The Institute of Chartered Accountants of Pakistan

CA PAKISTAN

ACCOUNTING STANDARDS BOARD

IFRS 15
Revenue from contracts with customers

Contents

IFRS 15

Introduction

- IASB and FASB joint project
- Issued in 2014
- Single model for revenue recognition from contracts with customers
- Common universal language
- Effective from 01 January 2018
- Early adoption permitted

Scope

What is in

- Applies to **contracts** with customers
- Transfer or sale of **non-financial assets**

What is out

- Lease contracts
- Insurance contracts
- Financial instruments and other contractual rights or obligations within the scope of other Standards
- Non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers

What has changed

Superseded	
IAS 11	Construction contracts
IAS 18	Revenue
IFRIC 15	Real estate sales
IFRIC 13	Customer royalty programmes
IFRIC 18	Transfer of assets from customers
SIC 31	Advertising barter transactions

New standard	
IFRS 15	Revenue from contract with customers

What has changed

Item	Superseded revenue standards	IFRS 15	Impact analysis
Scope	Sale of goods and services, dividend income and interest income, construction income, Real estate construction agreements, customer loyalty programs etc.	Revenue from Contracts with customers	IFRS 15 – A single revenue standard (Interest and dividends accounted for in accordance with IFRS 9/IAS 39)
Recognition	Based primarily on the transfer of **risks and rewards**	Based on transfer of **control** of goods or services to the customer	Timing of revenue recognition may change
Recognition	**Different** recognition criteria for a different types of incomes	**A five-step** income recognition model	A standardized five-step model to recognize all types of revenues

What has changed

Item	Superseded revenue standards	IFRS 15	Impact analysis
Identification of the contract	Concept **not addressed** specifically	**Significant guidance** on the determination of a contract	Relevant to the application and analysis of appropriate accounting treatment in revenue recognition model
Identification of separate performance obligations	**Limited explanation** with no application guidance on	**Significant explanatory** and application guidance	May result in lesser diversity and also in different pattern of revenue recognition
Contract modifications	**Covered only in IAS 11** relating to construction contracts	Covered for **all revenue** contracts	May result in different revenue recognition pattern/ streams

What has changed

Item	Superseded revenue standards	IFRS 15	Impact analysis
Warranties	**No guidance**	**Specific guidance**	May result in separate accounting of warranty under IFRS 15
Significant financing component	**Limited guidance** on deferred payment by customer	**Specific detailed guidance**	Application of guidance may lead to varied amounts of revenue recognition and financing component
	No guidance on prepayment received from customer	**Specific guidance**	
Contract costs	**Covered only in IAS 11** *Construction Contracts*	Provides broader explanation of contract costs **applicable to all contracts**	May lead to companies capitalizing more costs than in the past

What has changed

Item	Superseded revenue standards	IFRS 15	Impact analysis
Variable consideration	Limited guidance	Detailed guidance covering types of variable consideration arrangements, estimation methods etc.	Helpful in the determination, estimation and recognition of variable considerations
Consideration payable to customers	Very limited explanation	Detailed guidance covering various scenarios	Application of the guidance may lead to reduced amount of revenue
Allocation of transaction price	Only contains guidance in the form of an illustrative example	Detailed guidance on determination, allocation and changes in transaction price etc., supplemented with illustrative examples	May require significant estimation resulting in significant differences in the pattern of revenue recognition

What has changed

Item	Superseded revenue standards	IFRS 15	Impact analysis
Licensing arrangements	**Limited guidance**	**Detailed guidance**	May lead to different revenue recognition under licensing arrangements
Customer loyalty programmes	**Detailed guidance** on the customer loyalty programmes (IFRIC 13)	In general the **same guidance with broad range of arrangements**	No significant impact
Presentation and disclosure	**Lesser disclosure** requirements	Require **new and extensive disclosures**	May result in use of significant judgments, estimates, changed policies and significant increase in the disclosures

Significantly impacted

The most impacted industries:

- Telecom
- Technology
- Real estate
- Others (to evaluate based on nature of business and contracts)

bundled contracts of "product + service

Entities that only have simple revenue transactions with routine selling terms may not encounter significant differences on adoption of IFRS 15

Implementation challenges

Data Collection

Contract inventory

Identification of performance obligations

Determination of stand alone selling process

Contracts

Analysis of all existing customer contracts

Contract modifications, if applicable

Effects of any covenants

Processes

Adjustment of internal control system

Process changes

IT Environment

Analysis of IT change requirements

Compliance

Accounting manuals

Chart of accounts

Project management

Implementation strategy
Enlisting of external consultant

Training

Developing a training concept

Roll out of training sessions

Reporting and Investor Relations

Impact on KPIs
Earnings volatility
Communications

Transition

Retrospectively to each prior period presented

or

Retrospectively, with the cumulative effect of initial application recognised in the current period

Due Process

Evaluate

- The Accounting Committee of the Institute has evaluated IFRS 15 for implementation

Consultation and Awareness

- Discussion papers developed and circulated to the Telecom and Real Estate industry
- Roundtables held by the Telecom representatives
- Seminars held in ICAP Karachi and Lahore
- Seminar planned in Lahore – 12th May

Global Adoption

- EU
- India
- South Africa
- Australia
- Malaysia
- Hong Kong
- Singapore