



DISCLOSING THE IMPACT OF IMPLEMENTING IFRS 15

24 July 2019

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INTRODUCTION

Probe fallout hits CIMIC

DEREK ROSE

Shares in CIMIC Group have crashed after a Hong Kong research firm issued a scathing report accusing Australia's biggest construction company of inflating profits by \$1 billion over two years.

"CIMIC has reported robust earnings growth in recent years ... however, this growth is an illusion," the note by GMT Research said.

"We estimate CIMIC has

inflated reported pre-tax profit by roughly 100 per cent over the past two years, or \$1 billion in total, through a combination of aggressive revenue recognition, acquisition accounting and avoiding losses from its Middle Eastern JV."

The note was published last Tuesday but attracted little attention until it was publicised by the Sydney Morning Herald on Saturday.

CIMIC, formerly Leighton Holdings, was the S&P-ASX200's

biggest loser yesterday, its shares plunging \$3.54, or 7.1 per cent, to a two-month low of \$46.50.

GMT's Nigel Stevenson charged that CIMIC mostly used aggressive revenue recognition to boost pre-tax profits by \$300 million to \$400 million over the past two years. New accounting rules that came into force in 2018 resulted in a \$700 million reversal in previously booked revenue no longer deemed "highly profitable", GMT charged.

GMT describes itself as "an accounting research firm" that uses a proprietary method to "detect financial anomalies, or traits similar to past accounting shenanigans".

CIMIC said in statement to the Australian Securities Exchange that it was in compliance with its disclosure obligations.

"For accurate information and analysis related to the company, CIMIC advises market participants to refer to its 2018 and past annual reports, its quarter-

ly, half and full-year financial results, and its other disclosures," it said.

"CIMIC notes that its annual reports and full-year financial result are fully audited and in compliance with the accounting standards."

CIMIC's first-quarter result was released three weeks ago.

More than 70 per cent of the company's shares are owned by German construction giant Hochtief, which in turn is owned by Spanish group ACS.

Flood of



RETAINED EARNINGS IMPACTS

	Net assets at 1 January 2018 / 1 July 2018			
	Before adjustments	AASB 15	AASB 9	After adjustments
	\$'m	\$'m	\$'m	\$'m
Brambles Limited	2,847	(331)		2,515
Cimic Group Ltd	3,357	(953)	- 489	1,915
CSL Limited	4,778	74		4,852
Downer Edi Limited	3,258	(258)		3,000
Qantas Airways	3,540	51		3,591
Telstra Corporation	15,014	- 395	- 63	14,556
Vocus Group Limited	2353.744	(34.8)	(11.1)	2307.844

QUIZ

QUESTION:

1. What are the standards impacting disclosure in respect of adoption of AASB 15 ?

ANSWER:

- ✓ AASB 101
- ✓ AASB 108
- ✓ AASB 15

QUIZ

QUESTION:

2. If there are no impacts in respect of revenue timing, there will be no impact on your opening retained earnings.

True / False ?

ANSWER:

✓ False

Issue around capitalising / expensing bid costs

QUIZ

QUESTION:

3. If there are no impacts in respect of retained earnings on adoption of AASB 15, there will be no impact on the presentation of your income statement.

True / False ?

ANSWER:

✓ False

QUIZ

QUESTION:

4. If there are no impacts in respect of retained earnings on adoption of AASB 15, can the adoption of AASB 15 impact the presentation of your balance sheet?

Yes / No ?

ANSWER:

✓ Yes

QUIZ

QUESTION:

5. What are the potential impacts on your P/L presentation, assuming no impact on retained earnings or net profit ?

ANSWER:

- ✓ Reduce revenue
- ✓ Reduce GP
- ✓ Payments to customers
- ✓ Agent vs principle

QUIZ

QUESTION:

6. How can the adoption of AASB 15 impact the balance sheet presentation, even if there are no impacts on retained earnings or net profit ?

ANSWER:

- ✓ No Deferred revenue
- ✓ No Accrued Revenue
- ✓ Contract assets
- ✓ Contract liabilities
- ✓ Reduced inventory
- ✓ Right of return asset
- ✓ Netting agent arrangements

QUIZ

QUESTION:

7. Why does the following revenue recognition note not comply with AASB 15 ?

Accounting Policy

Revenue is measured at the fair value of the consideration received or receivable. It is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risk and rewards are considered to have passed to the buyer upon the delivery of goods to the customer.

Rendering of services

Revenue from the rendering of a service is recognised in the period in which the service is provided.

Commissions

Commissions are recognised in the period in which the related sale of goods or rendering of service is recognised

ANSWER:

- ✓ Revenue on goods recognised when control passes
- ✓ Revenue recognised is not FV of consideration
- ✓ (that includes credit risk)
- ✓ Revenue is the amount the entity is entitled to.
- ✓ No mention of the reversal constraint
- ✓ Not enough detail

QUIZ

QUESTION:

8. The adoption of the partial retrospective transition method requires the same disclosures as the full retrospective method.

True / False?

ANSWER:

✓ False

- C8 For reporting periods that include the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b):
- a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 111, AASB 118 and related Interpretations that were in effect before the change; and
 - b) an explanation of the reasons for significant changes identified in C8(a).



QUIZ

QUESTION:

9. Application of the full retrospective transition model requires 3 balance sheets (including one at 1 July 2017).

True / False ?

ANSWER:

✓ False

BALANCE SHEET

Examples

- Clearway - Trade payables to provisions
- GWA - Sales returns
- MMS - Deferred Revenue to Contract liability



PROFIT AND LOSS

AGENT VS PRINCIPAL

Examples

- Ramsay Heath
- Webjet



PROFIT AND LOSS

NETTING

Examples

- Tabcorp - Commissions
- Tassal- Payments to customers
- Harvey Norman - “tactical support payments”
- Helios - Upfront payments to HCP



AASB 15: DISCLOSURE REQUIREMENTS AND EXAMPLES

AASB 15: DISCLOSURE REQUIREMENTS

General

Extract of AASB 15, paragraphs 110-112

110	<p>The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:</p> <ul style="list-style-type: none">(a) its contracts with customers (see paragraphs 113-122);(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123-126); and(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127-128).
111	<p>An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.</p>
112	<p>An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.</p>

AASB 15: DISCLOSURE REQUIREMENTS

Contracts with customers

Extract of AASB 15, paragraph 113

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| 113 | <p>An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:</p> <ul style="list-style-type: none">(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and(b) Any impairment losses recognised (in accordance with AASB 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts. |
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AASB 15: DISCLOSURE REQUIREMENTS

Disaggregation of revenue

Extract of IFRS 15, paragraphs 114-115

114	An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87-B89 when selecting the categories to use to disaggregate revenue
115	In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8 Operating Segments.

AASB 15: DISCLOSURE REQUIREMENTS

Disaggregation of revenue - application guidance

Extract of AASB 15 application guidance, paragraphs B87-B89

B87	<p>Paragraph 114 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity's contracts with customers. Some entities may need to use more than one type of category to meet the objective in paragraph 114 for disaggregating revenue. Other entities may meet the objective by using only one type of category to disaggregate revenue.</p>
B88	<p>When selecting the type of category (or categories) to use to disaggregate revenue, an entity shall consider how information about the entity's revenue has been presented for other purposes, including all of the following:</p> <ul style="list-style-type: none">(a) disclosure presented outside the financial statements (for example, in earnings releases, annual reports or investor presentations);(b) information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments; and(c) other information that is similar to the types of information identified in paragraph B88(a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.
B89	<p>Examples of categories that might be appropriate include, but are not limited to, all of the following:</p> <ul style="list-style-type: none">(a) type of good or service (for example, major product lines);(b) geographical region (for example, country or region);(c) market or type of customer (for example, government and non-government customers);(d) type of contract (for example, fixed-price and time-and-materials contracts);(e) contract duration (for example, short-term and long-term contracts);(f) timing of transfer of goods or services (for example, revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time); and(g) sales channels (for example, goods sold directly to consumers and goods sold through intermediaries).

AASB 15: DISCLOSURE REQUIREMENTS

Contract balances

Extract of AASB 15, paragraphs 116-118 (1/2)

116	<p>An entity shall disclose all of the following:</p> <ul style="list-style-type: none">(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).
117	<p>An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.</p>

AASB 15: DISCLOSURE REQUIREMENTS

Contract balances (continued)

Extract of AASB 15, paragraphs 116-118 (2/2)

- 118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:
- (a) changes due to business combinations;
 - (b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;
 - (c) impairment of a contract asset;
 - (d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and
 - (e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).

AASB 15: DISCLOSURE REQUIREMENTS

Performance obligations

Extract of AASB 15, paragraph 119

- 119 An entity shall disclose the following information about its remaining performance obligations:
- (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;
 - (b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56-58);
 - (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);
 - (d) obligations for returns, refunds and other similar obligations; and
 - (e) types of warranties and related obligations.

AASB 15: DISCLOSURE REQUIREMENTS

Transaction price allocated to the remaining performance obligations

Extract of AASB 15, paragraphs 120-122

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| 120 | <p>An entity shall disclose the following information about its remaining performance obligations:</p> <ul style="list-style-type: none">(a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and(b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:<ul style="list-style-type: none">(i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or(ii) by using qualitative information. |
| 121 | <p>As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met:</p> <ul style="list-style-type: none">(a) the performance is part of a contract that has an original expected duration of one year or less; or(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16. |
| 122 | <p>An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56-58).</p> |

AASB 15: DISCLOSURE REQUIREMENTS

Significant judgements

Extract of AASB15, paragraphs 123-126

123	<p>An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:</p> <ul style="list-style-type: none">(a) the timing of satisfaction of performance obligations (see paragraphs 124-125); and(b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).
124	<p>For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:</p> <ul style="list-style-type: none">(a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and(b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services
125	<p>For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.</p>
126	<p>An entity shall disclose information about the methods, inputs and assumptions used for all of the following:</p> <ul style="list-style-type: none">(a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;(b) assessing whether an estimate of variable consideration is constrained;(c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and(d) measuring obligations for returns, refunds and other similar obligations.

WOODSIDE - TIMING OF SATISFACTION OF PERFORMANCE OBLIGATIONS

Recognition and measurement

Revenue from contracts with customers

Revenue is recognised when or as the Group transfers control of products or provides services to a customer at the amount to which the Group expects to be entitled. If the consideration includes a variable component, the expected consideration is adjusted for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

- **Revenue from sale of produced hydrocarbons**

Revenue from the sale of produced hydrocarbons is recognised at a point in time when control of the product is transferred to the customer, which is typically on delivery.

Revenue from take or pay contracts is recognised in earnings when the product has been drawn by the customer (transfer of control) and recorded as unearned revenue until drawn by the customer.

- **Other operating revenue**

Revenue earned from LNG processing and other services is recognised over time as the services are rendered.

Trading and other hydrocarbon revenue earned from sales of third-party products is recognised at a point in time when control of the product is transferred to the customer, which is typically on delivery.

Key estimates and judgements

Revenue from contracts with customers

Judgment is required to determine the point at which the customer obtains control of hydrocarbons. Factors including transfer of legal title, transfer of significant risks and rewards of ownership and the existence of a present right to payment for the hydrocarbons typically result in control transferring on delivery of hydrocarbons at port of loading or port of discharge.

The transaction price at the date control passes for sales made subject to provisional pricing periods in oil and condensate contracts is determined with reference to quoted commodity prices.

Progress of performance obligations for LNG processing services revenue recognised over time is measured using the output method which most accurately measures the progress towards satisfaction of the performance obligation of the services provided.

AASB 15: DISCLOSURE REQUIREMENTS

Assets recognised from the costs to obtain or fulfil a contract

Extract of AASB 15, paragraphs 127-128

- | | |
|-----|---|
| 127 | <p>An entity shall describe both of the following:</p> <ul style="list-style-type: none">(a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and(b) the method it uses to determine the amortisation for each reporting period. |
| 128 | <p>An entity shall disclose all of the following:</p> <ul style="list-style-type: none">(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and(b) the amount of amortisation and any impairment losses recognised in the reporting period. |

AASB 15: DISCLOSURE REQUIREMENTS

Practical expedients

Extract of AASB 15, paragraph 129

129	If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.
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AASB 108: ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

Transition using [...]

Extract of AASB 108, paragraphs 28

- 28 When initial application of an Australian Accounting Standard has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
- (a) the title of the Australian Accounting Standard;
 - (b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;
 - (c) the nature of the change in accounting policy;
 - (d) when applicable, a description of the transitional provisions;
 - (e) when applicable, the transitional provisions that might have an effect on future periods;
 - (f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:
 - (i) for each financial statement line item affected; and
 - (ii) if AASB 133 Earnings per Share applies to the entity, for basic and diluted earnings per share;
 - (g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and
 - (h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.



BDO RESOURCES



WEBINARS

2019

- ▶ <https://www.bdo.com.au/en-au/insights/audit-assurance/webinars/2019-bdo-financial-reporting-and-accounting-standards-webinar-series>

2017 & 2018

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



PUBLICATIONS

IFRS in Practice

- ▶ [https://www.bdo.global/getattachment/Services/Audit-Assurance/IFRS/IFRS-in-Practice/IFRS15_REVENUE_screen-\(1\).pdf.aspx?lang=en-GB](https://www.bdo.global/getattachment/Services/Audit-Assurance/IFRS/IFRS-in-Practice/IFRS15_REVENUE_screen-(1).pdf.aspx?lang=en-GB)

Accounting News

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

E-LEARNING

Online training courses

- ▶ [IFRS 15: Overview](#)
- ▶ [IFRS 15: Step 1 - Identify the contract](#)
- ▶ [IFRS 15: Step 2 - Identify the separate performance obligations in the contract](#)
- ▶ [IFRS 15: Step 3 - Determine the transaction price](#)
- ▶ [IFRS 15: Step 4 - Allocate the transaction price](#)
- ▶ [IFRS 15: Step 5 - Recognise revenue](#)
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QUESTIONS



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