10 Minutes on PSAK 72

*The new revenue recognition standard is **MORE** than an accounting change…*

A new, comprehensive accounting standard is set to change the way many companies recognize revenue in their financial statements, and that could reverberate through myriad systems and processes in significant ways. Many companies do not yet realize the degree of change the new standard will usher in, nor how it could affect many industries in unexpected ways.

At a glance…

- ✓ Single, principles-based model for all industries
  - ❑ Performance obligation is the basic unit of account for recognizing revenue
  - ❑ Only highly probably variable consideration is included in the transaction price
  - ❑ Transaction price is allocated based on standalone selling price
  - ❑ Revenue is recognized if not over time, then at a point in time
  - ❑ Focus now is on transfer of control and rather than transfer of risks and rewards
- ✓ Applying the new 5-step model requires more judgments and estimates than today
- ✓ Degree of change is highly dependent on industry and complexity of revenue transactions
- ✓ Transition: retrospective or modified retrospective with cumulative catch up on or after 1 January 2020

How it may affect your industry…

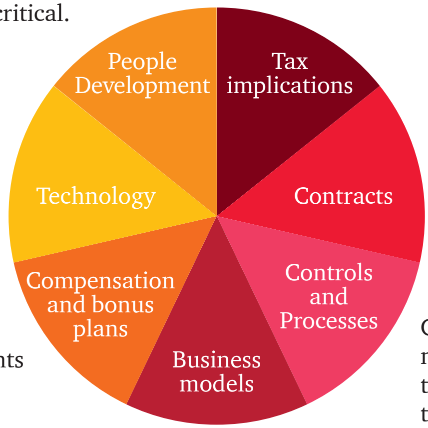
Telecommunications	• Installation service may be a separate performance obligation while activation service may not • Entities will face practical challenges in allocating transaction price for a large volume of customer contracts with varying configurations of equipment and service plans • Entities have to develop systematic approach to test assets relating to contract acquisition costs for impairment
Automotive	• Combining contracts can result in a change in the allocation and pattern of revenue recognition
Manufacturing	• Performance obligations that can be satisfied over time may result in revenue being recognized earlier
Real estate	• Revenue from pre-sales of properties under development may be recognized over a period of time depending on the contract terms
Retail and consumer	• Estimated refund obligation (liability) and the estimated right to the returned goods (asset) shall be reflected in the balance sheet on a gross basis • Sales commissions will be required to be capitalized

Prepare for the change…

Clients need to ensure accounting policy alignment across the organization. Development of training strategy and suitable support model is critical.

The timing of cash tax payments could be affected if, for example, revenue is recognized sooner than in the past.

Clients may need to update current software to capture new information that might not have been necessary before.



Existing terms could take on new meaning under the new standard, so clients may need to re-negotiate debt covenants or customer contracts to maintain the original intent.

Revenue recognition sometimes trigger payments like bonuses. Clients may need to consider how timing changes for revenue recognition will affect these and other internal arrangements.

Contract terms and strategies that are required for existing revenue accounting may no longer be advantageous or necessary under the new standard. Applying the new model will give the client the change to take a fresh look at how they do business.

Clients may need to develop new processes for estimates that aren't required today. The resulting need for increased judgment will require thoughtful documentation and dialogue with those charged with governance.

HOW OTHERS ARE PREPARING?

*The implementation effort should **NOT** be underestimated….*

As we approach the effective date of PSAK 72, businesses can't change systems, processes, and controls overnight. For some, the adoption of the new revenue standard is significant and is a multi-year undertaking. Companies now are charting their own courses of action by engaging advisors, auditors, and industry group experts to ensure appropriate implementation.

Facing the challenges…

Creating a project plan…

Key Considerations

- Measured approach that effectively leverages the transition period
- Robust project management and change management
- Specific and focused guidance for implementation
- Concurrent execution of audit procedures during implementation timeframe to eliminate duplication of effort
- Provide more opportunity for ongoing dialogue with a valued professional advisor