

A photograph of a modern, multi-level architectural interior. The space is characterized by white, curved walkways and railings. A long, straight staircase with wooden steps and metal railings leads upwards from the bottom center. The ceiling features recessed lighting and large skylights that allow natural light to filter in. The overall aesthetic is clean, bright, and futuristic.

PRACTICAL ISSUES WHEN IMPLEMENTING IFRS 15

February 2019

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**MOST FOR-PROFIT ENTITIES WILL HAVE
COMPLETED ONE YEAR UNDER IFRS 15
BY 30 JUNE 2019**

EFFECTIVE DATE OF IFRS 15

Accounting Standard	Effective Date - Years Beginning on or after ...	31 December Year- ends	30 June Year-ends
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018	31 December 2018	30 June 2019

PRACTICAL ISSUES

- ▶ Application date 1st day of year of adoption
- ▶ Identified from real-life issues raised with:
 - IFRIC
 - From our involvement with clients:
 - Listed companies reporting half year and full year results (December 2018)
 - Other entities that have transitioned



MONTHLY FINANCIAL REPORTING WEBINARS

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- ▶ 2019 Webinars re IFRS 15
 - February 2019: Practice Issues when implementing IFRS 15
 - April 2019: Practical Issues when implementing AASB 1058 (NFP)
 - July 2019: Disclosing impact of IFRS 15
 - September 2019: Disclosing impact of AASB 1058 (NFP)
 - October 2019: Lessons learned from implementing IFRS 15

MONTHLY FINANCIAL REPORTING WEBINARS

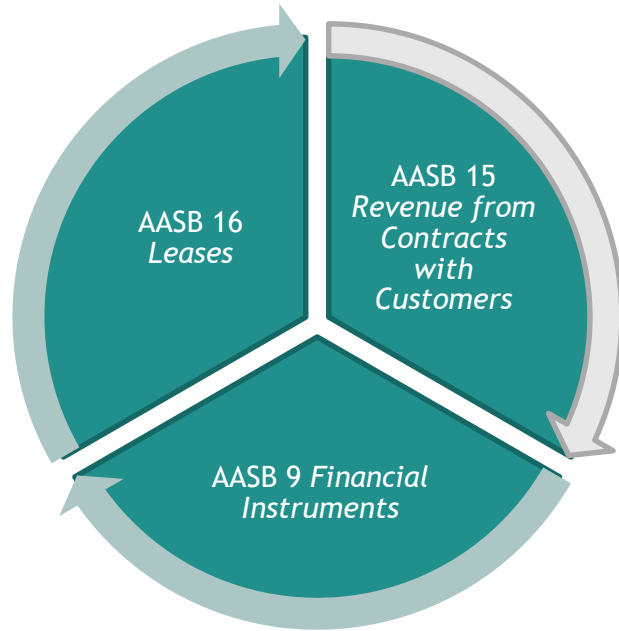
- ▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2018-financial-reporting-accounting-standards>

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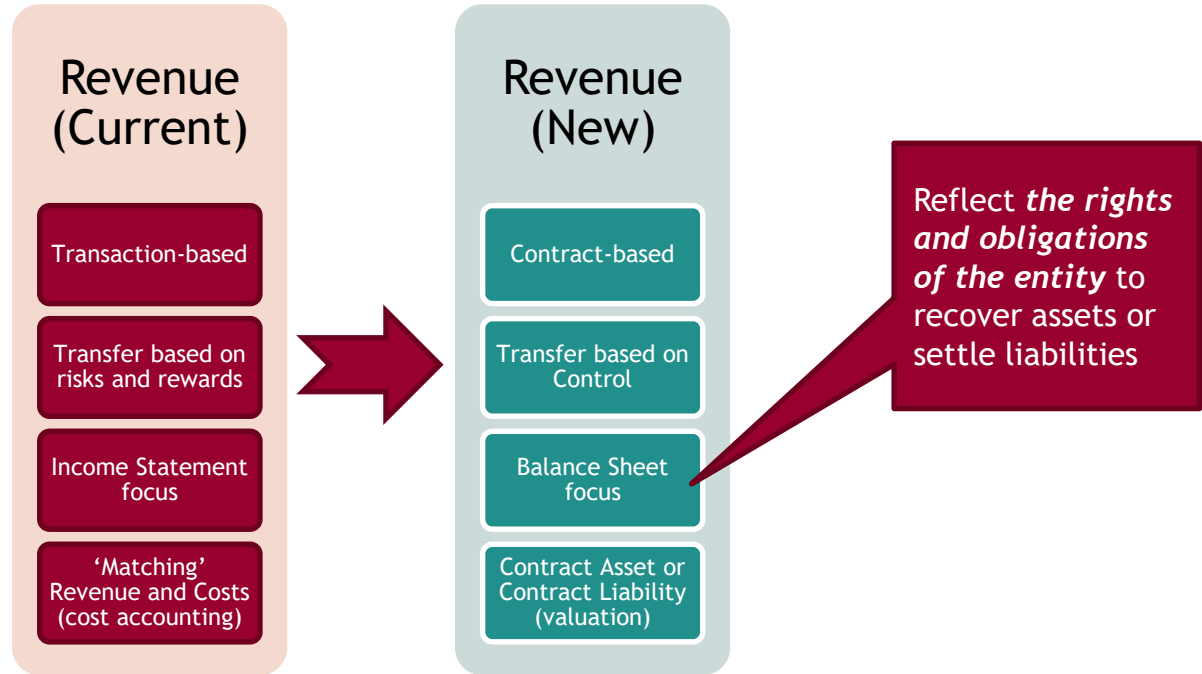
OVERVIEW

REVENUE

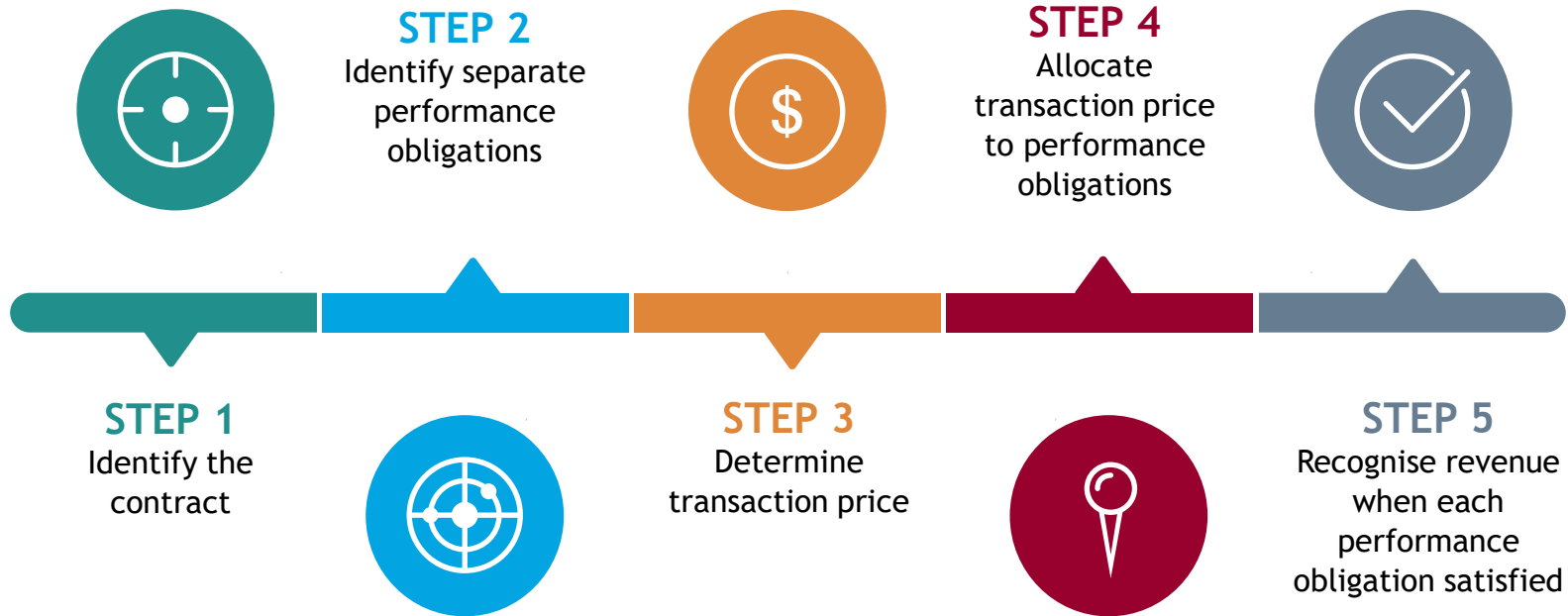


‘Recognise revenue to depict the transfer of promised goods or services to customers [arising from contracts with customers] in an amount that reflects the consideration to which the entity expects to be entitled’

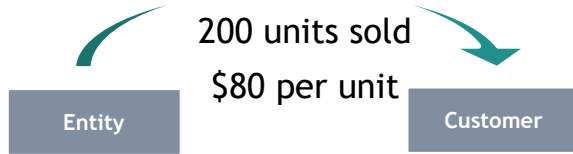
REVENUE: CHANGE IN APPROACH



REVENUE: 5-STEP MODEL



EXAMPLE: RIGHT OF RETURN



At contract inception:

- Unlike other customers, this customer enjoys an early settlement discount of 8% and now has also been offered a 10% discount on their next order.
- A right of return exists for defective products - the entity's best guess is that 5 units will be returned for a cash refund

2 Performance Obligations:
Units +
Material Right (Discount)



Transaction Price:
\$16,000 less 8% = \$ 14,720
less 5 units refund
[liability] of \$368 =
\$14,352
+
Recognise Cost of Goods to
be returned as Inventory



Allocate based on stand-alone selling price:
Material Right (Discount) = \$700
Units = \$15,600



Recognise Revenue:
Discount (Deferred) = \$616
Units = \$ 13,736
Total = \$ 14,352



POTENTIAL IMPACTS

- ▶ Revenue recognition deferred into the future
- ▶ Pattern reflects value-transfer to customer
- ▶ Cash collections reflect in revenue in subsequent years
- ▶ Revenue is less of a cash item
- ▶ Budgeting and forecasting
- ▶ Impairment assessments (cash-generating units)
- ▶ Disclosure - explain how revenue relates to cash collection



PRACTICAL ISSUES

TRANSFERS OF SERVICES

- ▶ Steps 2 of 5-step model:
 - A performance obligation is a promise to a customer to transfer:
 - A good or services (or bundle) that is distinct, or
 - A series of distinct goods or services that are substantially the same and have the same pattern of transfer

EXAMPLE: IFRIC UPDATE SEPTEMBER 2018

- A stock exchange provides a listing service to a customer. Specifically, the stock exchange promises to transfer an admission service that is distinct from the listing service. A non-refundable upfront fee is charged on initial listing as well as an ongoing listing fee. Various tasks are performed by the stock exchange before listing (e.g. due diligence, application processing, dealer notice publications, etc.)

Performance obligations do not include activities that do not transfer a good or service

Existence of non-refundable upfront fee does not itself represent the transfer of a good or service

Recognise using series provision over time (time increment basis) - upfront fee is deferred over period of contract

Promise is the service of being listed (not of listing) - the service on initial day of listing is the same as the service on all subsequent days

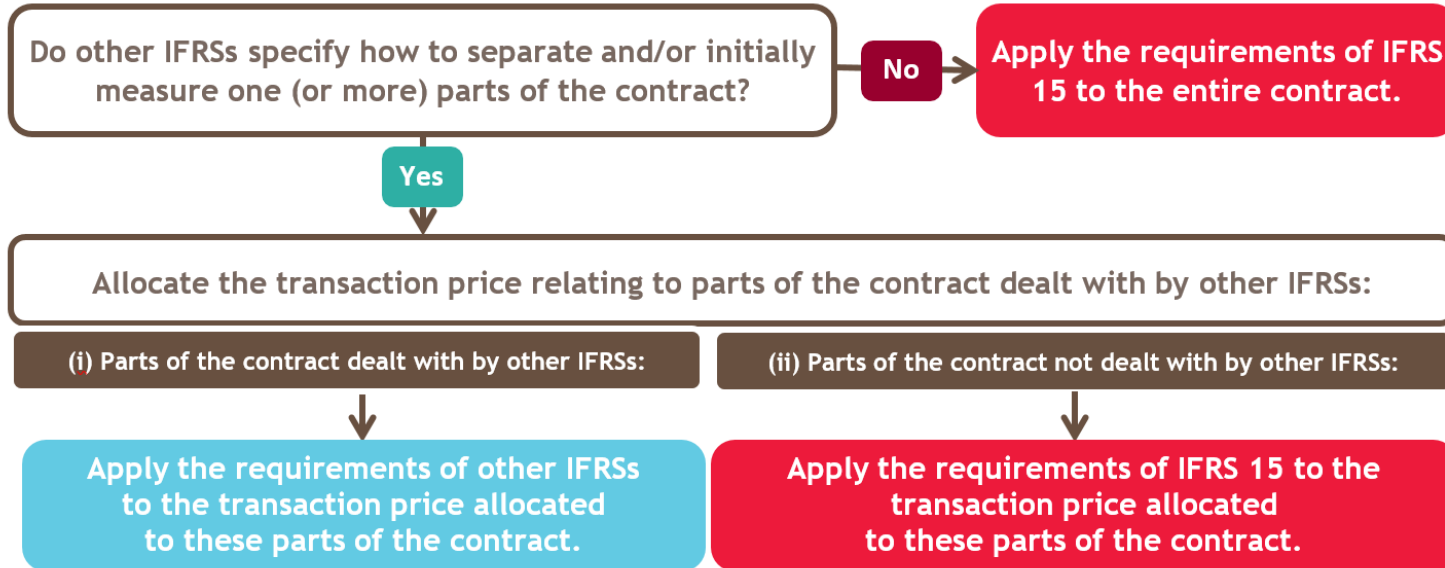
CONTRACT COSTS, CONTRACT ASSETS AND CONTRACT LIABILITIES

Term	Meaning	Capitalise if:	Amortise
<i>Incremental Costs</i>	Costs would not have incurred if that individual contract had not been obtained.	Incremental [or gives rise to explicit recharge to the customer]	Systematic basis, consistent with transfer of related goods or service
<i>Costs to Fulfil</i>	Costs incurred in fulfilling the contract with a customer not within the scope of another Standard	<ul style="list-style-type: none"> - Costs relate directly to a specific contract, - Costs generate /enhance the resources the entity will use to complete the contract, and - Costs are expected to be recovered 	

CONTRACT COSTS, CONTRACT ASSETS AND CONTRACT LIABILITIES

Term	Meaning
<i>Contract Asset</i>	An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).
<i>Contract Liability</i>	[opposite i.e. consideration exceeds revenue]

SCOPE



EXAMPLE: INTERACTION WITH IFRS 9

- Investment Manager originates loans (financial assets) to earn a return from those borrowers for its investor customers. Investment Manager earns a one-off fee (paid by the borrower) and accounts for it as Establishment Fee (Revenue) on settlement of the loan. The Manager does credit checks before the loan is granted and collects repayments each month

*Current Accounting (IAS 18):
some managers account for
revenue as Establishment Fee
income (revenue) on date of
settlement*

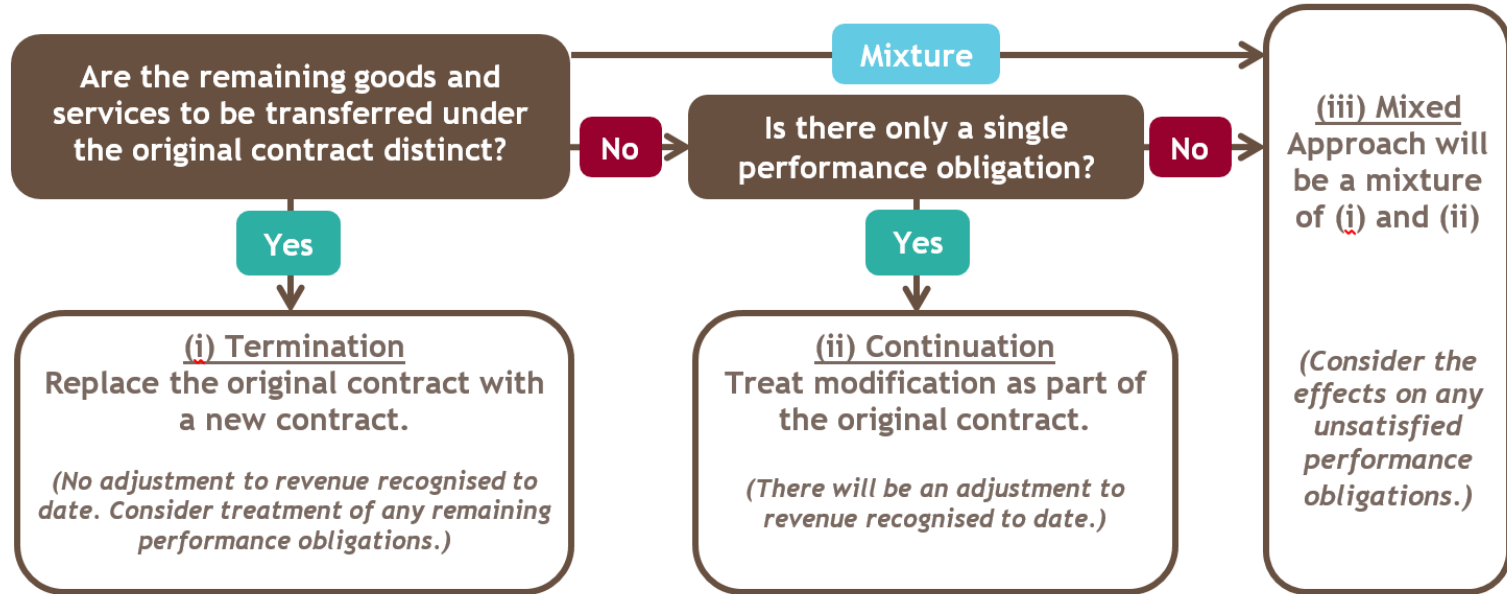
If Manager is intermediary or agent ('for hire' investment manager):

- *Not a transaction cost under IFRS 9*
- *Revenue is for management services*
- *Recognise over period of monthly service as service transferred to customer*

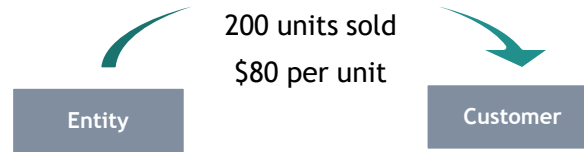
If financial asset is accounted for by Manager:

- *fee is a transaction cost under IFRS 9 (account for as part of effective interest rate of financial asset)*
- *no revenue recognised in accordance with IFRS 15*

MODIFICATIONS



EXAMPLE: MODIFICATION OF CONTRACT



Modification A:

- 150 units already delivered
- 50 remaining units still to be delivered
- Sales manager agrees to deliver a further 50 units at latest selling price of \$75 per unit

$$150 + 50 \text{ remaining} \times \$80 \text{ per unit} = \$16,000$$

$$50 \times \$75 \text{ per unit} = \$3,750$$

Modification B:

- 150 units already delivered
- 50 remaining units still to be delivered
- Sales manager agrees to deliver the further 50 units at \$65 per unit (\$10 discount) to compensate for poor service to date

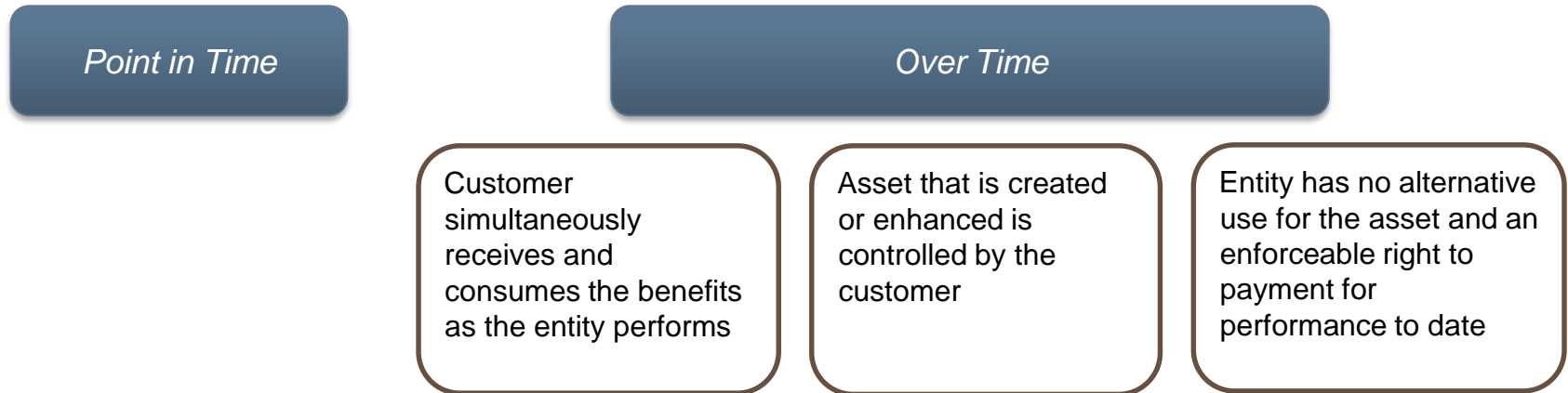
$$\text{Immediate adjustment to revenue and 'refund liability'} = \$500$$

$$50 \text{ remaining} \times \$80 \text{ per unit}$$

$$50 \times \$75 \text{ per unit} = \$3,750$$

REAL ESTATE - IFRIC INTERPRETATIONS

- ▶ Three IFRIC Interpretations (March 2018)
- ▶ Step 5 of the 5-step model



REAL ESTATE - IFRIC INTERPRETATIONS

- ▶ Sale of units in multi-unit residential development - right to undivided interest in land
 - Customer pays portion of purchase price
 - Parties can agree to design changes
 - Termination penalty if cancel, but courts can cancel (for example, for deterioration in customer credit status)
 - None of 'over time' criteria met - careful consideration of legal requirements and precedents
- ▶ Other examples addressed: land transfer at outset of contract, ability to realise proceeds through resale



DO YOU NEED ASSISTANCE?



BDO IFRS ADVISORY

1. Written advice, guidance, direction in traditional and digital forms
2. Training
3. Risk assessment
4. Consulting and customisation of processes
5. Policy development
6. First time adoption assessments

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NEWSLETTERS & OTHER PUBLICATIONS

- ▶ <https://www.bdo.com.au/en-au/services/audit-assurance/accounting-resources>
- ▶ <https://www.bdo.com.au/en-au/services/audit-assurance/ifrs-advisory-services/ifrs-technical-resources>

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