# New IFRS 15

## How will the new IFRS 15 standard affect your company?

In May 2014, almost 12 years since the work begun, the new standard on revenue recognition IFRS 15 *Revenue from Contracts with Customers* was published. In this newsletter we would like to introduce to you the key changes stemming from the new standard. The aim is to present the key aspects of the new revenue recognition in a light and accessible way as well as to help in systematic preparation for the upcoming changes.

### *Why was the new standard introduced?*

Sales revenue constitutes a company's key financial information presenting its current results, financial standing but also future prospects. It is a Key Performance Indicator essential not only for the management and owners but also for potential investors.

Despite their importance and the increasing globalisation of financial markets, the already existing regulations of IFRS and US GAAP differed considerably, what caused inconsistencies and difficulties in comparing entities who prepared financial statements in the accordance with those standards.

IFRS were criticised for being overly general and lacking guidelines on important and problematic issues, which caused difficulties when applying them.

US GAAP, on the other hand, were broad and approached the issues in a fragmented manner, which complicated their use. Neither standard was adjusted to the new reality.

### *Who will be affected by the new standard?*

The new standard should be of interest to companies who use IFRS or US GAAP and to those who plan to implement them in the near future. The American Financial Accounting Standards Board worked together with the International Accounting Standards Board on the standard which resulted in an almost identical outcome for both of those accounting regimes (in the case of US GAAP it's ASC 606).

The biggest changes will be noticed by the entities offering products and services in multiple item packages; selling licenses; providing services in a form of long-term contracts and those who apply variable price or conditional remuneration in their contracts with clients.

Industries that will be affected the most are: telecommunications, technology, energy, media and entertainment, construction, IT, automotive, real estate, pharmaceuticals, and healthcare, but every company reporting under IFRS or US GAAP will be affected to the certain level.

***Did you know that IFRS 15 is the first standard to fully integrate the accounting solutions of both accounting systems: IFRS and US GAAP?***

***According to research conducted by PwC worldwide, 77% of clients surveyed believe that the new standard of revenue recognition will affect their companies!***

# Get ready today…

***Did you know that the IFRS 15 will come into effect on 1 January 2018, but some companies will apply it much sooner than this?***

## What will change?

*Elimination of the existing standards*

The new standard **replaces the existing regulations** relating to revenue such as:

- IAS 18, *Revenue*
- IAS 11, *Construction Contracts*
- SIC-31, *Revenue-Barter Transactions*
- IFRIC 13, *Customer Loyalty Programmes*
- IFRIC 15, *Agreements for the Construction of Real Estate*
- IFRIC 18, *Transfers of Assets from Customers*

*One model*

The current standards (IAS 11/IAS 18) distinguish three separate models of revenue recognition, dependent on the sale transaction type:

(1) Construction contracts
(2) Sales of products
(3) Sales of services

IFRS 15 introduces one, five-step model of revenue recognition, common to all types of transactions, to all companies and industries.

This model will be applied in two versions, depending on how performance obligation is satisfied:

(1) over a period of time
(2) at a point in time (in a given moment)

Due to the use of the five-step model, the **moment of revenue recognition may shift**:

revenue, which is currently recognised over a period of time throughout the entire duration of the contract, e.g. in accordance with the percentage of completion method, may in the future be recognised once, at the end of the contract and vice versa.

*The moment of revenue recognition*

The basic principle of IFRS 15 is recognising revenue when the control over a product / service is being transferred to the client. Control is a broader term than the previously used criterion of risk and rewards, which determined when the revenue will be recognised according to IAS 18.

*Broader regulation and guidelines*

The basic problem with the current standards is the fact that there are few guidelines on the practical approach to the complicated questions such as an allocation of remuneration to specific sales elements, recognition of variable remuneration, recognition of customer acquisition costs etc. IFRS 15 introduces new quality in this respect.

*The growing importance of estimates*

A real challenge in the implementation and use of the new standard is increase in the importance of estimates without which recognition of an even relatively simple transaction may be impossible.

*Disclosure*

Additional disclosures is an element which will affect all companies implementing IFRS 15, regardless of whether accounting differences occurred.

***If you'd like to know more, contact us:***

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