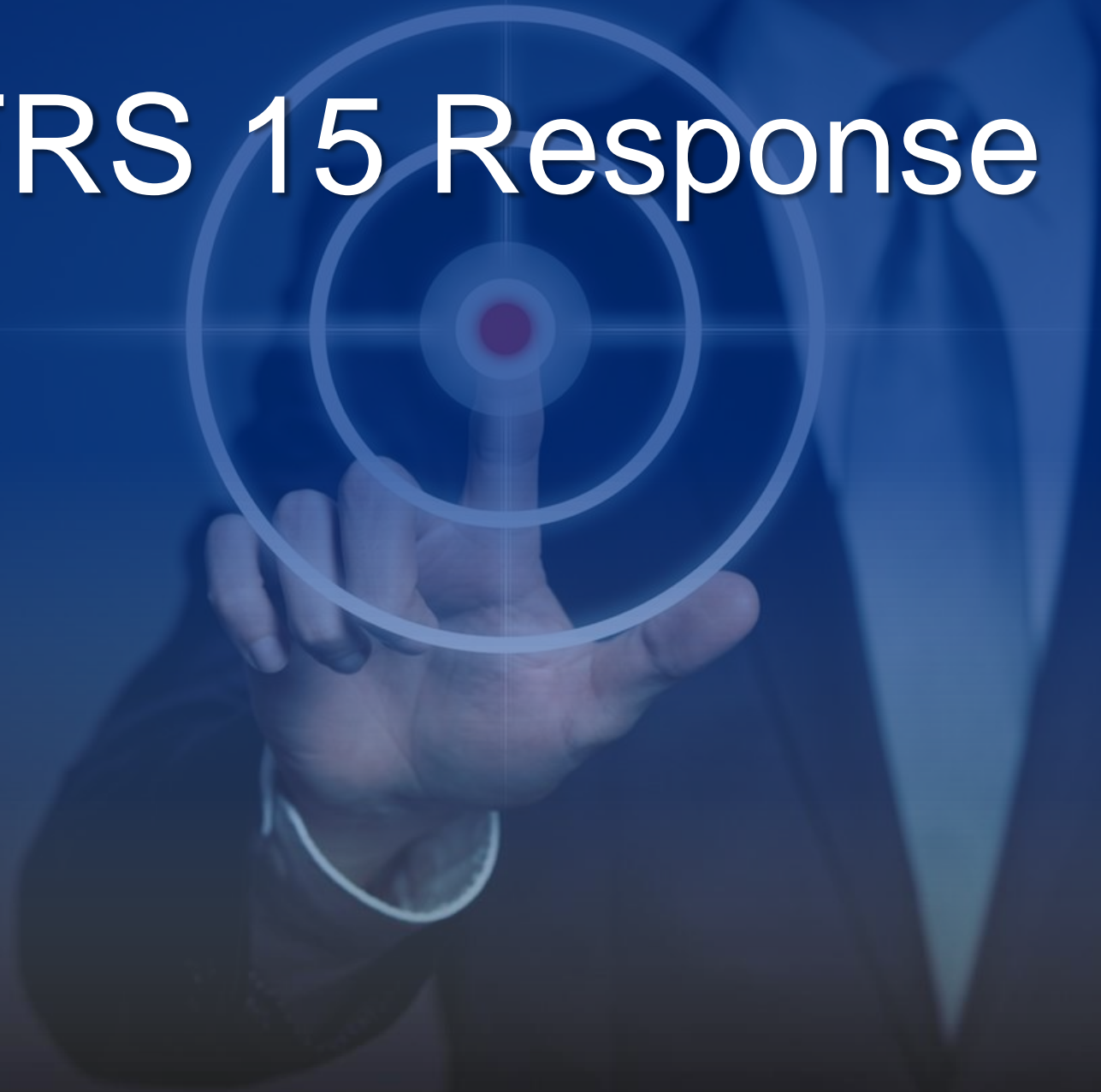
Managing margins and profitability

Lack of comparability

Reconciling cash in flows to reported revenue numbers

Inconsistent practices

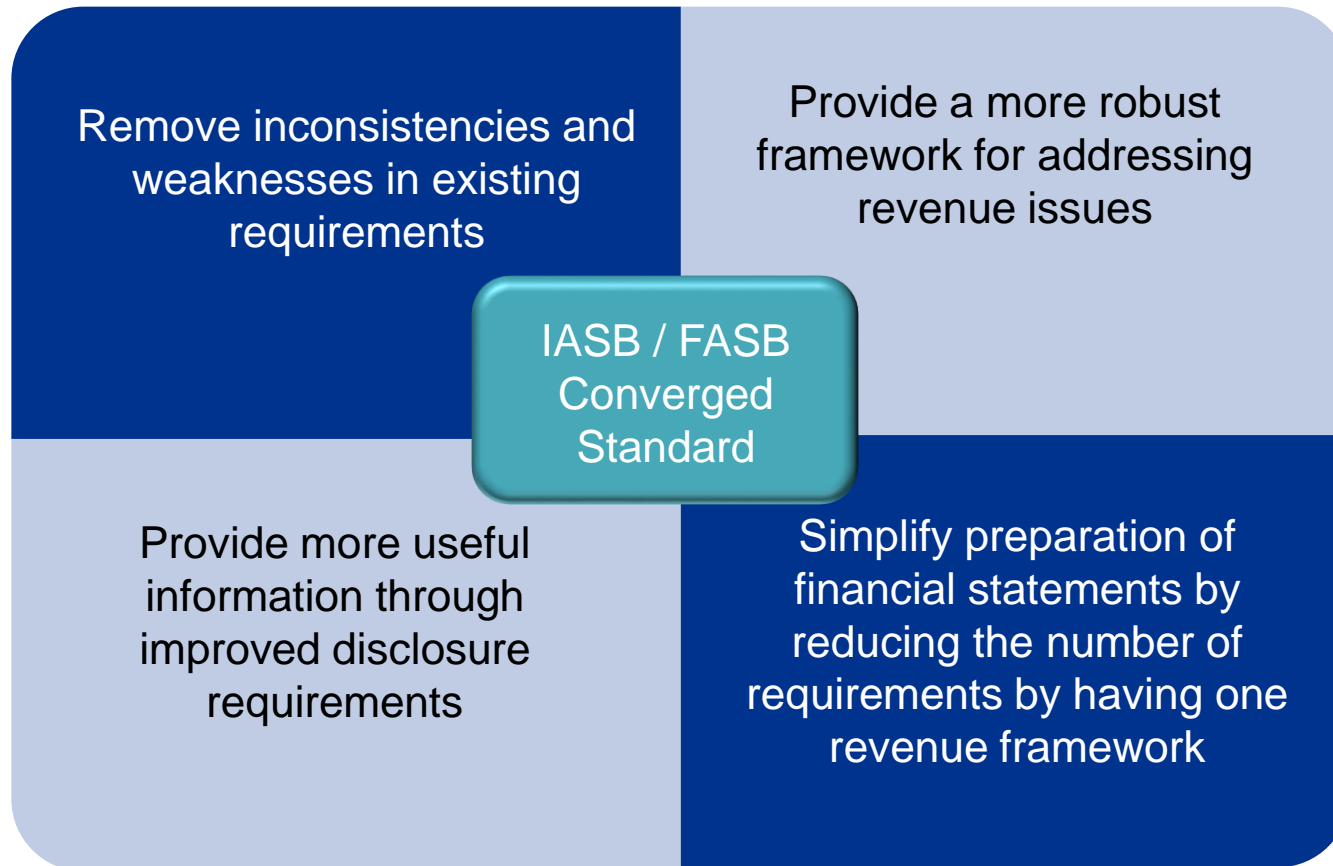
IFRS 15 Response





Does IFRS 15 meet
the challenges
which businesses are
experiencing?

IFRS 15 – objectives of the new standard



What is new?

IFRS 15 creates a single source of revenue requirements for all entities in all industries.

The new standard applies to revenue from contracts with customers and replaces all of the revenue standards and interpretations in IFRS, including:

- ❑ **IAS 11:** *Construction Contracts*,
- ❑ **IAS 18:** *Revenue*,
- ❑ **IFRIC 13:** *Customer Loyalty Programmes*,
- ❑ **IFRIC 15:** *Agreements for the Construction of Real Estate*,
- ❑ **IFRIC 18:** *Transfers of Assets from Customers*; and
- ❑ **SIC-31:** *Revenue – Barter Transaction involving Advertising Services*.

IFRS 15 is principles-based, consistent with current revenue requirements, but:

- ✓ provides more application guidance and
- ✓ *provides explicit presentation and disclosure requirements, which are more detailed than under current IFRSs.*

What has changed?

IAS 11, 18 and IFRICs

- Revenue is recognised based on the type of transaction or event (i.e. whether the entity was performing under a construction contract, sold a good, rendered a service or had income from interest, royalties and dividends)
- When the entity has transferred the significant risks and rewards of ownership of the goods to the buyer.
- Revenue is measured at the fair value of consideration received or receivable

IFRS 15

- Revenue is recognised when (or as) the entity transfers a promised good or service to a customer.
- An asset is transferred when (or as) the customer obtains control of that asset
- Revenue is measured at the estimated transaction price.

Key changes and impact

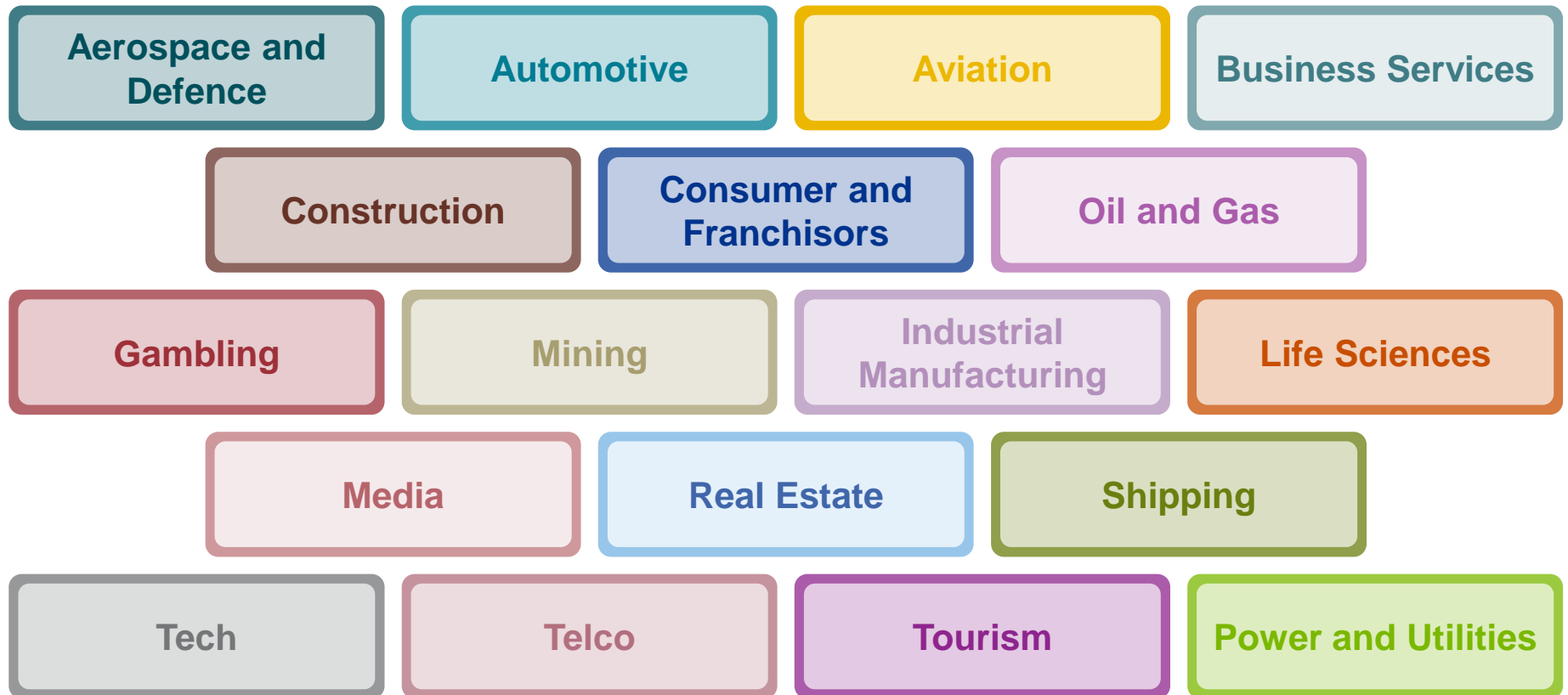
Internal impacts for entities

- Revenue recognition may be accelerated or deferred
- Revenue may be recognised at a point in time or continuously over time
 - Long-term contracts: contract completion or as contract fulfilled
- New estimates and judgements required
- Cost guidance is limited
- Extensive new disclosure requirements
- New systems and processes may be required
- Transition options need to be considered

External impacts for entities

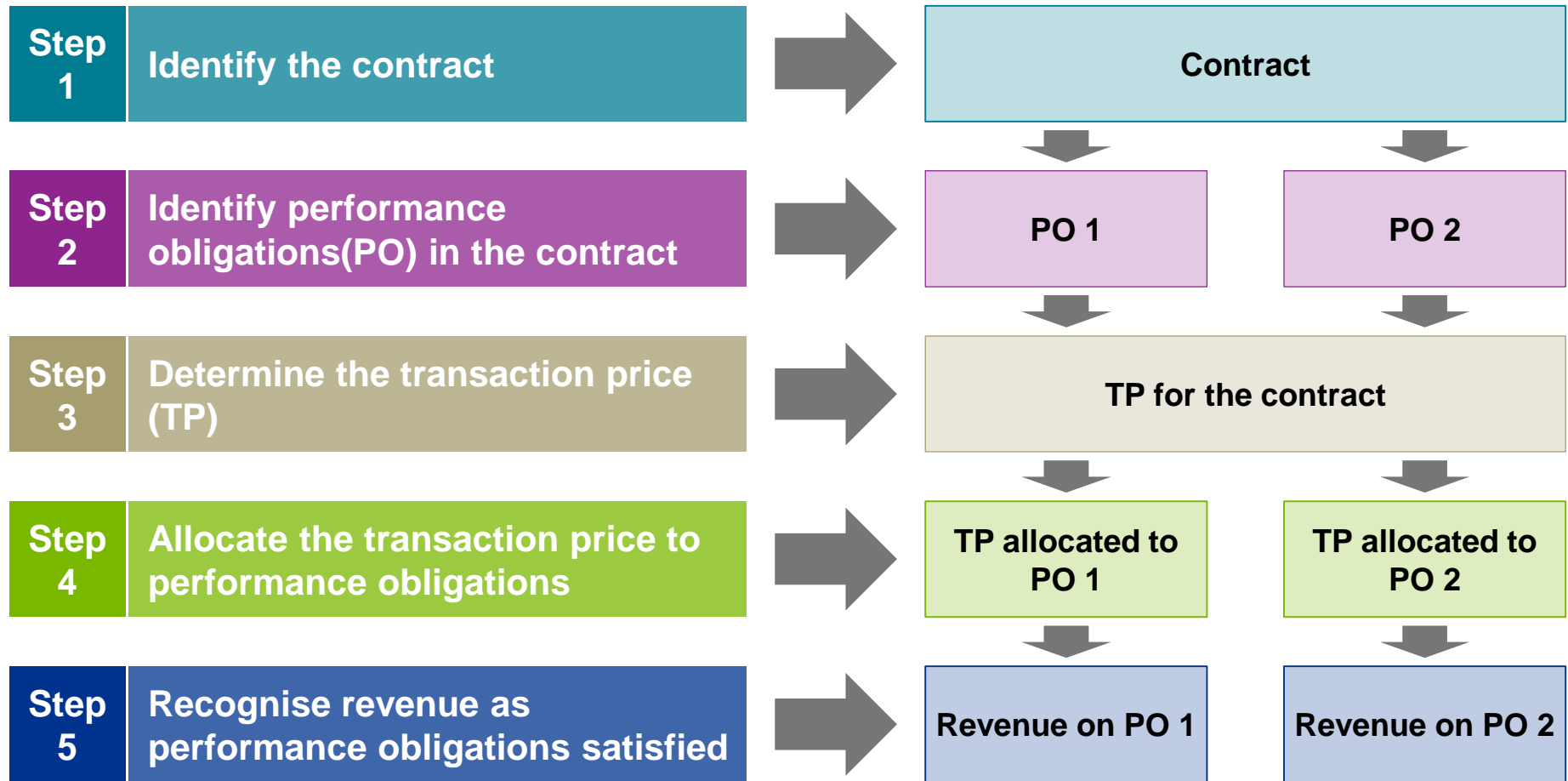
- Contract terms and business practices may need to change to achieve or maintain a particular revenue profile
- Changes in timing of revenue recognition may impact the timing of dividends, taxation and sales incentives
- Communications with stakeholder will require careful consideration
- Get it right the first time! Capital markets highly intolerant of revising revenue accounting

IFRS 15 – The sectors we believe will be impacted



IFRS 15 – The issues we are seeing/changes to current practice

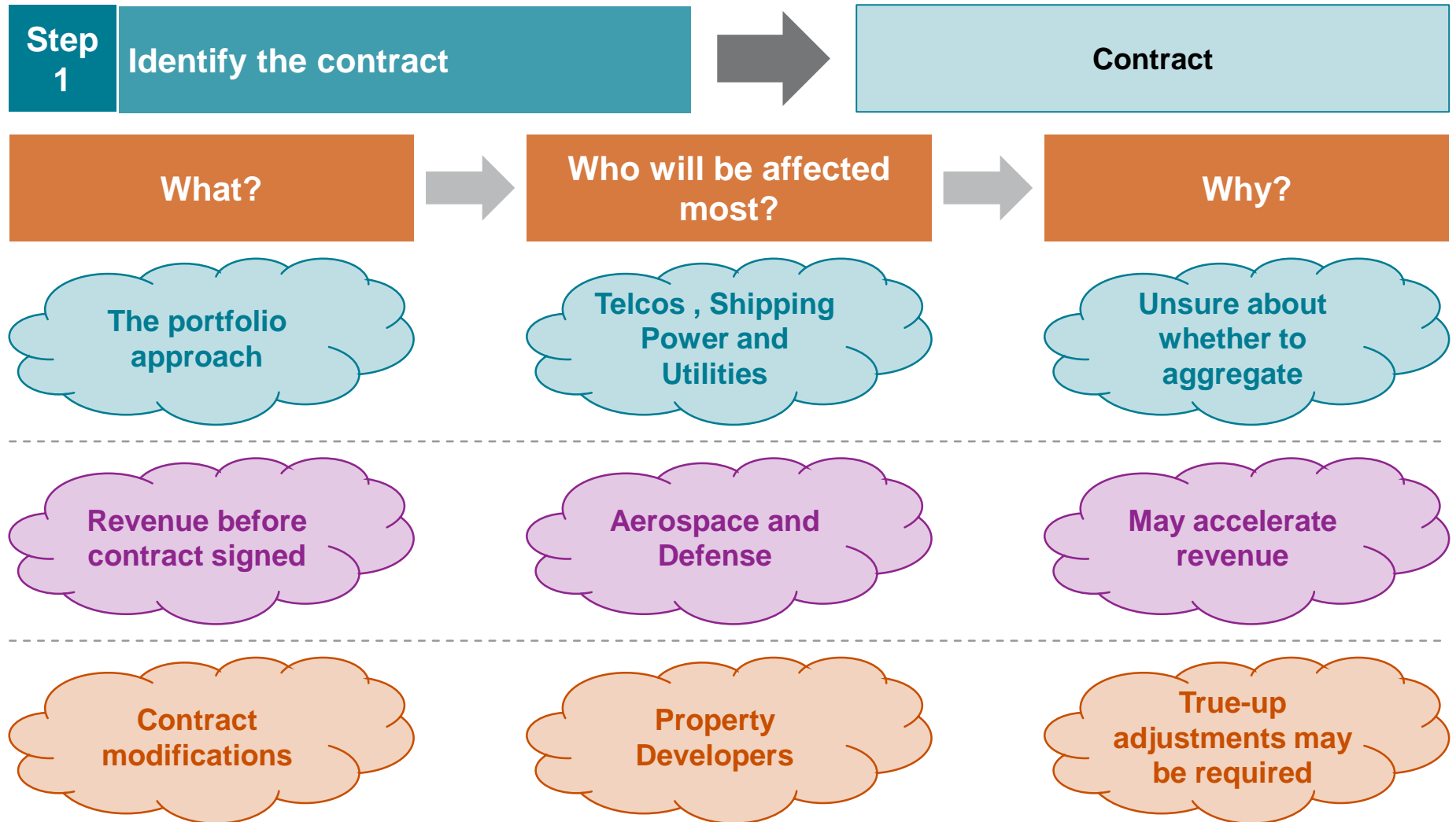
IFRS 15 contains a five-step contract based control model for recognising revenue:



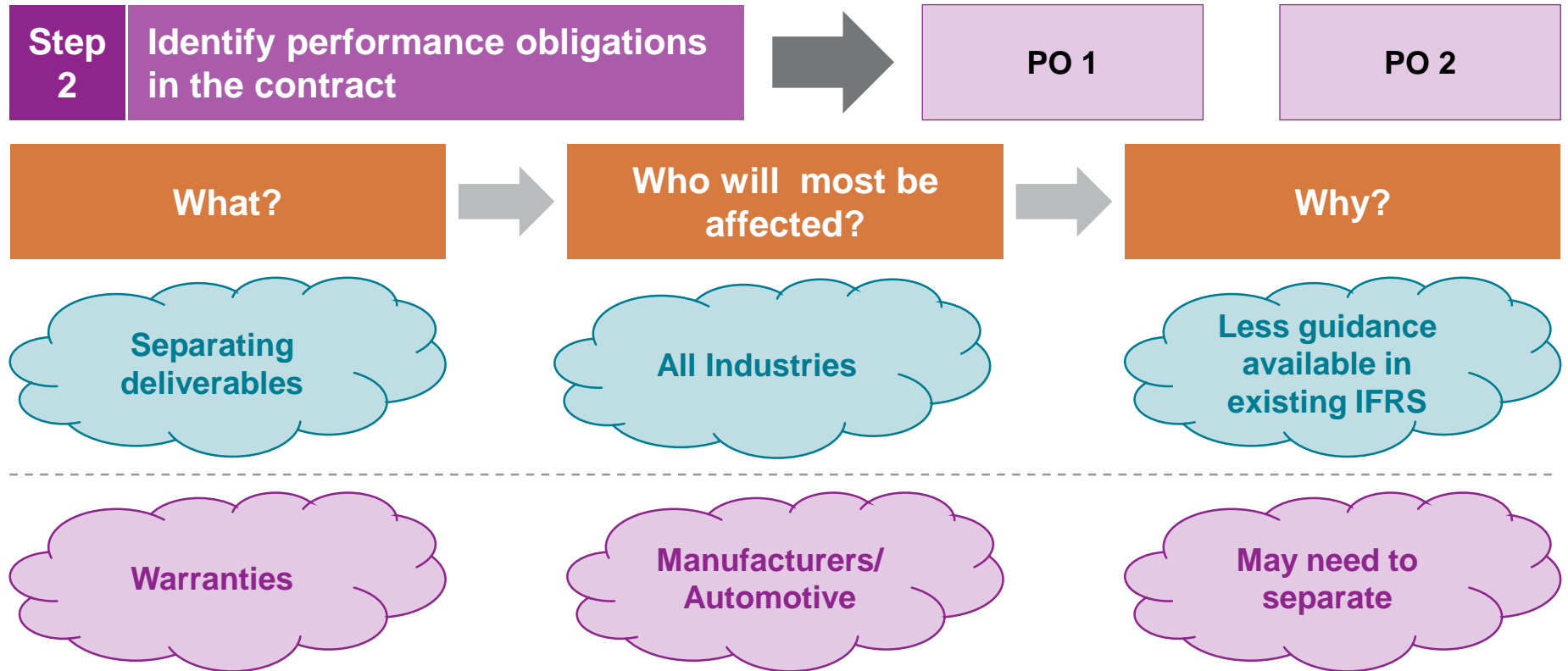
Keys: PO: Performance obligation

TP: Transaction price

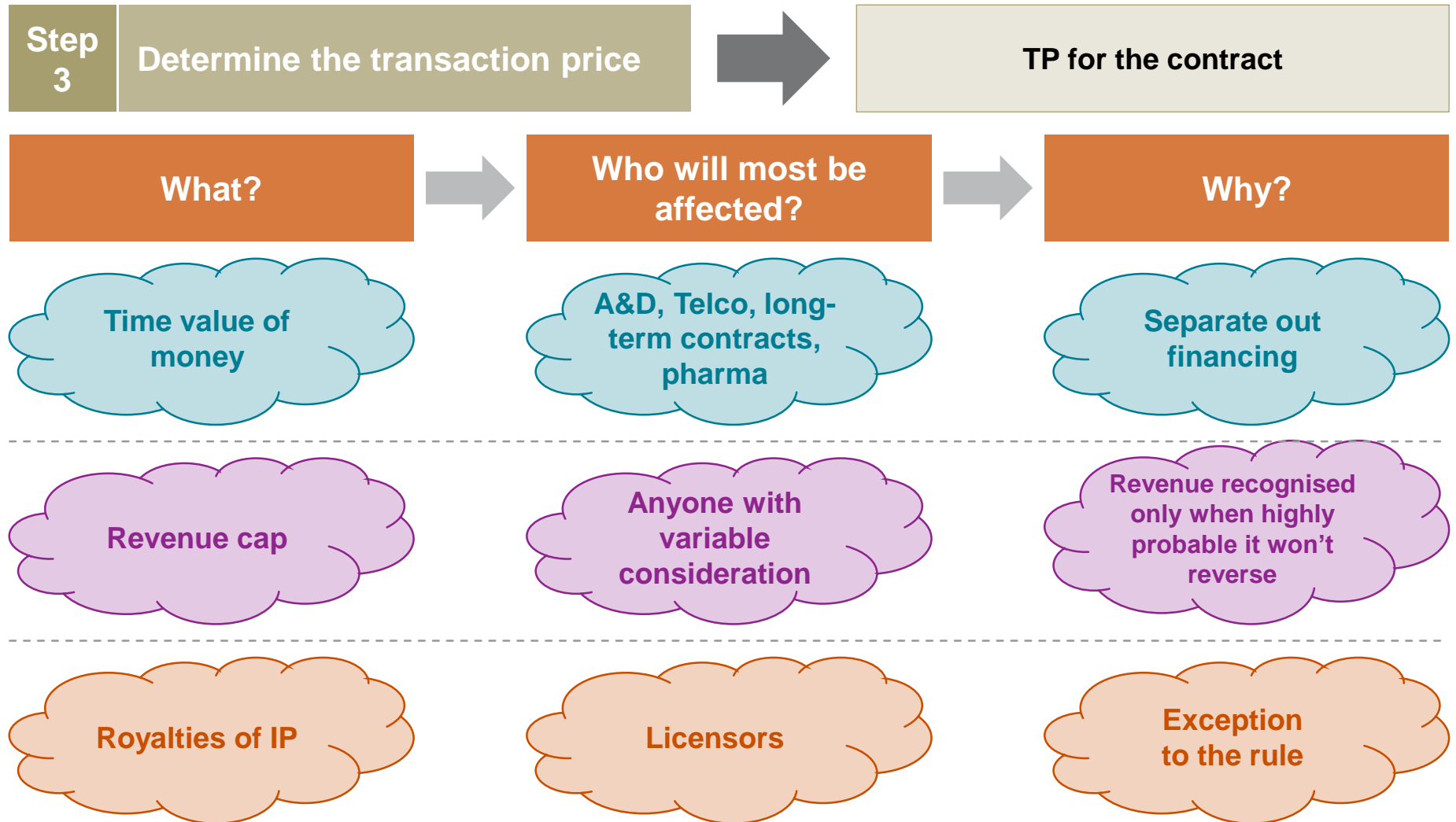
IFRS 15 – The issues we are seeing/changes to current practice – Step 1



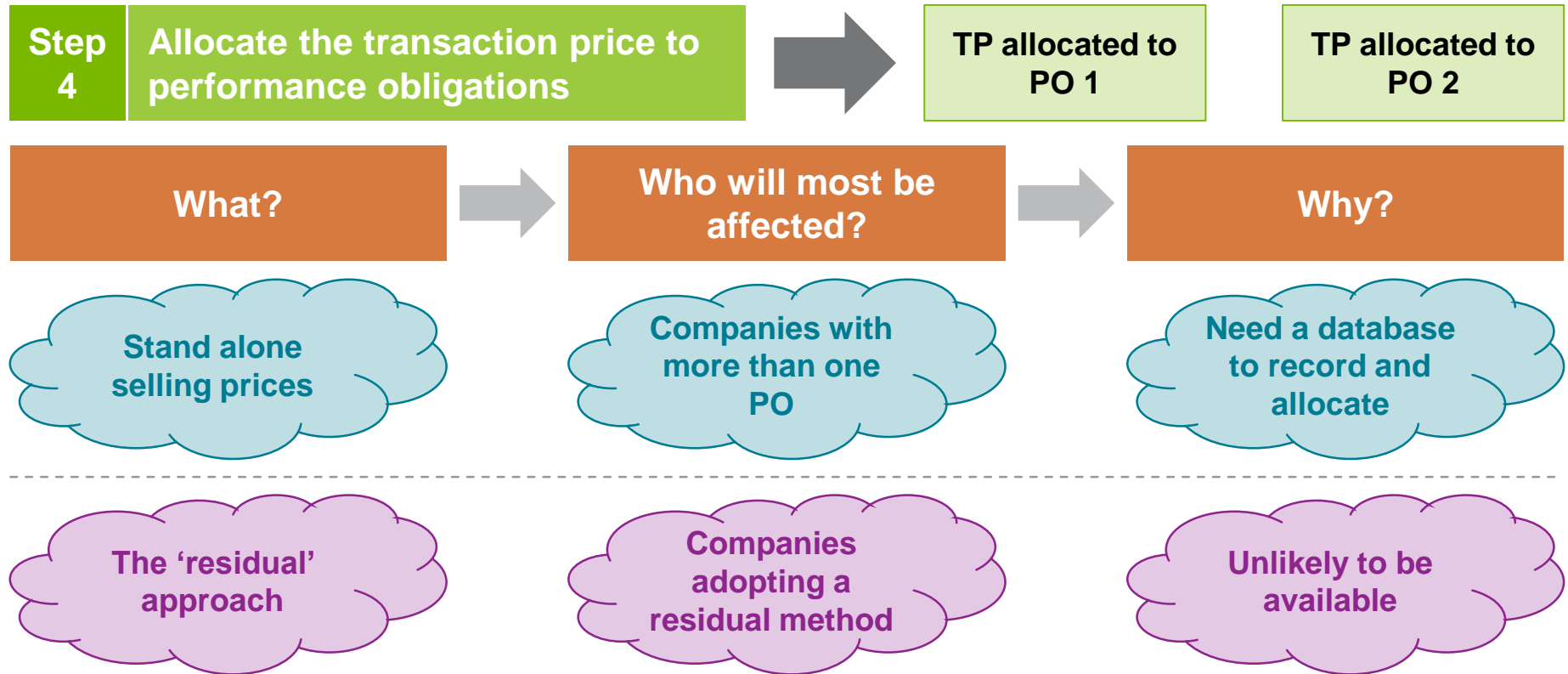
IFRS 15 – The issues we are seeing/changes to current practice – Step 2



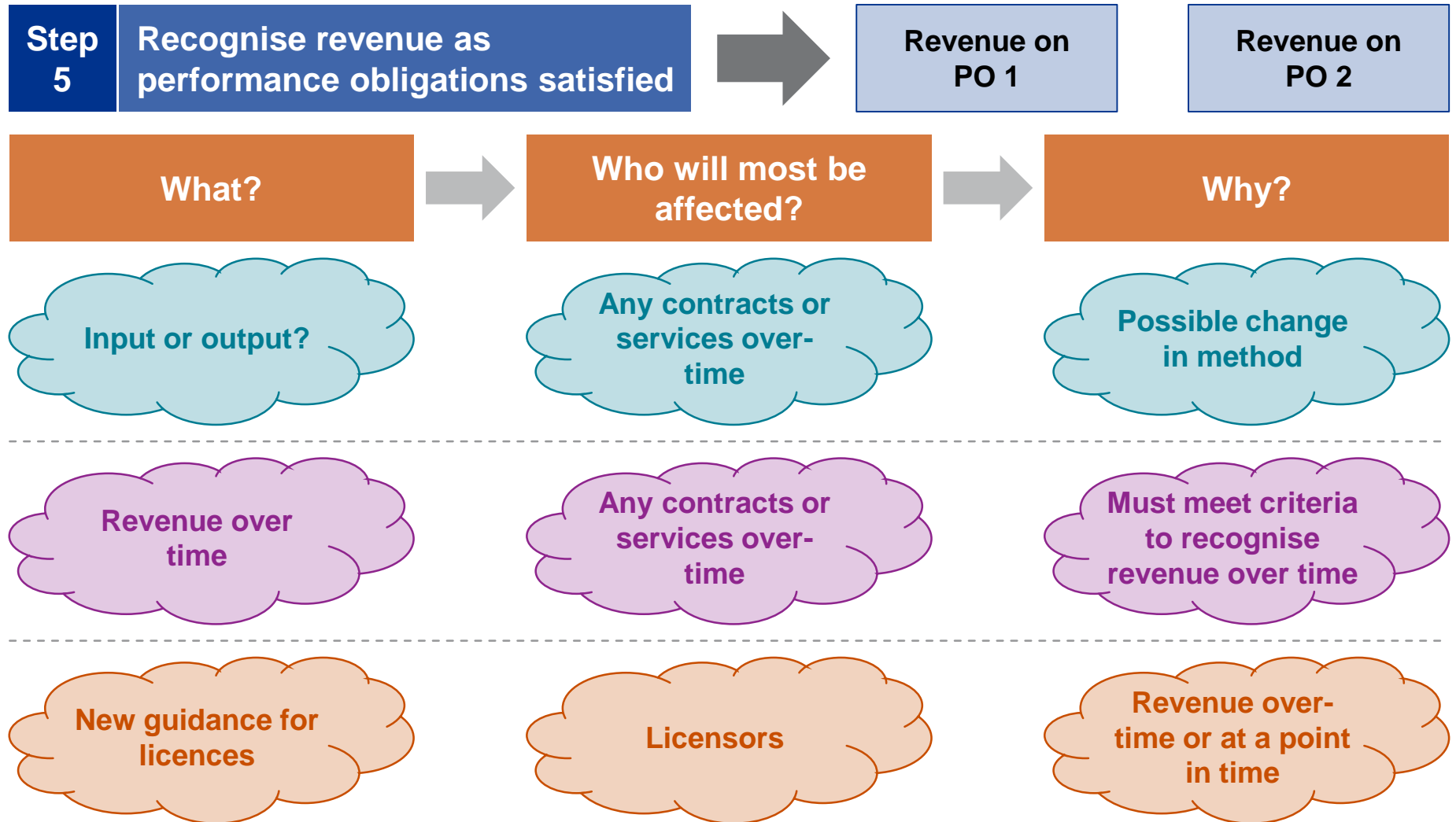
IFRS 15 – The issues we are seeing/changes to current practice – Step 3



IFRS 15 – The issues we are seeing/changes to current practice – Step 4



IFRS 15 – The issues we are seeing/changes to current practice – Step 5



Impact Assessment by Industry

The steps of the model that are most likely to affect the current practice of certain industries are summarized below:

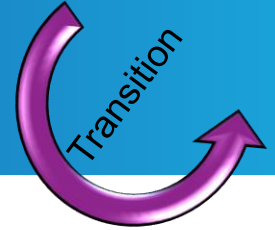
	Step				
	1	2	3	4	5
Aerospace and defense	✓	✓	✓		✓
Asset managers			✓		
Building and construction			✓		✓
Contract manufacturers					✓
Health care (U.S.)	✓		✓		
Licensors (media, life sciences, franchisors)	✓*	✓	✓		✓
Real estate	✓	✓			✓
Software		✓	✓	✓	✓
Telecommunications (mobile networks, cable)		✓		✓	

* In particular, life sciences.

Transition

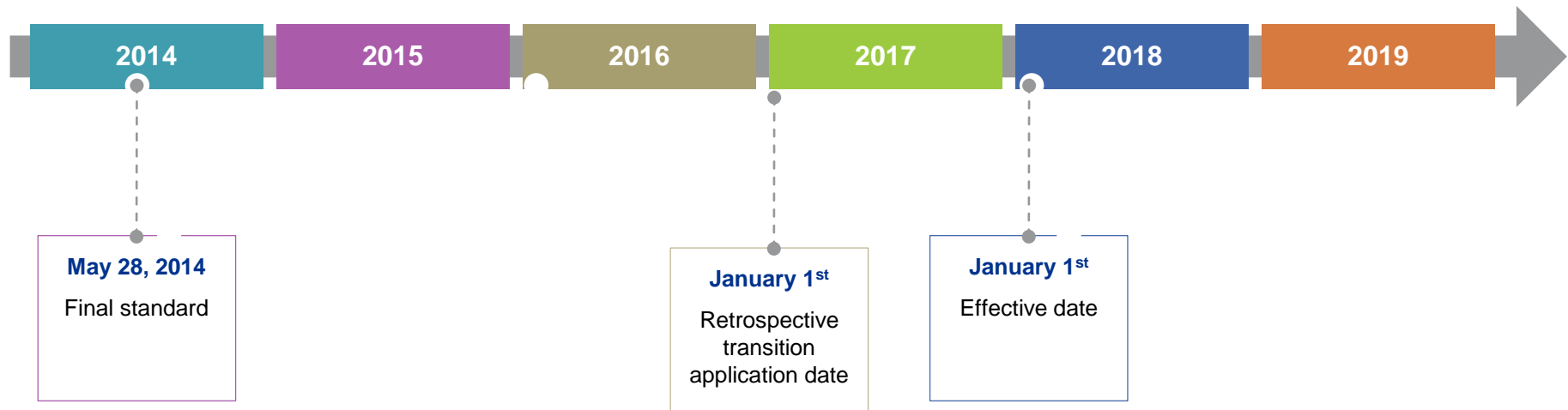


Timing of New Revenue Recognition Standard



Depending on transition method and length of contracts, some companies will soon need to start preparing to address:

- Process and system changes
- Enabling dual reporting during transition period
- Dealing with unanticipated complexity
- Maximizing the use of internal resources by spreading work over longer period





**Full
retrospective**
– no practical
expedients

**Partial
retrospective**
– practical
expedients

**Cumulative
effect**

Consider:

Stakeholder
requirements

Implications on
group entities

Transition
timeline

Impact & Implementation



Impact & Implementation

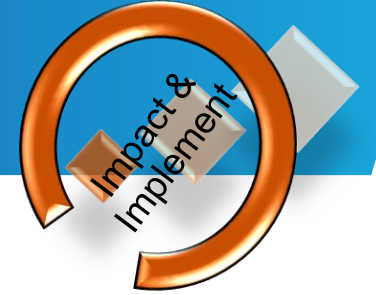




Accounting, Tax, and Reporting

- Accounting policies and procedures
- Historical results, reporting differences and transition
- Interaction with other accounting standards – Financial Instruments and Leases
- Tax reporting, application and compliance
- Operating and Accounting Interface

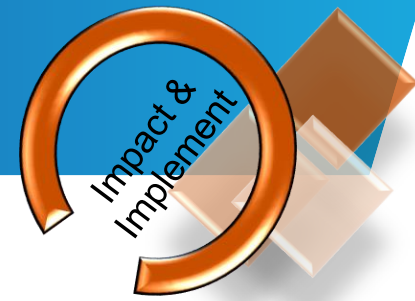




Systems and Processes

- Systematic consideration of complex contract/customer base
- Database and data-sets
- Information gathering tools
- ERP system functionality
- Processes tailored to contracts/products
- General ledger, sub-systems and reporting packages
- Transition processes and parallel runs
- Changes to internal controls and procedures





People and Change

- Stakeholder Engagement
- Project management
- Training and awareness of stakeholders (accounting, sales, legal, procurement etc)
- Multi-sector and multi-locations



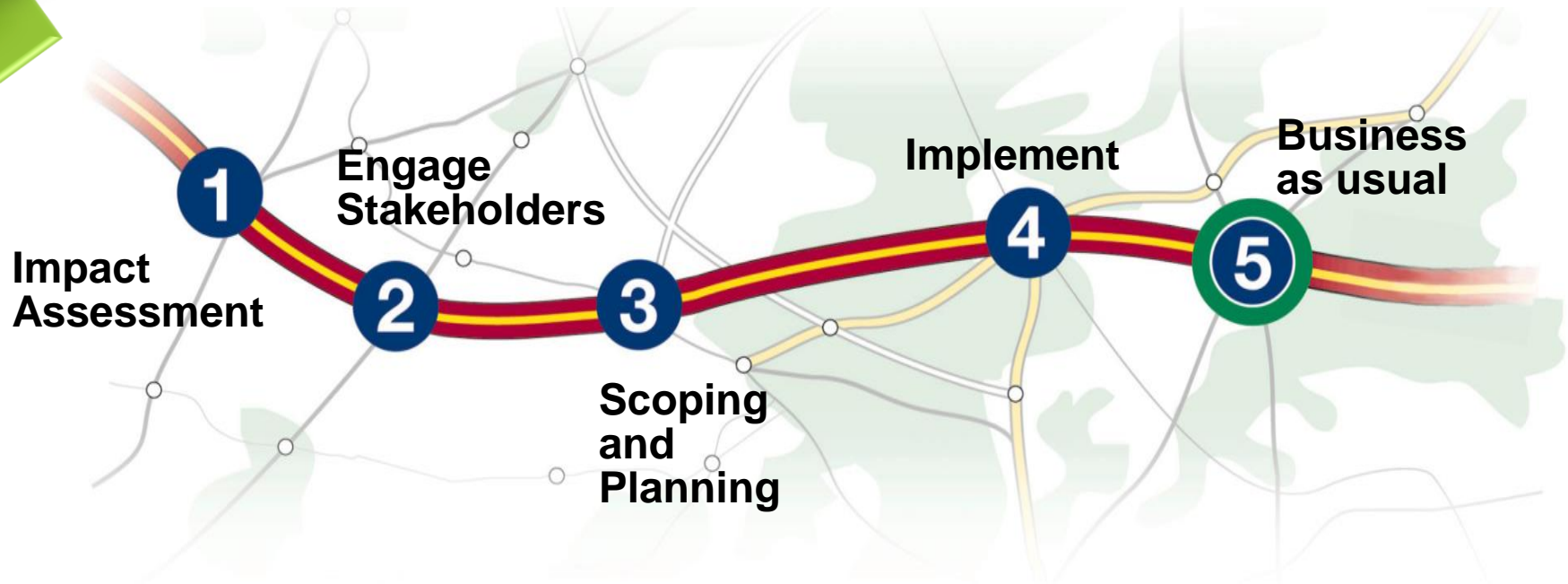
Business

- Contractual terms
- Product bundling and pricing
- Cost and margin analysis
- Internal reporting and business metrics
- Compensation arrangements
- Communication with stakeholders
- Opportunity to review and rethink business practice
- Coordination with other strategic initiatives and developments

Impact & Implementation



The way forward?





A word cloud featuring various terms related to questions and answers. The words are arranged in a dynamic, overlapping layout. The most prominent words are 'Question' and 'Answers' in a large, dark blue font. Other significant words include 'Ask', 'Answer', 'Apply', 'Why', 'Understand', 'Query', 'How', 'Where', 'What', 'When', and 'Who'. The words are in different sizes and orientations, creating a sense of movement and emphasis on the central theme of inquiry.

Ask
Answer
Who
Why
Where
What
When
How
Question
Answers
Apply
Understand
Query

Contact us



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cutting through complexity

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