

# *Revenue from contracts with customers*

Significant changes to business  
processes and financial statements

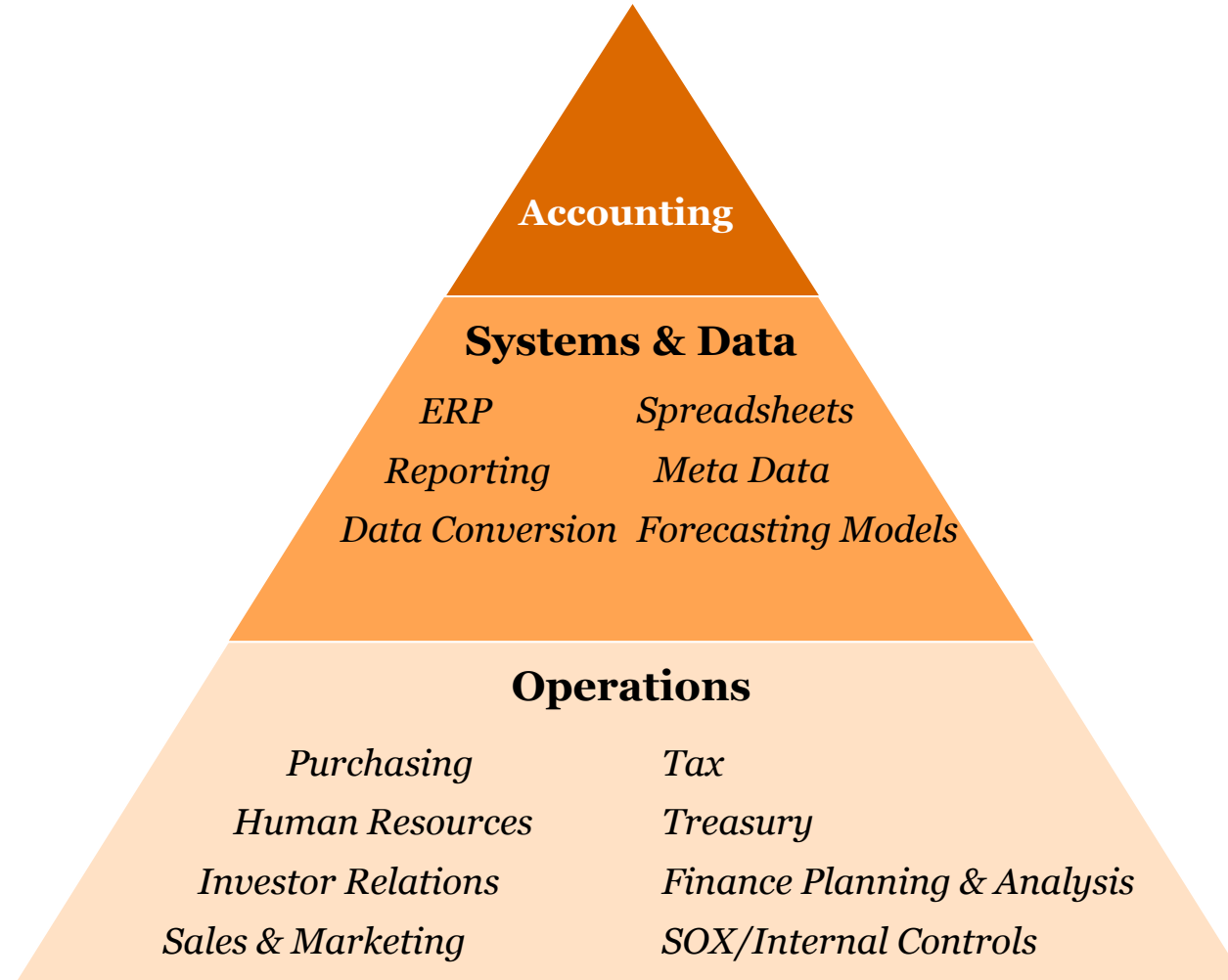
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# ***Scope of the Change***

*Accounting is just the tip of the iceberg*



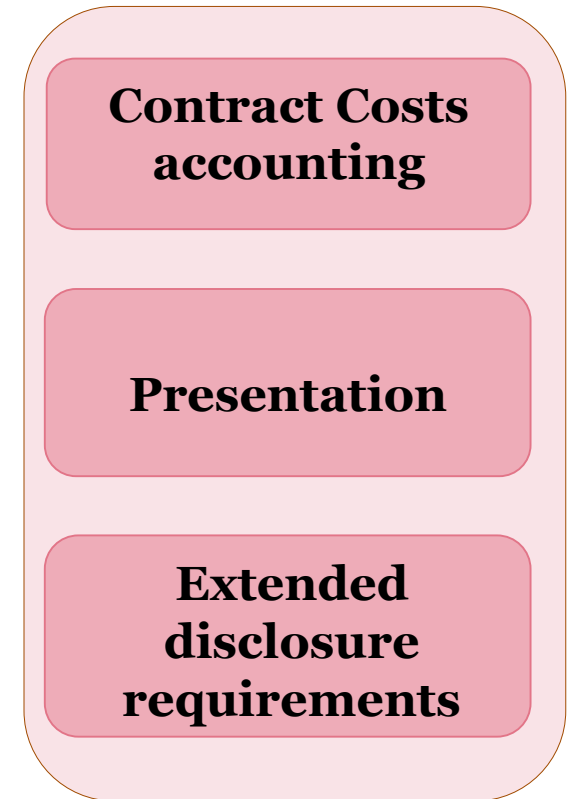
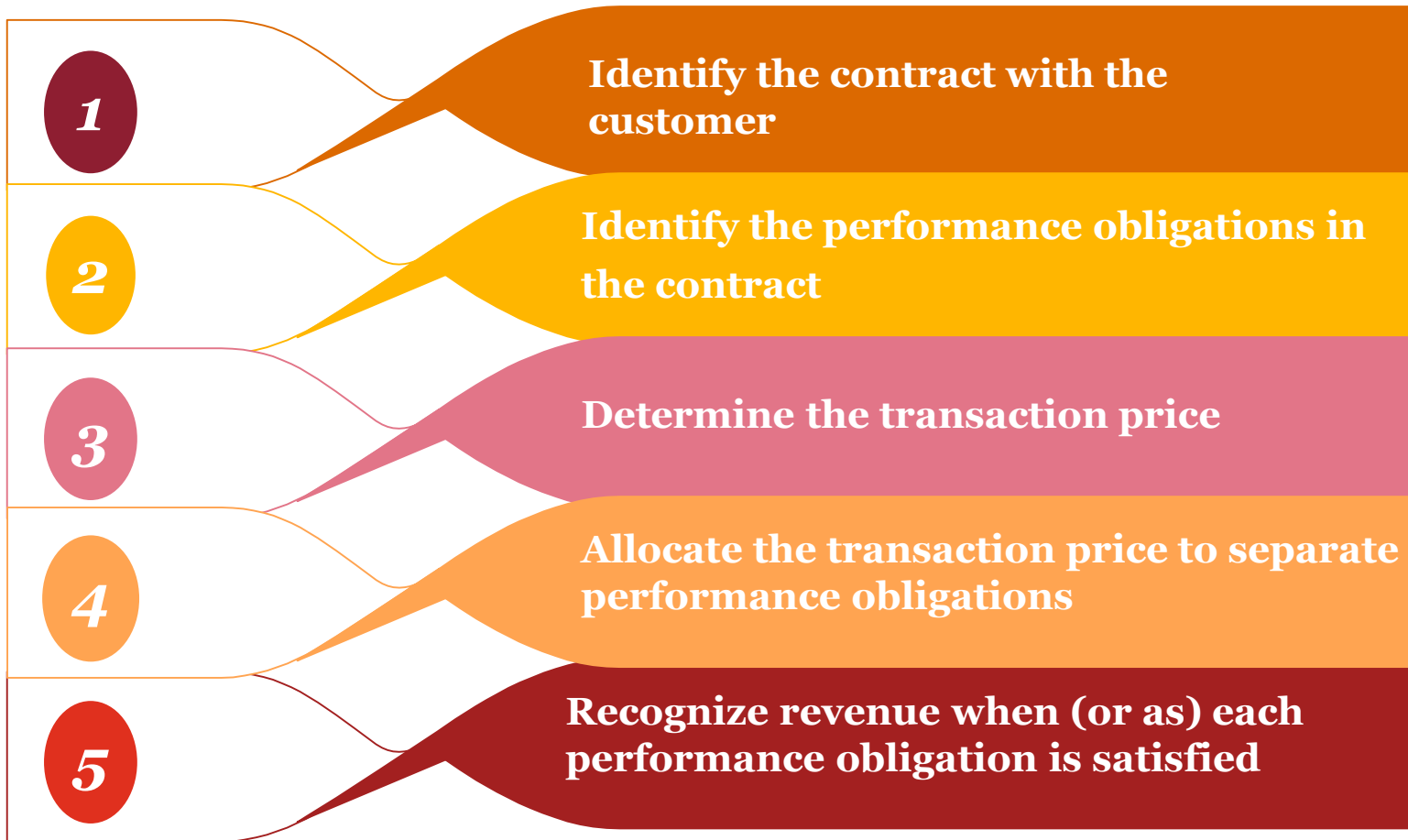
# Scope of the Change

Potential areas of difference

Volume discounts	Contingent revenues	"Cash cap" guidance	Service level agreements	Distributor revenues	Allocation of discounts	Extended payment terms
Sales commissions	Funded R&D arrangements	Certain subscriptions	Ratable revenue may change	Time value of money	Consignment arrangements	Bill and hold arrangements
Other contract costs	Term licenses	Customer loyalty programs	Vendor protection clauses	Contract modifications	Extended warranties	In-transit loss coverage
Discounted goods or services	No VSOE limitation	Roadmaps	Implied maintenance	Residual approach	Customization/implementation	Elimination of software guidance
Disclosures						
Transition alternatives						

# How does it work?

## 5 Key Steps



# *How does it work?*

## *Step 1: Identify the contract with the customer*

### *Collectability*

- Probable



### *Contract combination*

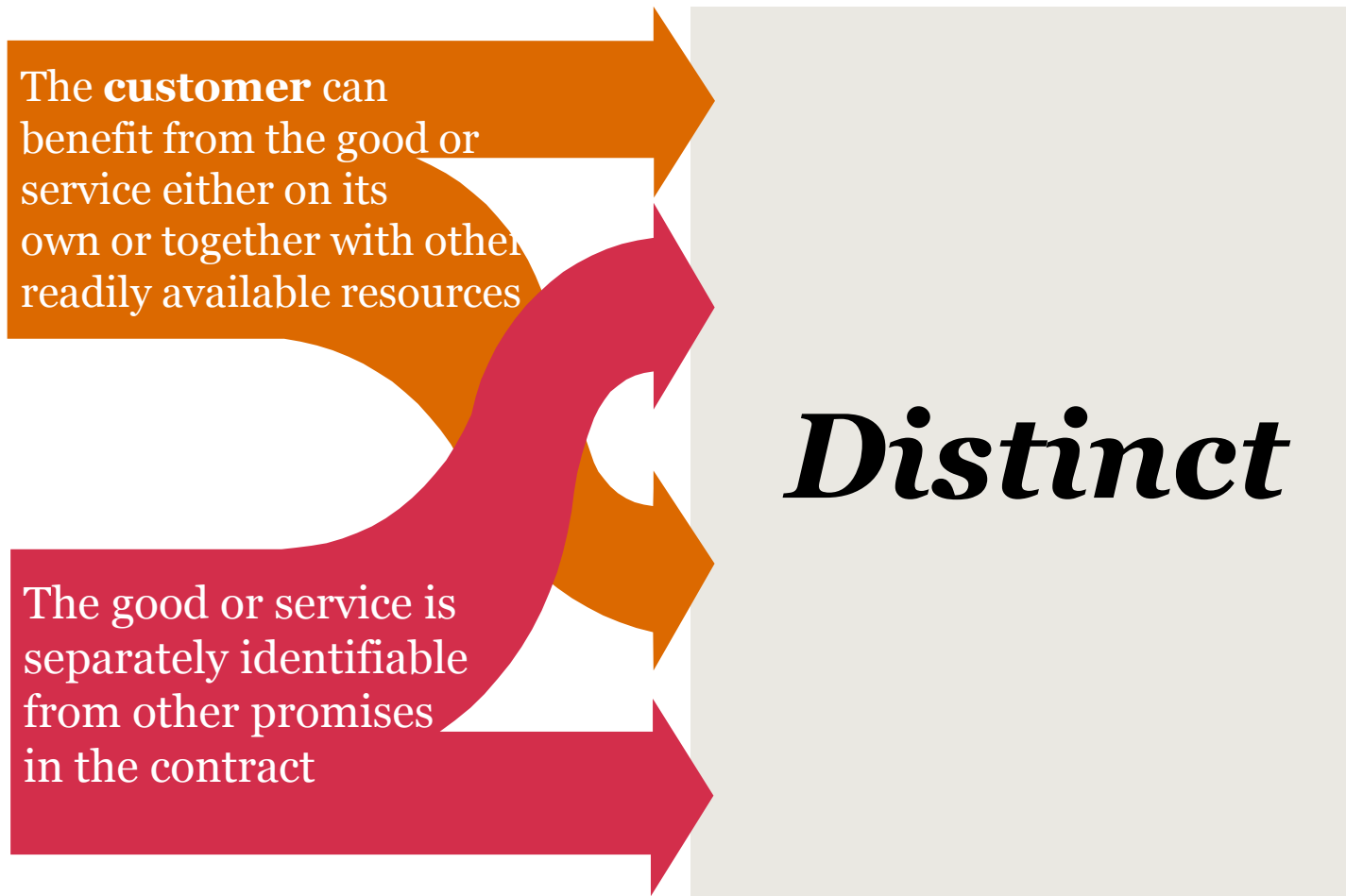
- Price interdependence
- Negotiated as package with single commercial objective
- Single performance obligation

### *Contract modification*

- New contract
- Modification prospectively
- Cumulative catch up

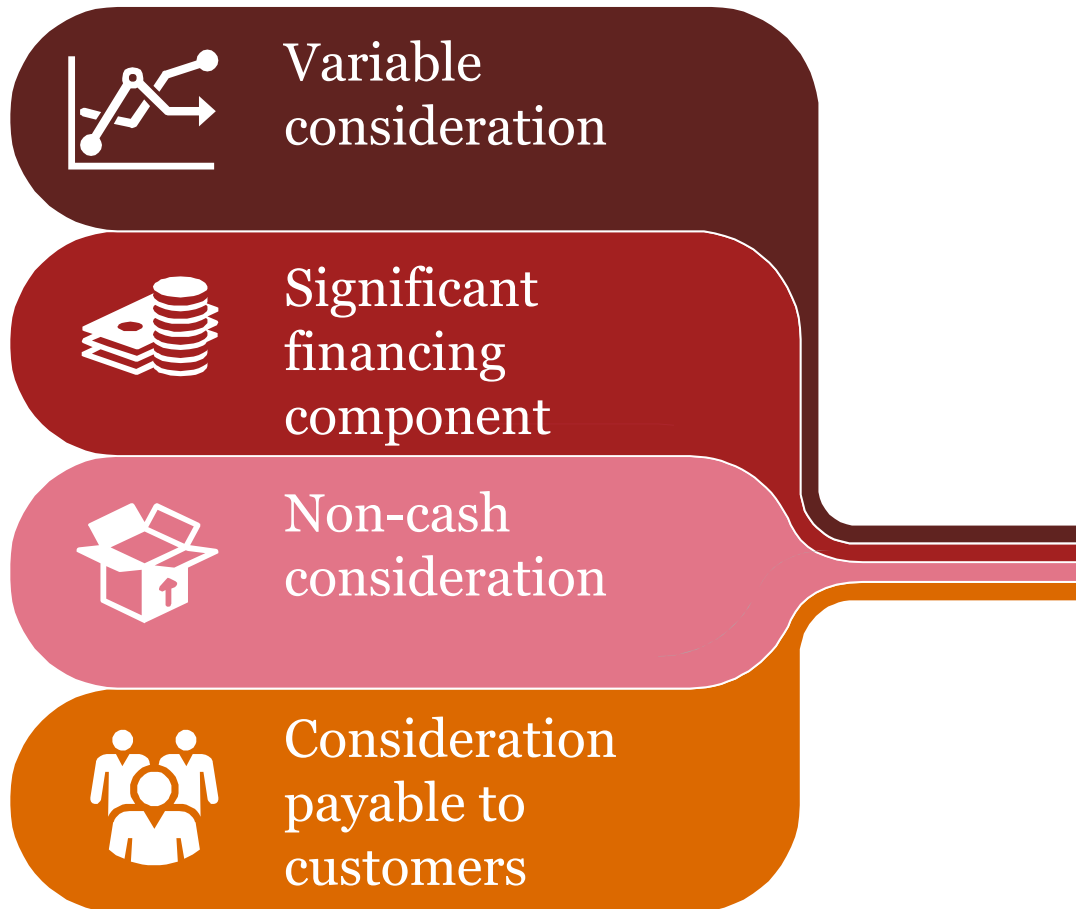
## ***How does it work?***

### ***Step 2: Identify the performance obligations***



# *How does it work?*

## *Step 3: Determine the transaction price*

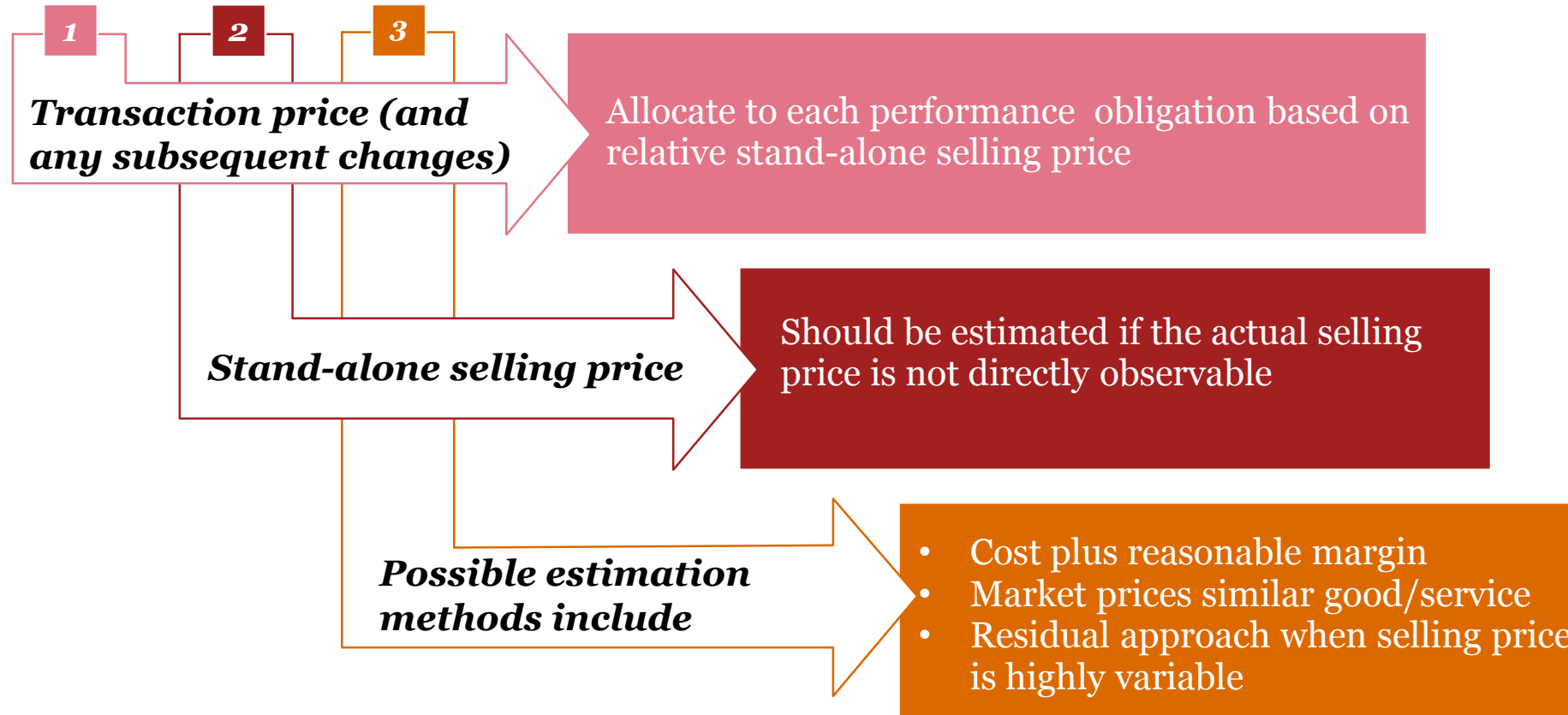


***Transaction price*** =  
Amount of consideration to which the entity expects to be entitled to in exchange for transferring goods or services



# How does it work?

## Step 4: Allocation of the transaction price



## *How does it work?*

### *Step 5: Timing of revenue recognition*

#### Revenue is recognized over time

Customer receives benefits as performed/ another would not need to re-perform

or

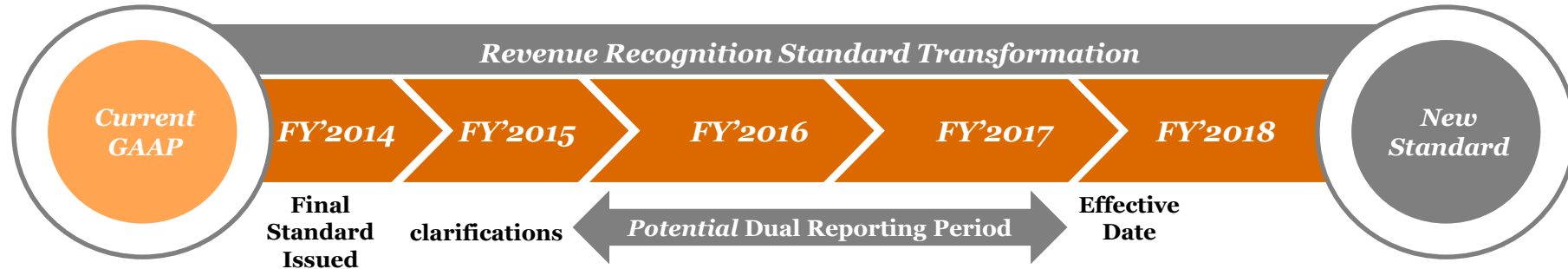
Create/enhance an asset customer controls

or

Does not create asset with alternative use **and** Right to payment for work to date

# Effective Date and Adoption Methods

Transformative change is on the horizon



★ Cumulative adjustment to Retained Earnings will be reported

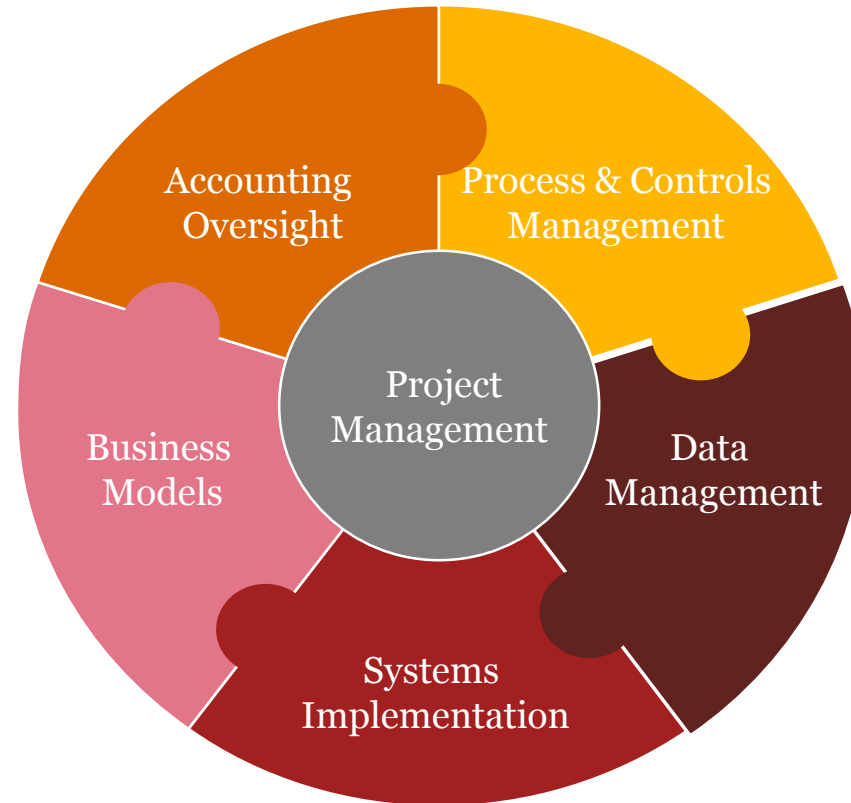
★ Current GAAP versus new Standard impacts will be disclosed

Note : The above timeline assumes a calendar year-end

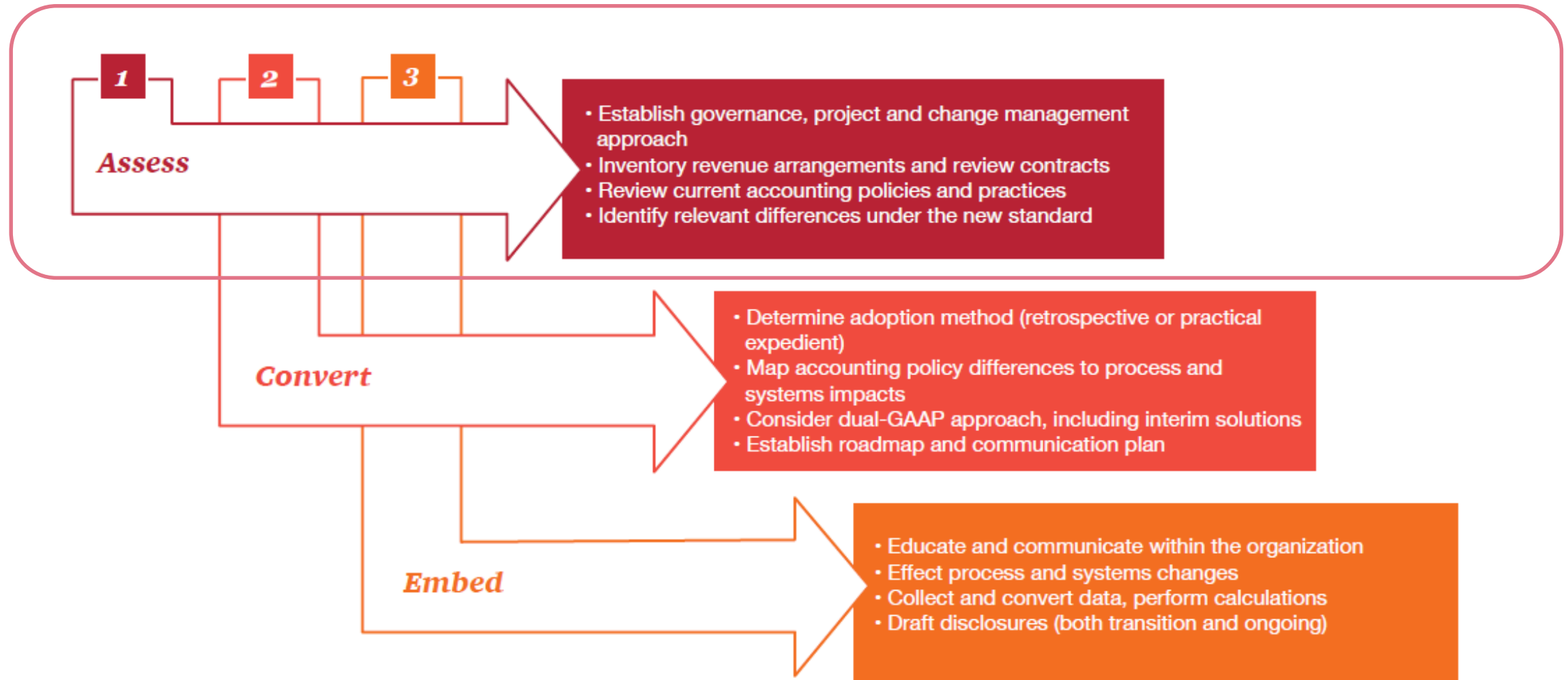
Under the retrospective approach in IFRS- presentation of only the annual period immediately preceding the first annual period for which this Standard is applied is needed

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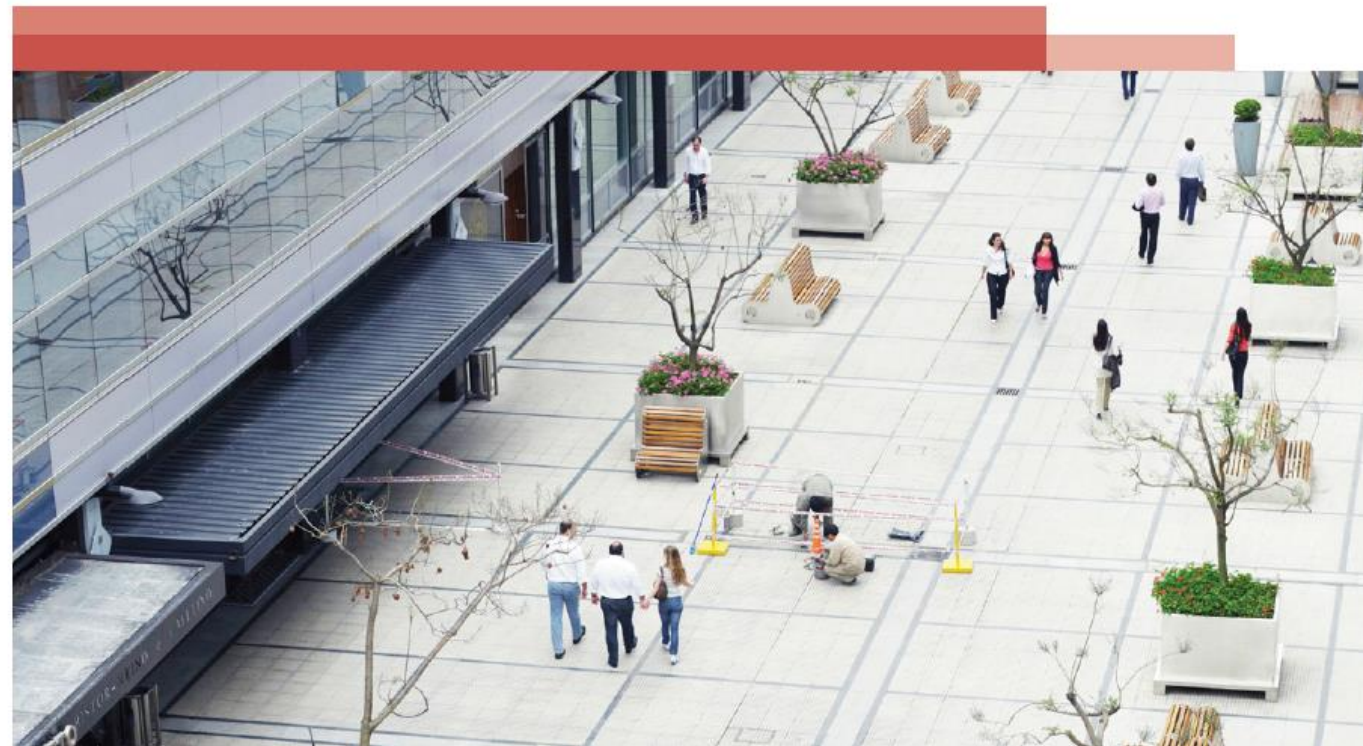
***This is not just an accounting change...Impacts will extend beyond accounting***



# *A three-step process for implementing the Standard*



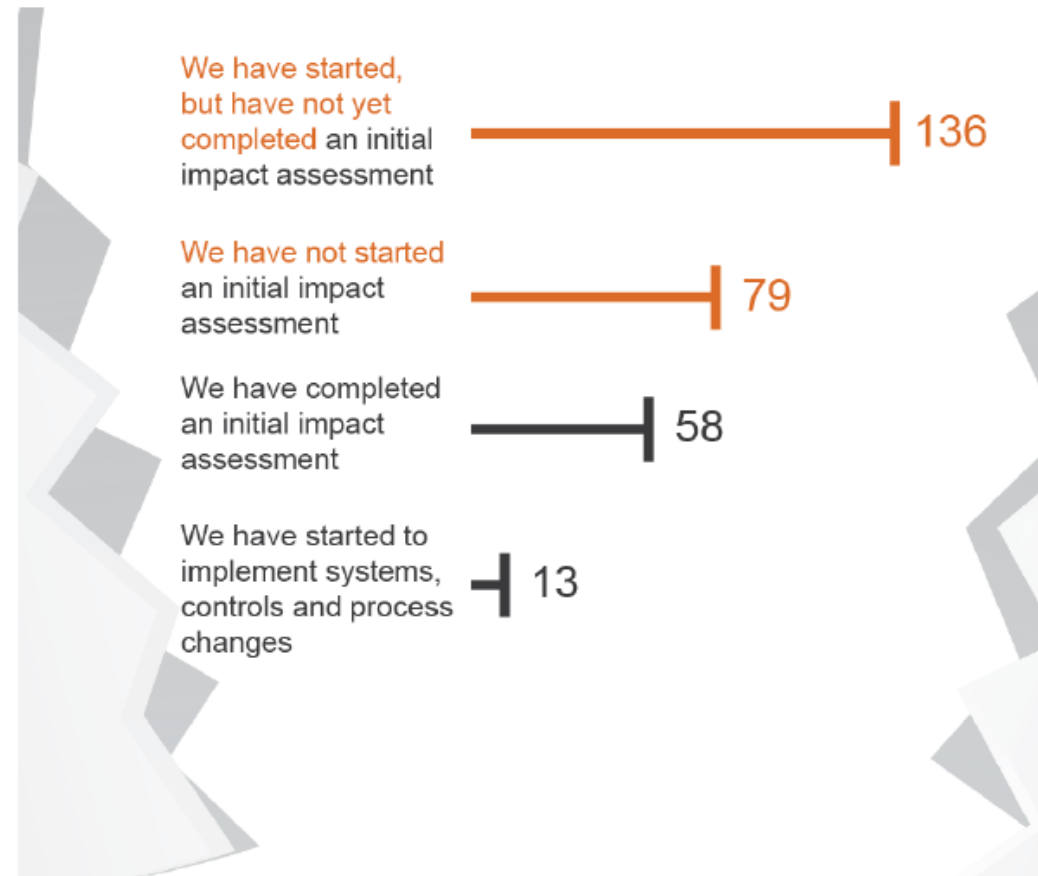
# Revenue Recognition: PwC/ FERF 2015 survey results



# *PwC and FERF 2015 survey results*

## *How far along is your company in implementing the new revenue recognition standard?*

Most have started, but almost 28% of respondents have not begun an assessment.

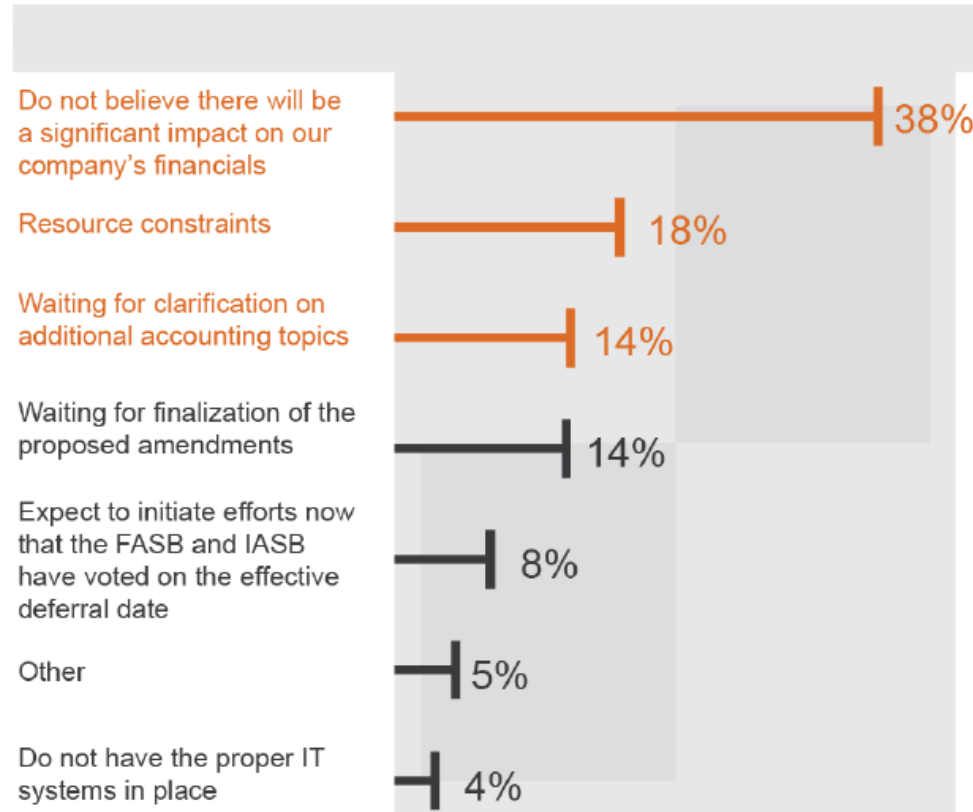


# *PwC and FERF 2015 survey results*

## *If you have not begun your implementation efforts, what are the reasons behind the delay?*

The Top 3:

1. 38% do not believe there will be a significant impact.
2. 18% of respondents have resource constraints.
3. 28% are waiting on additional guidance.

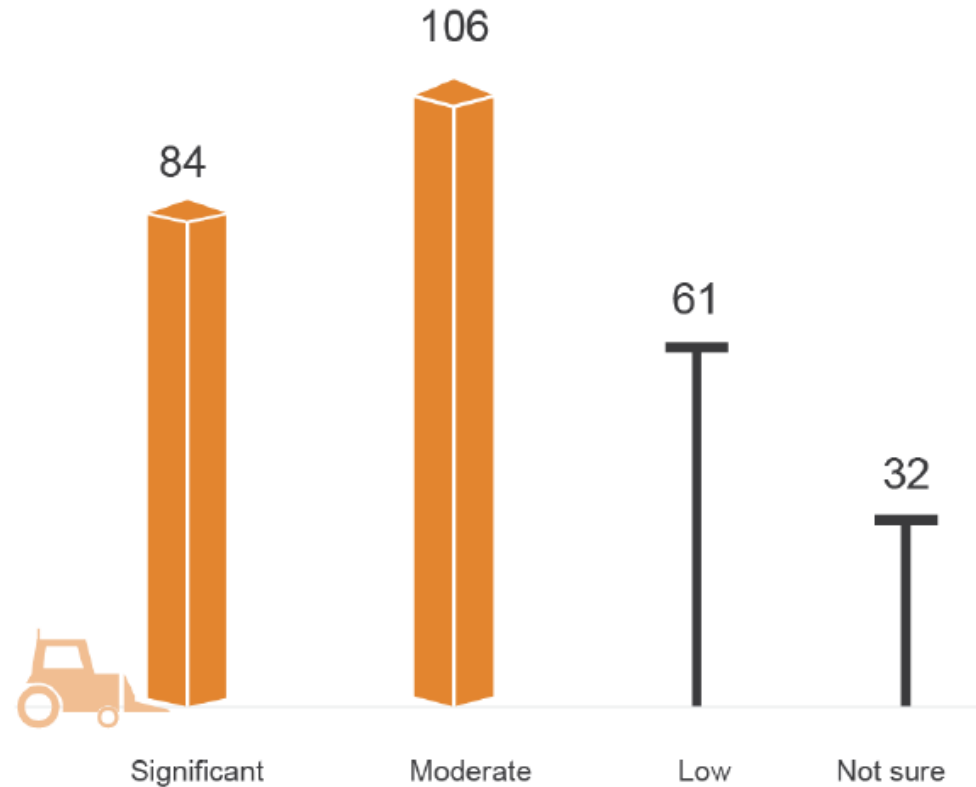




## *PwC and FERF 2015 survey results*

### *What level of effort will be required to implement the new revenue recognition standard?*

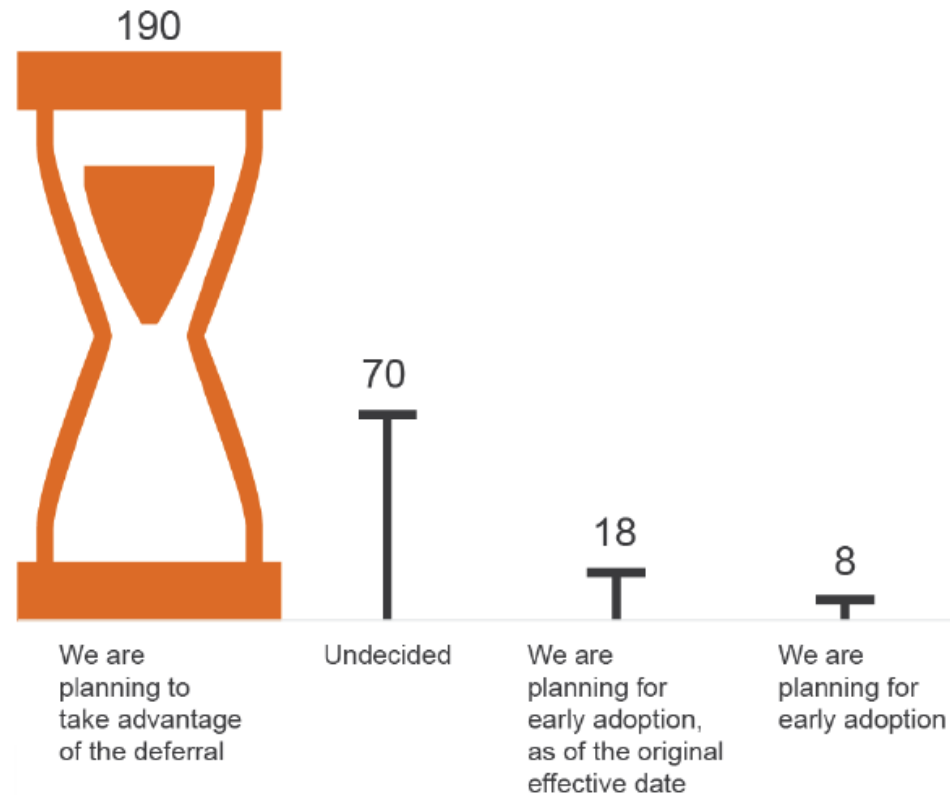
67% of respondents said that a moderate to significant level of effort will be required to implement the new standard.



## *PwC and FERF 2015 survey results*

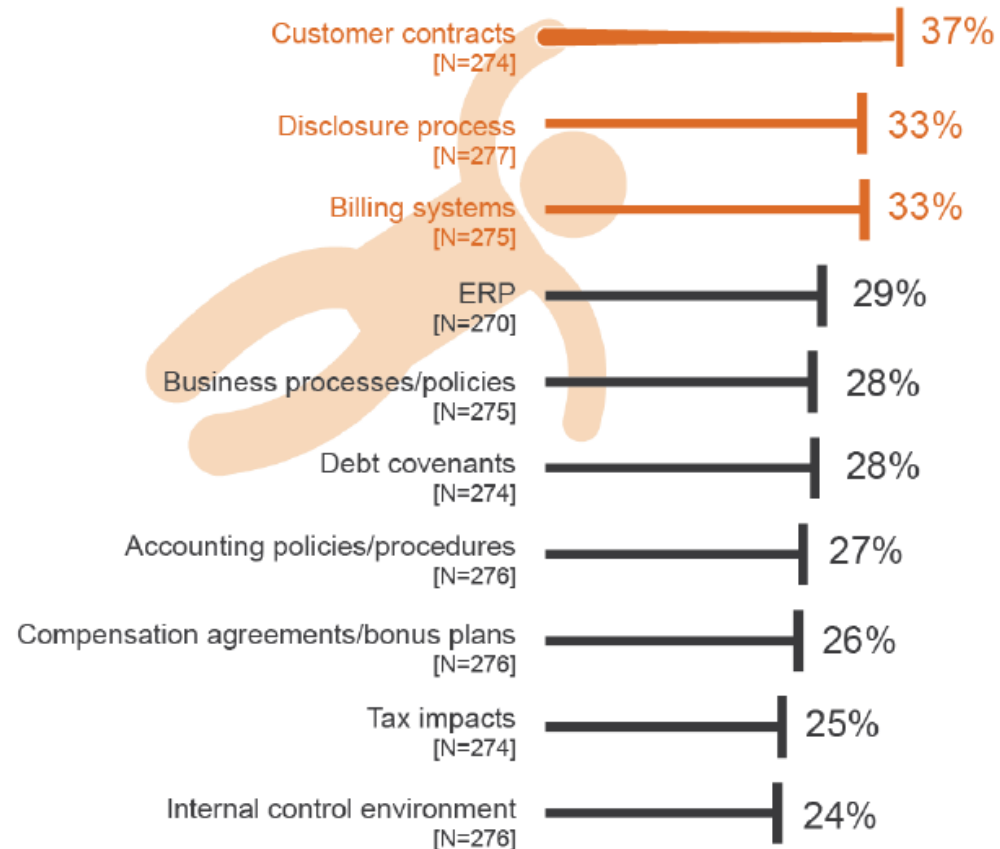
### *When does your company plan to adopt the standard?*

Over 66% plan on taking advantage of the Boards' deferral.



## *PwC and FERF 2015 survey results*

*Please rate the expected impact of the new revenue recognition standard on the following areas?*

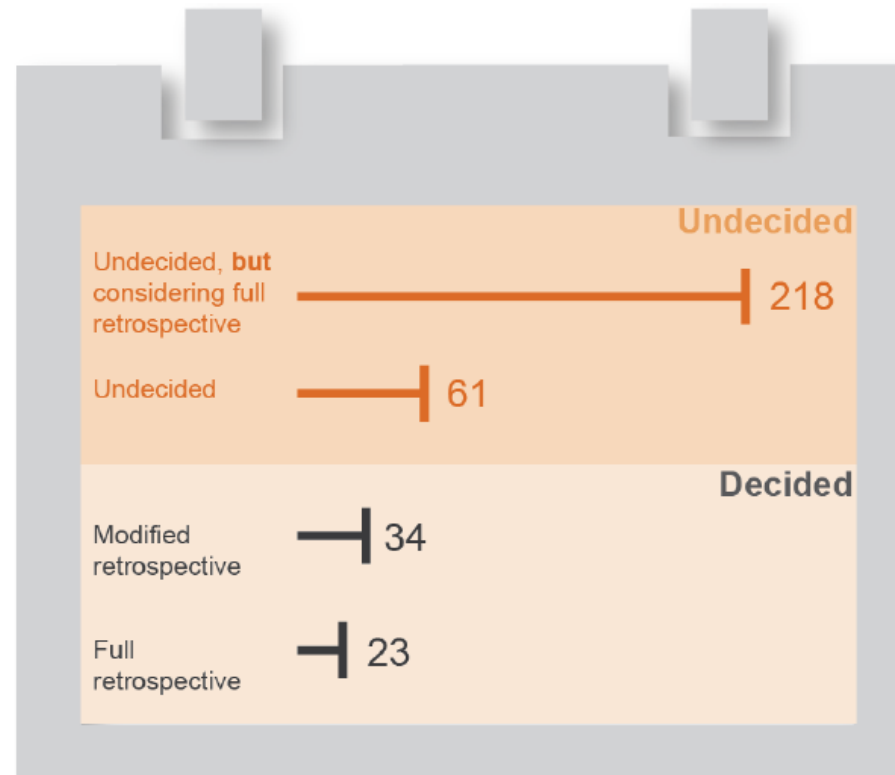


# *PwC and FERF 2015 survey results*

## *Has your organization decided on a method of adoption?*

Method of adoption is unclear:

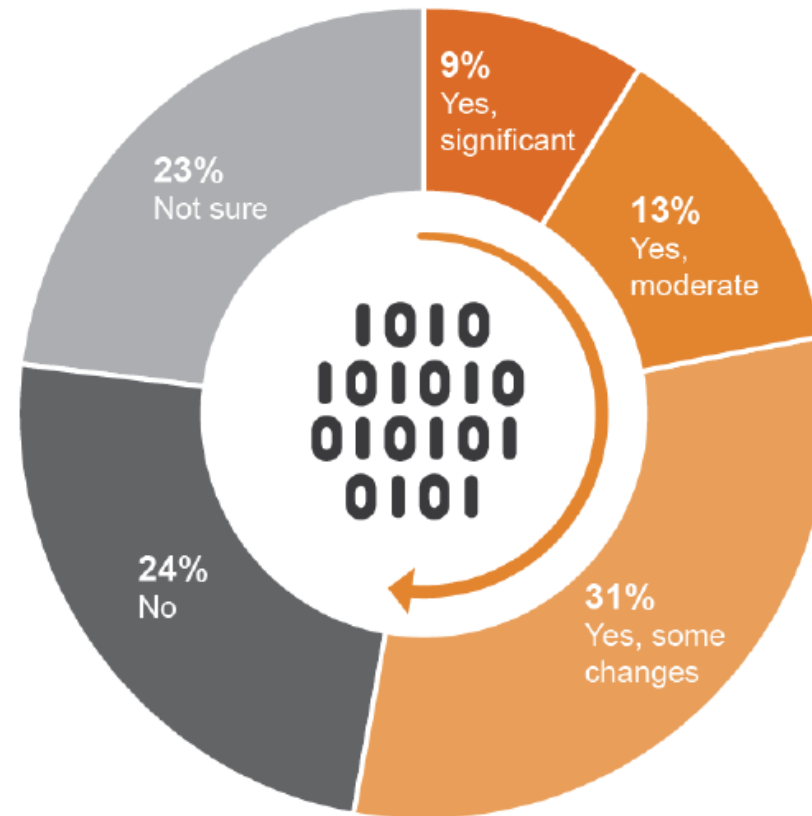
- 83% undecided on a method of adoption.
- Only 10% currently believe they will use modified retrospective approach.



## *PwC and FERF 2015 survey results*

### *Do you expect to make system changes to accommodate the new standard?*

Over 53% of respondents expect to make at least some system changes.



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# *Thank You*

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