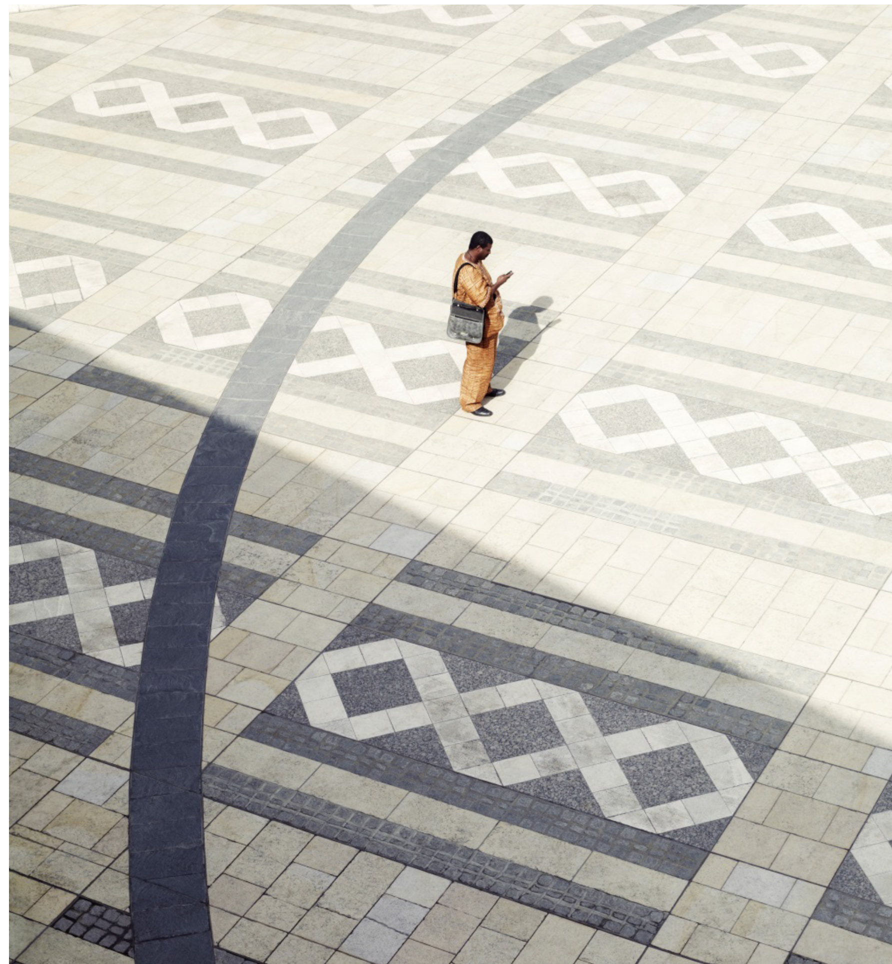
Issue 114
November 2014

PP 9741/10/2012 (031262)

PwC Alert

The new revenue standard is here. How will it affect telecom companies?



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The new framework for revenue recognition is here.

On 2 September 2014, the Malaysian Accounting Standards Board issued MFRS 15 *Revenue from Contracts with Customers*. This standard is word for word that of IFRS 15 issued by the International Accounting Standards Board. Entities are required to apply MFRS 15 for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

The new revenue standard will replace all existing revenue recognition guidance under IFRS, MFRS and FRS.

This standard will affect many companies, but those most significantly impacted are likely to be companies with a longer delivery cycle, complex contract terms, and goods and services that come as a package.

Before diving into the financial reporting implications - which can be significant - consider the strategic ones. This means looking across the business, which could require input from business unit heads, operations, sales, legal, HR, finance, tax, and IT. This cross functional team can evaluate how revenue recognition affects each function and the business as a whole.

Telecom companies should start reviewing existing revenue arrangements, contract terms, and business practices, to identify where changes might occur:

- Will you have to rethink customer negotiations?
- What might compensation and benefit plans look like in the future?
- Should you rethink how you sell your products?
- What do you need to communicate to your investors, and when?
- Are there business opportunities resulting from increased flexibility?

Why change?

The objective of MFRS 15 is to provide one comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets.

Preparing for the impending change

“While many companies can afford to wait until closer to the 2017 effective date, those who are significantly affected, such as telecom companies, will need to start now to get the necessary systems changes up and running in time.”

Two adoption methods

(1) Full retrospective method
Companies can choose how they want to adopt the new standard. One way is by recasting prior period financial statements as if the guidance had always existed, which may require a lot of time and effort.

(2) Simplified transition method
Companies can instead choose to apply the new guidance prospectively and show the numbers in the year of adoption under both the new and old model. For example, this method requires presenting the 2017 financial statements under the new guidance, but including a footnote disclosure of all financial statement line items and the amounts they would have been under legacy guidance for 2017. This method offers a simpler alternative, but it isn't without its challenges.

Manage the transition

Transition could be especially difficult for companies with multi-year contracts. Start record keeping soon if retrospective application is a consideration. Do a cost-benefit analysis: Do you have the resources at hand to do one method more effectively than the other? Is there a benefit to your business in having comparability between the before-and-after? What do your investors expect? What are your competitors doing?

Plan for adoption

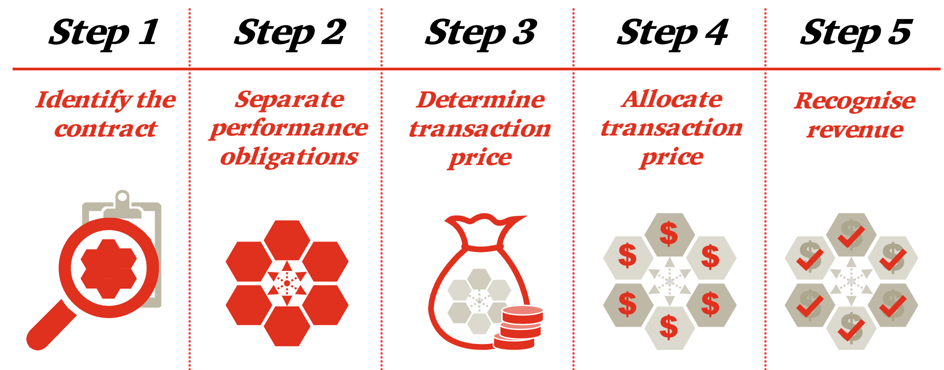
Your plan for adoption should include forming a cross-functional steering committee that oversees the entire process and takes into consideration the impact on your business as a whole.

Take inventory of arrangements that may be impacted and identify the gaps in your systems and controls before deciding on an implementation plan.

(See Appendix (page 22) for key areas and activities to consider in your implementation plan)

The core principle: a new

The core principle of MFRS 15 is that revenue is recognised when the goods or services are transferred to the customer, at the transaction price. Revenue is recognised in accordance with that core principle by applying a 5-step model.



Step 1: Identify contract(s) with customer

A contract creates enforceable rights and obligations. It may be written, verbal, or implied by customary business practice. Combine contracts when they are entered into at or near the same time and are negotiated as a package, payment of one depends on the other, or goods/services promised are a single performance obligation. Specific guidance about contract modifications prescribed to account for modifications as a separate contract or continuation of the original contract prospectively or with cumulative catch-up.

Step 2: Identify separate performance obligations in the contract(s)

Performance obligations are promises in a contract to transfer goods or services, including those a customer can resell or provide to its customer. Use the model's indicators to separate the performance obligations if they are capable of being distinct and if they are distinct based on the context of the contract (separately identifiable from other promises in the contract).

5-step model

Step 3: Determine the transaction price

Transaction price is the amount of consideration an entity is entitled to receive in exchange for transferring goods or services to customers. Determining the transaction price is straightforward when the contract price is fixed; it becomes more complex when it is not fixed. Discounts, rebates, refunds, credits, incentives, performance bonuses, and price concessions could cause the amount of consideration to be variable. In situations where there are variable considerations, transaction price is estimated based on the expected value or the most likely amount but is constrained up to the amount that is highly probable of no significant reversal in the future. The minimum amount that meet this criteria is included in the transaction price. Assess your experience with similar types of performance obligations in making this determination.

Step 4: Allocate the transaction price

Transaction price should be allocated to distinct performance obligations based on relative standalone selling price. This may be the standalone selling price of a good or service when sold separately to a customer in similar circumstances and to similar customers. If a standalone selling price is not directly observable, estimate it by considering all information that is reasonably available, such as market conditions, specific factors, and class of customers.

Step 5: Recognise revenue when the performance obligation is satisfied

Recognise revenue when the promised goods or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time. The new standard provides indicators when control is transferred. Additionally, the new standard introduces a new concept and revenue is required to be recognised over time when:

i) the asset being created has no alternative use to the company; and
ii) the company has an enforceable right to payment for performance completed to date.

What are some of the most significant changes?

Allocating bundled sales

Additional revenue may need to be allocated to discounted or 'free' products provided at the beginning of a service due to the elimination of the 'contingent revenue cap'.

Changes in accounting treatment

MFRS 15 could affect the accounting treatment of activation fees, customer acquisition costs and certain contract fulfillment costs.

Profiling contracts into portfolios

Companies may apply MFRS 15 to a portfolio of contracts or performance obligations, although this approach may create additional implementation challenges and complexities.

Its impact on telecom companies

The table below shows some of the potential impact on the telecommunications industry arising from the new standard:

Bundled sales (see Illustrations 1, 2, and 3)

Telecom companies regularly bundle the sale of services and equipment (for example, handsets, modems, accessories, etc.) and may include a charge for activation or set up. The services and equipment must be accounted as a separate performance obligation when they are distinct.

Equipment (including handsets) transferred to customers is a separate performance obligation if the company separately sells equipment or the customer can benefit from the handset together with other resources (for example, the handset could operate on another telecom company's network), regardless of whether the equipment is given at no cost or at a significantly discounted price. Arising from this, handset subsidies can no longer be recognised as subscriber acquisition costs.

Options to acquire additional goods or services (see Illustration 4)

Other obligations such as promises of future discounted services or other material rights may also be evaluated to determine if they qualify as a separate performance obligation.

The option is a separate performance obligation if it is a material right to the customer . If a customer is given an option to purchase additional services at a materially discounted rate that may not be received without entering into the contract, the revenue allocated to the option should be recognised when the option expires or when the additional services are received by the customer.

An option to acquire an additional good or service at a price that is within the range of prices typically charged for those goods or services does not provide a material right, even if the option can be exercised only because of entering into the previous contract.

Discounts and rebates (see Illustrations 5 and 6)

Variable elements such as rebates, rate discounts, bonuses, penalties and incentives given to customers are factored in the transaction price either using the “expected value” or “most likely amount” approach, whichever best predicts the consideration the company is entitled to. Past experience on take up rates and external factors will be considered in determining the consideration. There is also a constraint whereby variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The estimate should be updated at each reporting period.

If a telecom company receives consideration from a customer and expects to refund some or all of that consideration to the customer, the telecom company recognises a refund liability for an amount the telecom company expects to refund.

Standalone prices for transaction price allocation

While many mobile and fixed line goods and services are sold separately, their prices may differ due to competition, regulation or type of customer. Telecom companies may need to consider these factors when determining standalone prices of these goods and services.

Selling prices also change frequently because of competition and new technologies. Requirement to determine standalone selling prices on a regular basis represents a significant challenge to the industry. It may require changes to systems and processes.

Contract modifications (see Illustration 7)

Plan changes by subscribers from rate-per-use plans to flat-rate committed plans, change of existing plans to upgrade or replace a device are common in mobile companies. Such changes are required to be assessed if it is a modification to an existing contract, or as a new contract. A contract modification is treated as a separate contract only if it results in the addition of a distinct performance obligation and the price reflects the stand-alone selling price of that performance obligation. Otherwise, the modification is accounted for as an adjustment to the original contract.

Where modifications are deemed as a continuation of the existing contract, the transaction price allocation needs to be reassessed and reallocated prospectively according to the new terms.

Capitalise and amortise contract acquisition costs (see Illustration 8)

Contract acquisition costs that are identifiable and recoverable will be capitalised as intangible assets and amortised over the expected period of the subscriber’s life cycle with the service provider. This includes incremental dealer incentives incurred for connecting a new subscriber to the network. The capitalised costs are subsequently monitored for impairment.

Illustration 1

Identifying performance obligations: Activation fees
A telecom company enters into a contract with a customer to provide wireless telecom services (voice, data, etc.) for RM80 per month and charges an activation fee of RM30.

How many separate performance obligations are there in this contract?

There is only one performance obligation in this arrangement which is the provision of wireless telecom services. Activation fees are not separate performance obligations, but are considered as upfront payments for future telecom services. Hence the activation fee of RM30 is recognised as revenue when the telecom services are provided instead of being recognised as revenue upfront.

Illustration 2

Identifying performance obligations: Installation services
A telecom company enters into a contract to provide broadband services on a monthly basis, with no contract end date. An upfront, non-refundable installation fee of RM150 is charged to recover the cost of laying physical fibre optic line to the customer's premises. This line can be used by other telecom companies if the customer later changes service providers.

Is the installation service a separate performance obligation?

The telecom company will need to determine whether laying the physical line is a distinct good or service. In this example, other telecom companies can provide services on the same physical fibre optic line, so the line is separately identifiable and can be used by the customer without the company subsequently providing telecom services. Laying the physical line is therefore a distinct performance obligation.

Illustration 3

Bundled sales
A mobile company enters into sales arrangements with two different customers: Customer A and Customer B. Each customer purchases or receives the same handset and selects the same monthly service plan. The stand-alone selling price for the handset is RM2,300 and the stand-alone selling price of the telecom service plan is RM120 per month.

Customer A purchases the handset for RM2,300 and enters into a cancellable contract to receive the telecom services (voice and data) for RM 120 per month.

Customer B enters into a 12-month service contract for RM120 per month and receives a discounted handset for RM1,800.

	Customer A (No commitment)		**Customer B** (12-month commitment)	
	Contract price	Standalone price	Contract price	Standalone price
	RM	RM	RM	RM
Handset	2,300	2,300	1,800	2,300
Telecom services	120	120	1,440	1,440
	2,420	2,420	3,240	3,740

How should the transaction price be allocated to the performance obligations in the contracts with Customer A and B?

The 5-step model is applied here.

Step 2:
On entering contracts with customers, the company needs to identify the separate performance obligations within customer contracts. The sales of telecom services and handsets are typically separate performance obligations given they are distinct goods and services.

Steps 3 & 4:
The transaction price for the contracts is identified and allocated based on the standalone price for the handset and the telecom services.

Step 5:
Revenue is recognised when a promised good or service is transferred to the customer and the customer obtains control of that good or service. Therefore, revenue is recognised for the sale of the handset at delivery, when the mobile company transfers control of the handset to the customer. Service revenue is recognised over the contract service period.

The tables below illustrate the effect of applying the allocation guidance in the revenue standard.

	Customer A (No commitment)		Customer B (12-month commitment)	
	Cash flows	Under MFRS 15	Cash flows	Under MFRS 15
	RM	RM	RM	RM
Day 1	2,300	(a)2,300	1,800	(c) 1,992
Month 1	120	(b)120	120	(d) 104
Month 2	120	120	120	(d) 104
Month 3	120	120	120	(d) 104

(a) Handset: (RM2,300 / RM2,420) x RM2,420;

(b) One month of service RM120: (RM120 / RM2,420) x RM2,420

(c) Handset: (RM2,300/RM3,740) x RM3,240 = RM1,992

(d) Service revenue: (RM1,440/RM3,740) x RM3,240 = RM1,248 for 12 months, hence RM104/month.

Impact to the financial statements

Under existing practices, some mobile companies may recognise the difference between the selling price of RM1,800 and cost of the handset as subscriber acquisition cost and amortised the amount over the contract period. The practice is no longer applicable under MFRS 15. Under MFRS 15, the handset is a separate performance obligation and the cost of the handset is recognised as an expense when the performance obligation is satisfied, i.e. when the handset is delivered to the customer.

MFRS 15 requires the transaction price net of financing components for the entire contract to be allocated to each separate performance obligation of goods and services provided to the customer.

In this example, the company will recognise RM192 more revenue arising from sale of handset on Day 1 as compared to cash received. The mobile company will also recognise a contract asset of RM192 (RM1,992 less RM1,800 cash received). This asset will have to be monitored for impairment at each reporting period.

The impact arising from financing component is assumed to be insignificant in this illustration as the contract is less than 1 year. The impact of financing components must be considered where it is significant.

Illustration 4

Options that provide a material right
A telecom company enters into a two-year contract with a customer to provide data services for RM50 per month. The contract requires the company to provide the customer with a quota of 2GB of data per month. The contract specifies the customer may purchase additional quota of 1GB of data at RM15 during the contract period. The price typically charged for a 1GB data quota without contract is RM25, and therefore reflects the stand-alone price for the service.

The company estimates that 75% of the customers who signed up for the plan will take up the offer for additional quota.

Is the customer's option to purchase additional data quota a separate performance obligation?

The option provided in the contract is a separate performance obligation because it provides a material right to the customer. It is a material right because the discounted price is only available to customers who have entered into the contract.

The standalone selling price of the option is RM7.50, calculated as the discount provided to purchase additional quota (RM25 – RM15) multiplied by likelihood of exercise (75%). The transaction price allocated to the discount, based on its relative standalone selling price, will be recognised as revenue when it is exercised (that is, purchase of the services) or when it is expired.

Illustration 5

Minimum purchase contract
A telecom company enters into a contract with another Mobile Virtual Network Operator (customer) to provide access to its network over a one-year period. The contract offers a discounted usage rate of RM0.05 per voice minute. The discounted rate is contingent upon the customer's minimum monthly purchase commitment of 25 million minutes of network voice usage. If the customer is unable to meet the volume commitments, the usage rate increases to RM0.08 per voice minute, applied retrospectively.

How should the telecom company providing network access account for this transaction?

The telecom company should estimate the variable consideration to determine the transaction price. The company determines, based on its facts and circumstance, including the customer's usage history, that there is an 85% probability the customer will meet the minimum monthly volume commitments for the contract period and a 15% probability the customer will not meet the minimum commitments. The company determines to use the 'most likely outcome' method as it is the best prediction of the amount it expects to receive. It also determines that there is no amount in excess of RM0.05 per minute that is highly probable of not being reversed.

Therefore, the company will recognise revenue based on a transaction price of RM0.05 per voice minute.

Illustration 6

Determine the transaction price: Discount programme, revenue is not constrained

A telecom company enters into a two-year contract with a customer to provide wireless telecom services (voice, data, etc.) for RM70 per month. The contract requires the company to provide the customer with 3GB of data, 60 voice minutes and 60 text messages per month. The customer may purchase additional voice services for RM0.20 per minute and text services for RM0.20 per message during the contract once the quota is exhausted. The customer is entitled to a discount of RM20 off the monthly fee once the monthly usage charge reaches RM120. The company has predictive capabilities by performing customer data analytics. It concludes there are no external economic factors that affect historical trends, and that historically, approximately 45% of customers will reach the monthly usage charge of RM120.

How should the transaction be accounted for?

The telecom company should estimate the transaction price based on the amounts it expects to be entitled to. The most recent history of customer date analytics is used to estimate this amount. The discount for each transaction is estimated using the following probabilities representing the pattern.

Discount amount	Probability	Probability weighted amount RM
RM0	55%	0
RM20	45%	9
		9

The telecom company concludes that it is highly probable that the variable consideration of RM11 will not be subject to significant reversal. The company will record a discount liability of RM9, reduce the transaction price by RM9, update the estimated liability at each reporting period, and record any adjustments to revenue.

Illustration 7

Contract modifications
BroadbandCo enters into a 24-month broadband service contract with Customer for RM2,880 (RM120 per month). The standalone selling price for the service at inception of the contract is RM120 per month. At month 12, the parties agree to modify the contract as follows:

(1) the total fee for months 13-24 is reduced to RM1,320 (RM110 per month); and

(2) Customer agrees to extend the contract for another 12 months for RM1,260 (RM105 per month). The standalone selling price of the services at the time of modification is RM110 per month.

How should the modification be accounted for?

The modification should NOT be accounted for as a separate contract. The price of the contract did not increase by an amount of consideration that reflects the standalone selling price of the additional services, even though the additional services might be distinct.

The modification is accounted for as if the existing arrangement is terminated and a new contract is created. BroadbandCo should reallocate the remaining consideration to all of the remaining services to be provided (that is, the obligations remaining from the original contract and the new obligations).

BroadbandCo will recognise RM2,580 (RM1,320 + RM1,260) over the remaining 24 months service period (12 months remaining under the original contract plus 12 months), or RM107.50 per month.

Illustration 8

Contract acquisition costs
A telecom company sells service plans from a retail store in a shopping mall. Sales agents employed at the retail store signed 120 customers to two-year service contracts in a month. The monthly rent for the store is RM5,000. The company pays the sales agents' commissions for the sale of service contracts, in addition to their normal wages. Wages paid to the sales agents during the month are RM12,000 and commissions are RM24,000.

How should the contract acquisition costs be accounted for?

The telecom company is required to capitalise incremental costs to acquire contracts, which are those costs the company would not have incurred unless it acquired the contracts.

In this example, the only costs that qualify as incremental contract acquisition costs are the RM24,000 commissions paid to the sales agents.

All other costs are charged to expenses when incurred. The store rent of RM5,000, the sales agents' wages of RM12,000 are all expenses the company would have incurred regardless of acquiring the customer contracts and should be expensed as incurred.

MFRS 15 provides a practical expedient that allows contract acquisition costs to be recognised immediately if the deferral period is less than one year. However, the practical expedient is not available if the amortisation period is greater than a year.

MFRS 15 requires contract acquisition costs to be amortised over a period consistent with the pattern of goods and services to which the asset relates to are transferred to the customers. Telecom companies are therefore required to exercise judgement to determine the amortisation period as MFRS 15 requires entities to consider periods beyond the initial contract period.

The company would need to consider the amortisation period for postpaid customers based on potential renewals subsequent to the initial contract period. Potential renewals for prepaid customers who renew on a monthly basis should also be carefully considered.

What can go wrong?

While the effective date may seem a long way off, it is important to understand the implications of applying the standard. Key impact will be to revenue profile, to certain cost recognition and ultimately profit recognition. An assessment will be required to reinforce the notion that planning for implementation should start early.

Here are some of the anticipated common issues when applying the new standard for the first time.

Inadequate data within current billing systems to accommodate the requirements of the new standard

For most telecom companies, revenue is derived from the Information Technology ("IT") Billing Systems. The revenue flows to the accounting system on an aggregated level. For example, billing systems house recurring and non- recurring charges for services to which a customer subscribes. The system however does not track when a customer entered into a contract or when a contract expires. Hence, these systems are incapable of computing the expected or remaining performance obligation. Instead this information may be housed in other systems that do not feed billing or accounting systems.

In addition, the billing systems do not currently track standalone selling prices of the separable performance obligations in the contract.

Consequently, billing systems are likely to require extensive and costly changes that would require time to implement. These changes are required to capture data needed for the additional estimates, judgements and disclosures.

Inadequate capacity of accounting systems to handle voluminous contract information

Many current accounting systems do not have the capability to account for millions of individual contracts and may not have been designed to handle this volume of data. This is more so as currently, detailed information is often transferred from billing systems to accounting systems on an aggregated level.

Customer data and analytics lacks robustness

Customer behaviours, segmentation and life cycle are essential in developing models to estimate take-up rates, amortisation period and recoverability rates. Management judgement and decisions will be largely dependent on the information obtained from the data. With the lack of robustness in customer data and analytics, the fluctuation of revenue and other relevant line items could potentially be significant, reducing the relevance and reliability of the financial information.

Mismatch of cash flows and revenues

Revenue recognition is largely dependent on plan configurations and terms explicit of implied in contracts with customers. Plans and contracts must be carefully scrutinised in line with the requirements of the standard during its development phase to avoid surprises. Network upgrade and replacement plans and other key capital items would need to be deliberated hand in hand with revenue and cash flow planning.

Conventional Key Performance Indicators (“KPIs”) for revenue are no longer comparable historically

As a result of different product offerings, and increased involvement of significant judgement on estimated standalone selling prices, conventional revenue KPIs such as Average Revenue per User (“ARPU”), Cost of Acquisition (“COA”) , EBITDA may no longer be comparable with prior periods, or even with other competitors.

Tax and Regulatory Implications

With the widening gap between timing of revenue recognition and cash received, as well as changes in timing of expenses and capitalised costs, this may significantly impact current tax planning that companies have in place.

Inadequate management processes

Management process flow must be in place in order to identify, assess and conclude on the treatment before key products are introduced to the market. The formalisation of a dynamic management process must be in place to enable timely assessment and reaction to competition in the market. This includes preparation and maintenance of supporting documentation to document judgement and estimates. Without a dynamic and complete management process in place, data for assessments may be outdated or incomplete, companies could be laggards behind competition and even risk erroneous conclusions, resulting in deviations from budgets or even financial losses. Design and implementation of management processes will require technical expertise.

Lack of documentation on judgements and estimates

Revenue recognition policies for individual products largely depends on management’s judgement and estimates subsequent to careful assessment. Documentation on basis of judgement and estimates based on facts must be in place to withstand scrutiny by auditors, tax authorities and regulators. Close collaboration between Legal, Sales and Marketing, IT Business Development and Finance teams are essential in arriving at decisions from planning up to launching of products. Lack of documentation could result in inconsistency of application and the lack of an audit trail in the event of review, leading to potential restatement of financial results.

Other matters to consider

Contracts may need to be revisited

Existing terms could take on new meaning under the new standard, so you may need to re-negotiate debt covenants or earn-out arrangements to maintain the original intent. You may also want to rethink how you structure customer agreements in the future, for example if you want to achieve recognition over time rather than at a point in time.

Compensation and bonus plans may need to be analysed

Revenue recognition can trigger payments like bonuses or commission. You will need to consider how timing changes for revenue recognition may affect these and other internal arrangements.

Financial disclosures may need to be enhanced

Companies also need to be more transparent and deeper in disclosing revenue recognition policy and arrangements.

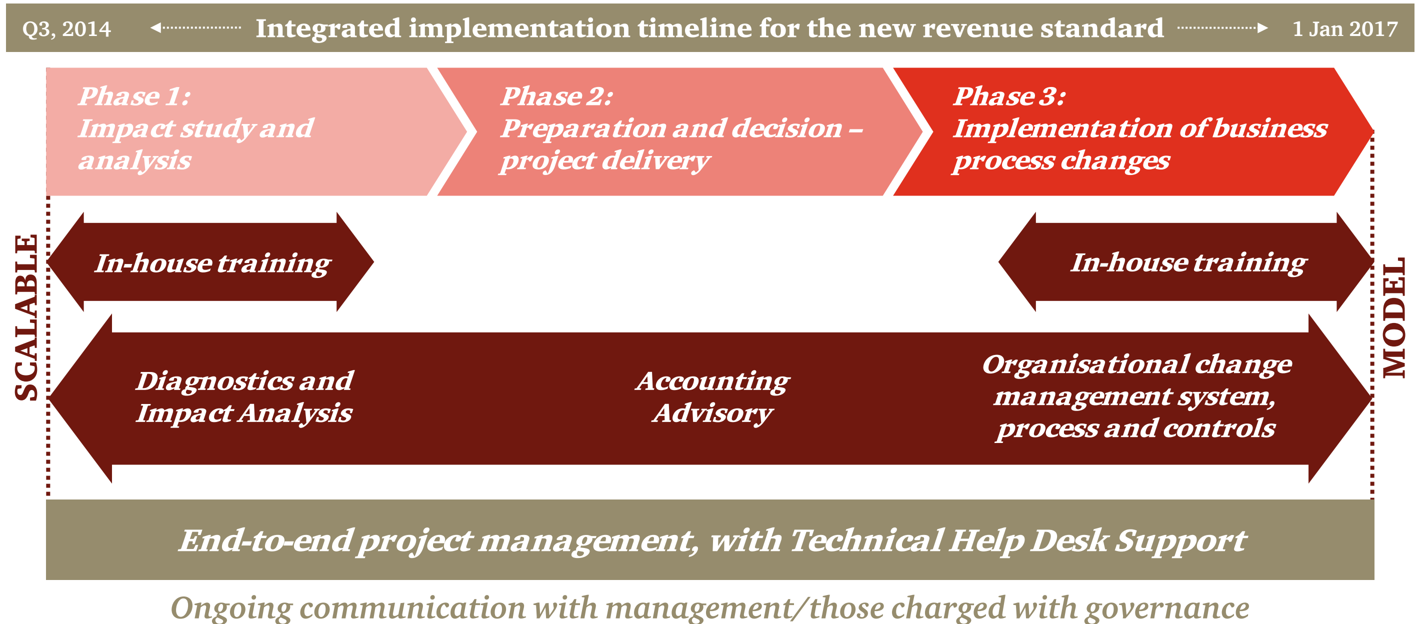
Investor relations plans need to be developed

Stakeholders may want to understand how revenue recognition will change and how the new standard affects your company’s financial picture.

How we can help

Our 'one firm' solution

PwC is already working with a number of large companies around the world to manage their transition to the new standard. We have developed an approach that draws on our expertise in accounting, systems implementation and transaction structuring to deliver an end-to-end integrated solution.



Described below are some ways in which we can help you as you plan for adoption. All these services can be customised to suit your needs.

Service	What we will do
In-house training and technical help-desk	• Provide you with training for your accounting, IT, legal and compliance teams on specific areas and implementation issues you may face • Provide on-going implementation and technical support to finance team and other cross functional teams on ad-hoc questions through transition phase
Diagnostics	• Perform diagnostic review of your existing arrangements / accounting policies to assess business issues and financial reporting implications and provide proposed practical solutions and recommendations • Perform diagnostic that includes understanding the financial and cross-functional impact; analyse your business models and contracts underlying your revenue recognition; analyse your IT landscape and an overview of risks and gaps. This will help you understand the breadth and depth of the impact (e.g. accounting, reporting, sales contracts, controls and process, systems, remuneration, taxes and investor relations) so you can plan for implementation
Impact analysis	• Work closely with your finance team to model the impact of adoption under different revenue recognition scenarios to your earnings, business model, compensation plans, debt covenants and any other impact areas identified by you • Perform a detailed analysis of differences in accounting policies, data gaps and IT systems landscape including required interfaces to be deployed / upgraded based on business requirement and functional design specifications • Based on the impact analysis, develop and execute a cross-functional communication strategy both internally and externally to your investors, audit committee, board of directors and other stakeholders on a timely basis
Accounting advisory	• Undertake a detailed analysis of your specific revenue contract considering your business model while also being mindful of your objectives and propose possible solutions for you • Active participation on the implementation of the proposed solutions, for example, participation in discussions with your lawyers for possible changes to contracts, internal meetings with other cross-functional teams to coordinate implementation, etc
Systems, process and control	• Collaborate with your finance and IT teams on updating revenue recognition process, contract reviews, system change, books and records through the transition period • Support you to determine a sustainable software solution that is able to support compliance with the complex accounting requirements for revenue recognition
Full Scale Implementation	• A combination of all of the above to assist with your full scale implementation of the standard (from implementation in-house education, initial diagnostic phase, impact analysis, to embedding changes in your financial reporting tool) utilising PwC developed and tested implementation tools and methodologies • Support you in project managing, gathering data, testing IT concept, configuration of IT systems and testing the results

Appendix: Implementation plan

Here is an example of some of the key areas and activities you may wish to consider in your implementation plan:

Key stages	Overall objectives	Key activities	Done?
1. Inception and baseline	Inventorise and quantify existing business transactions that carry an implication to the MFRS 15	• Understand existing retail and enterprise packages and contractual arrangements • Understand existing dealer incentive plans and bonuses • Identify separate performance obligations and incremental costs through the contracts and plans review • Compile volume of transactions under each package and plan	
2. Information gaps and impact study	Identify information gaps for MFRS 15 compliance and to conduct a business and financial impact study	Assess Information Gaps • Agree approach to determine transaction price • Identify information required to meet MFRS 15 requirements • Assess the availability of information through existing system or manual sources • Explore options to address the information gaps (e.g. IT enhancement or package re-structuring) Conduct Impact Study • Conduct high level financial impact study to simulate the financial impact of MFRS 15 on Company performance • Conduct a business impact study based on the options available, taking into consideration existing process and IT infrastructure • Develop decision paper for adopting "Contract" or "Portfolio" approach. The decision paper shall contain a cost benefit analysis and project risk assessment (e.g. project complexity and ability to deliver on time)	

Here is an example of some of the key areas and activities you may wish to consider in your implementation plan: (cont'd)

Key stages	Overall objectives	Key activities	Done?
3. Solution design	Design the detailed solutions and implementation roadmap	• Work with respective business divisions to develop a solution blueprint that clearly defines: – the IT enhancements initiatives; – Refinement of incentive plans; – Fine tuning of existing contract templates and processes; – Revision of bundling packages, if applicable • Develop implementation plans and roadmap • Seek endorsement and commitments from all business partners	
4. Solutions rollout	Develop all changes required on the systems, policies, processes and templates. Train the relevant stakeholders and roll out to the operations	• Construct IT enhancements and develop tracking database • Complete system testing and user training • Update Policies & Procedures to incorporate new processes and controls to capture information to meet MFRS 15 requirements • Update relevant templates and forms jointly with the business owners (e.g. contract template, incentive calculation, tax computation, budget and management report, etc.) • Develop guideline and processes for the development of new Incentive Plans and bundling packages in the future • Streamline and refine existing incentive plans and bundling packages, if applicable • Conduct rollout training and final rollout to the operations	
5. Revenue reporting and post implementation optimisation	Assess impact of new revenue reporting and optimise the approach	• Determine transaction prices • Determine standalone transaction prices • Allocate the transaction price to separate performance obligations • Simulate financial closing with MFRS 15 requirements to assess the financial impact to company performance • Update company budget or targets	

Let's talk.

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Publisher: PricewaterhouseCoopers Malaysia (AF1146) Level 15, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P O Box 10192, 50706 Kuala Lumpur, Malaysia. Tel: +60 (3) 2173 1188
Fax: +60 (3) 2173 1288 E-mail: pwcmsia.info@my.pwc.com | Design and printing: PricewaterhouseCoopers. CS07331