

PwC Alert

The new revenue standard is here. How will it affect entertainment and media companies?

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Overview

The entertainment and media sector mentioned within this Alert comprises a diverse set of sub-sectors, including filmed entertainment, television and radio (collectively known as “E&M companies”).

This publication explores the effect of the new revenue standard, MFRS 15 on these businesses.

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.

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.

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?

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 entertainment and media 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

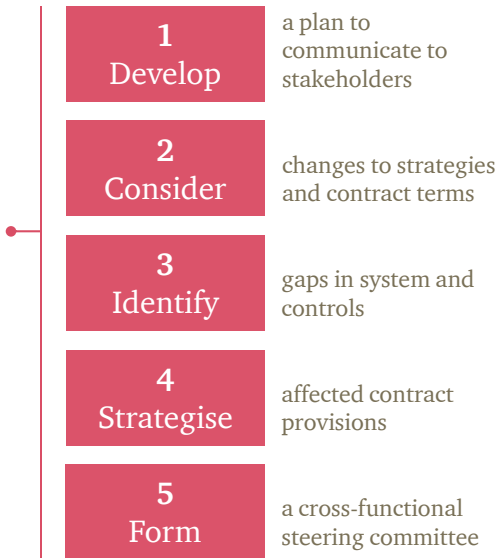
Transition could be especially difficult for companies with multi-year contracts. Start record keeping soon if retrospective application is a consideration. Do a cost-benefit analysis: Do you have the resources at hand to do one method more effectively than the other? Is there a benefit to your business 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.

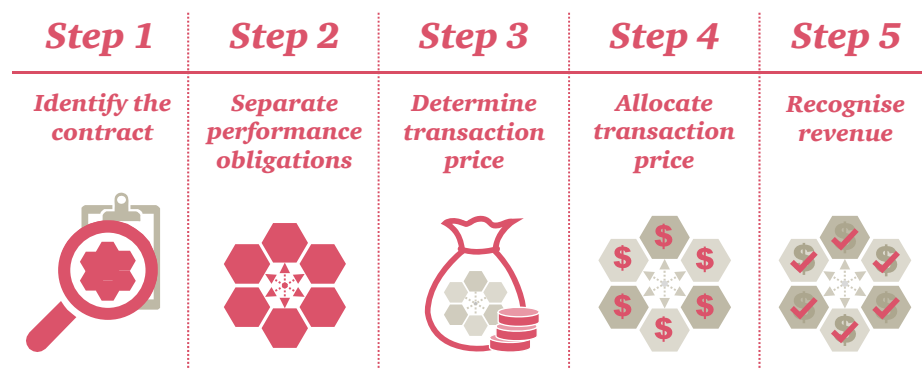
(See Appendix (page 23) for key areas and activities to consider in your implementation plan)



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

Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price are generally allocated to the separate elements.



Earlier recognition

Revenue may be recognised earlier than under current standards if the consideration varies for any reason (such as for incentives, rebates, performance fees, royalties, success of an outcome, etc.) – minimum amounts must be recognised if they are not at significant risk of reversal.



Consider options in the contract

Options in the contract may be recognised as a separate performance obligation on condition that there is an explicit or implicit promise to deliver the goods or services regardless of whether the obligor provides the goods or services.



Recognition at a point in time, or over time

The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may now be recognised over the contract term and vice versa.

Its impact on entertainment and media companies

The potential impact on the E&M industry arising from the new standard and application of the 5-step model is discussed further below:

Bundled sales

E&M companies regularly bundle a myriad of goods and services. Examples of these are the provision of a free set-top box upon subscription to Pay-TV services, the provision of broadband services upon subscription to IPTV services, free to air channels upon purchasing a set-top box and so on.

The key implication MFRS 15 has on bundled sales is identifying whether each good and service within the bundled sale is distinct and hence should be accounted for separately (as a separate performance obligation). A good or service is distinct and should be accounted for separately if the customer can benefit from the good or service either on its own or together with other resources readily available to the customer and if the entity's promise to transfer the good or service to the customer is separable from other promises in the contract.

Once a separate performance obligation has been identified, the transaction price should be allocated to each performance obligation based on relative stand-alone selling prices of goods and services provided to the customer. Revenue for each performance obligation is recognised upon satisfying each performance obligation in the bundled sale.



Illustration:

A Pay-TV operator enters into a 12-month subscription arrangement with a subscriber for RM150 per month. As part of the arrangement, the subscriber purchases a set-top box for RM200 to obtain access to the subscription service from the operator. How should the Pay-TV operator recognise its revenue under MFRS 15?

Applying the 5-step model in MFRS 15

Step 2

The Pay-TV operator is contracted to deliver a set-top box which enables subscribers to access the operator's programmes and is obligated to broadcast TV programmes for a period of 12 months. In assessing whether the sale of the set-top box is a separate performance obligation, the operator must assess whether the subscriber can benefit from the set-top box on its own or together with other resources readily available to the subscriber. For example, whether the set-top box can provide access to other Pay-TV operators' services.

In normal circumstances, a set-top box is a device to enable subscribers to receive the contracted Pay-TV operator's programmes only and for no other purpose. Given the restricted use of the set-top box, the sale of the set-top box and the 12-month subscription services are considered *not distinct*.

Bundled sales (cont'd)

Applying the 5-step model in MFRS 15 (cont'd)

Step 3

The transaction price of the arrangement includes the total subscription revenue of RM1,800 for 12 months (RM150 * 12 months) and the sale of set-top box of RM200, that is, a total of RM2,000 (RM1,800 subscription revenue + RM200 sale of set-top box).

Steps 4 & 5

As there is only one performance obligation on the arrangement with the subscriber, the revenue of RM2,000 should be recognised as and when the subscriber receives the benefits of the subscription services, that is, over the 12-month period.

Variable considerations

Variable considerations are common for E&M companies as there are many customer acquisition and retention strategies deployed. Examples include sales or usage based royalties, volume discounts offered by E&M companies, and performance bonuses on marketing contracts.

In determining the transaction price of goods and services delivered, MFRS 15 requires companies to consider whether their arrangements with their customers contain variable considerations and whether these variable considerations can be recognised earlier. MFRS 15 permits early recognition of variable considerations only if 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. Factors to consider when determining whether it is *highly probable* that a significant reversal of revenue will not occur include the length of time of any underlying uncertainty, the experience of the entity with similar transactions, and the range of possible consideration amounts.

An exception to the above is revenue from sales- or usage-based royalties on licences of intellectual property. Royalties from licences of intellectual property are not included in the transaction price until the subsequent sale or usage occurs, and the related performance obligation has been satisfied (or partially satisfied). Licenses are further discussed on page 15 of this Alert.

Variable consideration (non sales- or usage-based royalties) is estimated based on either:

- the expected value – the sum of probability-weighted amounts in a range of possible consideration amounts; or
- the most likely amount – being the single most likely outcome of the arrangement.

The method used must best predict the amount of consideration a company will be entitled to.



Illustration:

A broadcaster enters into an agreement with an advertising agency on 1 January 20X1 for a period of 12 months to 31 December 20X1 for the sale of airtime spots at RM1,000 per spot. If the advertising agency purchases more than 1,000 airtime spots during the period, the price per spot reduces to RM750 per spot and it applies to all the spots sold during the contract period. Based on the fact that the broadcaster has three years of experience with the advertising agency and historically their sale of airtime spots to the advertising agency exceeded 1,000 spots per year, it is 100% certain that the broadcaster will sell 1,000 spots by 31 December 20X1. As at 31 March 20X1, the broadcaster sold 500 airtime spots to the advertising agency. How should the sale of the 500 airtime spots be recognised by the broadcaster under MFRS 15?

Variable considerations (cont'd)

Applying the 5-step model in MFRS 15

Step 3

The arrangement between the broadcaster and the advertising agency creates a contractual arrangement for the broadcaster to deliver airtime spots. In this illustration, the variable consideration in the arrangement is the discount of RM250 per airtime spot to be applied to all the spots sold if the total spots sold exceed 1,000 during the contract period. This variable consideration shall be estimated and included in the transaction price 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. Therefore, the broadcaster should ascertain the probability of the sale of the airtime spots exceeding 1,000 during the contract period at the onset of the contract and estimate the amount of variable consideration to be included in the transaction price.

The broadcaster determines based on the facts and circumstances, including past experience with the advertising agency that it is 100% certain they would exceed sales of 1,000 airtime spots by 31 December 20X1. Therefore, the “most likely amount” best predicts the amount of consideration it expects to receive. The broadcaster also determines it is highly probable that the cumulative revenue based on the discount of RM250 will not be subject to significant reversal by the end of the contract period.

Based on the “most likely amount” of the arrangement exceeding 1,000 airtime spots during the year, the sale of the 500 airtime spots should be valued at RM750 per spot, that is, RM375,000 (RM750 per spot * 500 airtime spots) for the interim period ended 31 March 20X1.

Whilst the illustration above assumes that the broadcaster has significant experience with the purchasing pattern of the advertising agency, this may not often be the case in practical situations. The challenge to broadcasters will be to assess the probability that a significant reversal in the amount of cumulative revenue recognised will not occur and to estimate the variable consideration which involves significant judgement and estimates.

Options to acquire additional services

E&M companies may grant a customer an option to acquire additional goods or services in conjunction with a current transaction. Such options may provide a discount on subsequent purchases or the ability to extend or renew the agreement. Options to acquire additional services should be evaluated at the inception of the contract to determine if it qualifies as a separate performance obligation. Under MFRS 15, the option gives rise to a performance obligation if the option provides a 'material right' to the customer that the customer would not receive without entering into the contract. An example of a 'material right' is a discount that is incremental to the range of discounts typically given for those services to similar customers. An option to acquire additional goods or services at a price within a range of prices typically charged for those goods or services is not a 'material right' even if the option can only be exercised because of entering into the previous contract. Such an option is considered a marketing offer.

If an option is a distinct performance obligation, E&M companies will need to estimate the transaction price to be allocated to the option based on its estimated stand-alone selling price as, in effect, the customer is paying for future goods or services to be received. Revenue is recognised for the option when it expires or when the future goods or services are transferred to the customer.

The illustration below demonstrates how E&M companies would determine whether a 'material right' with a customer exist and how this is being accounted for under MFRS 15.



Illustration:

A broadcaster enters into an agreement with a film production house to purchase Season One of a TV series at RM1,000,000 and an option to purchase a spin-off programme of the TV series (e.g. snippets of the Season One scenes) for an additional RM1,000,000. The spin-off programme if sold separately to other broadcasters is determined to be RM1,300,000. This means that the option to purchase the spin-off programme entitles the broadcaster to a discount of RM300,000 when purchased.

It is assumed that the probability of the broadcaster exercising the option is 100% based on the high viewership of the TV series and the discounts given.

How should the film production house determine if the option provides a 'material right' to the broadcaster and how should the transaction price be allocated under MFRS 15?

Options to acquire additional services (cont'd)

Applying the 5-step model in MFRS 15

Step 2

The film production house would need to determine if the option to purchase the spin-off programme at a discounted price provides a 'material right' to the customer and hence a separate performance obligation. The option to purchase the spin-off programme at RM1,000,000 provides a discount of RM300,000 to the broadcaster that is incremental to the discounts received by other broadcasters if the spin-off programme was purchased separately at RM1,300,000. This provides the broadcaster a 'material right' as the discount would not have been available without entering into this agreement.

Thus, there are two separate performance obligations in this agreement, that is, the delivery of Season One of the TV series and the option to purchase the spin-off programme and rights as it provides a 'material right' to the broadcaster.

Step 3

The transaction price is RM1,000,000 for the delivery of Season One and the option to purchase the spin-off programme.

Options to acquire additional services (cont'd)

Applying the 5-step model in MFRS 15 (cont'd)

Step 4

The transaction price of RM1,000,000 should be allocated between the two performance obligations, that is, production of Season One of the TV series and the option to purchase the spin-off programme based on the estimated relative stand-alone selling price of each performance obligation. The stand-alone price of the option shall be estimated to reflect the additional discount that the broadcaster would obtain when exercising the option, adjusted for the likelihood that the option will be exercised. The allocation of the transaction price is shown below:

	Agreement to provide Season One of the TV series and the option to purchase the spin-off programme		
	Performance obligation 1: Season One	Performance obligation 2: Option to purchase the spin-off programme	Total
	RM	RM	RM
Stand-alone selling price	1,000,000	(a) 300,000	1,300,000
Price as provided under the contract	1,000,000	-	1,000,000
Revenue recognised under MFRS15	(b) 769,231	(b) 230,769	1,000,000

(a) Represents the entity's estimated standalone selling price for the option to purchase the spin-off programme being the discount of RM300,000 multiplied by the probability of 100%.

(b) Transaction price is allocated by reference to a relative stand-alone price as follows:
 Season 1: $[(RM1,000,000/RM1,300,000) \times RM1,000,000]$
 Option to purchase spin-off programme: $[(RM300,000/RM1,300,000) \times RM1,000,000]$

Based on the above, the film production house will recognise the revenue of RM769,231 upon the delivery of Season One. The remaining revenue of RM230,769 will be recognised upon the delivery of the spin-off programme if the option is exercised, or upon the expiry of the option if the option is not exercised.

In practical situations there may be complex contracts where options could include attaining a certain performance measure before the option becomes exercisable, for example, attaining a certain revenue target or viewership. The challenge is to estimate the probabilities of the options being exercised.

Licenses

Licenses in the E&M industry take a variety of forms such as rights to a syndicated television show, a license to a music catalogue, or a license to utilise an animated character's image.

The standard emphasises the need to consider whether a license is distinct from any other performance obligations in an arrangement. A license is distinct if a customer can benefit from it on its own or together with other resources that are readily available, and if the licence is separable from other obligations. If it is not distinct, revenue is recorded based upon the transfer of the combined performance obligation. Licenses are either a promise to provide a right to the entity's intellectual property ("IP") at a point in time (the 'right to use'), or a promise to provide access to an entity's IP (the 'right to access') as it exists at any point during the license period.

'Right to access'

In order for the licensor to recognise licensing income over time, the licensor must determine whether the license meets all the 'rights to access' criteria by demonstrating that:

- the contract requires, or the licensee reasonably expects, that the licensor will undertake activities that significantly affect the intellectual property in which the licensee has rights to;
- the rights granted by the licensor directly expose the customer to any positive or negative effects of the entity's activities; and
- the activities undertaken by the licensor that significantly affects the intellectual property in which the licensee has rights to do not result in the transfer of a good or a service to the licensee as those activities occur.

If all the criteria are met, the licensee simultaneously receives and consumes the benefit from the licensor's performance of providing access to its intellectual property.

'Right to use'

If the licensor is unable to demonstrate any of the above criteria, this means the licensee has a 'right to use' the licensor's intellectual property as that intellectual property exists (in terms of its form and functionality) at the point in time in which the license is transferred. The licensee can control and direct the use of and obtain substantially all of the remaining benefits from the license at the point in time in which the license is transferred. Consequently, the licensor shall account for the sale of the license at a point in time.

E&M companies will need to apply judgement in determining whether the activities undertaken by the licensor enhances the intellectual property the licensee has rights in, and whether these activities directly expose the licensee to the effects of the licensor's activities.



Licenses (cont'd)

Variable consideration

For both licenses recognised at a point in time and those recognised over time, the licensor shall recognise revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property only when the latter of the following events occur:

- the subsequent sale of usage occurs; or
- the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

The illustration below demonstrates how E&M companies would consider whether a sale of a license meets the 'rights to access' or 'rights to use' criteria and consequently how revenue shall be recognised under MFRS 15.



Illustration:

A broadcaster holds the intellectual property to a TV series. The broadcaster enters into an agreement with a customer to sell the TV series broadcast rights to the customer. The terms of the agreement are as follows:

- Licensing fees of the rights is RM2,000,000;
- Duration of the rights commence on 1/1/20X1 and expires two years later on 31/12/20X2; and
- The broadcaster is to undertake promotional and marketing activities, including generating content to showcase and advertise the TV series at its own cost and it shall remain the property of the broadcaster.

How shall the broadcaster recognise its revenue under MFRS 15?

Applying the 5-step model in MFRS 15

Step 5

In determining how the broadcaster shall recognise its licensing income under MFRS 15, the broadcaster has to consider if all the criteria of the 'rights to access' are met:

- 1) Do the requirements in the agreement specify that the broadcaster will undertake activities that significantly affect the broadcast rights in which the customer has rights to?
- 2) Do the rights granted by the broadcaster directly expose the customer to any positive or negative effects of the activities undertaken by the broadcaster?
- 3) Do the activities undertaken by the broadcaster that significantly affect the broadcast rights in which the customer has rights to result in the transfer of a good or a service to the customer as those activities occur?

Licenses (cont'd)

Illustration: (cont'd)

The terms of the agreement specifically states that the broadcaster is to undertake promotional and marketing activities, including generating content to showcase and advertise the TV series at its own cost (collectively known as “these activities”). In addition, these activities significantly affect the broadcast rights held by the customer as the activities increases the viewership of the TV series which in turn generates more revenue for the customer. Lastly, these activities do not result in a transfer of a good or service to the customer as it shall remain the property of the broadcaster. Under these considerations, the broadcaster has met the ‘right to access’ criteria and therefore, the customer simultaneously receives and consumes the benefit from the broadcaster’s performance of providing access to its intellectual property over time.

The broadcaster shall recognise the licensing fee income of RM2,000,000 over the contract period of two years.

Its impact on entertainment and media companies

MFRS 15 also provides clarification on barter transactions and accounting for contract acquisition costs to obtain or fulfil a contract as discussed below:

Barter transactions involving advertising services

Barter transactions such as the exchange of advertising spots regularly occurs in the E&M industry. Under the current revenue Standard, goods and services exchanged which are of a similar nature and value are not regarded as a transaction which generates revenue and hence are not recognised.

However, under MFRS 15, barter transactions where the goods and services exchanged are of a similar nature and value are no longer precluded from recognition.



Contract acquisition costs to obtain or fulfil a contract

Incremental costs to obtain a contract will be capitalised if they are expected to be recovered. Contract acquisition assets are amortised on a systematic basis consistent with the expected pattern of transfer of goods or services under the contract. If the amortisation period of the asset is one year or less, such costs may be expensed as incurred as a practical expedient. This could result in additional deferred costs for certain subscription-based businesses which incur a commission or agency cost at the time of signing up a long-term subscription.

Costs incurred to fulfil a contract should be assessed to determine if the accounting for those costs is in the scope of other standards. Costs incurred to fulfill a contract that is not in the scope of other standards are recognised as an asset under the new standard if:

- the costs relate directly to a contract, generate or enhance resources of the entity that will be used to satisfy future performance obligations; and
- are expected to be recovered.





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 that will 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 operators, 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, operators 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.

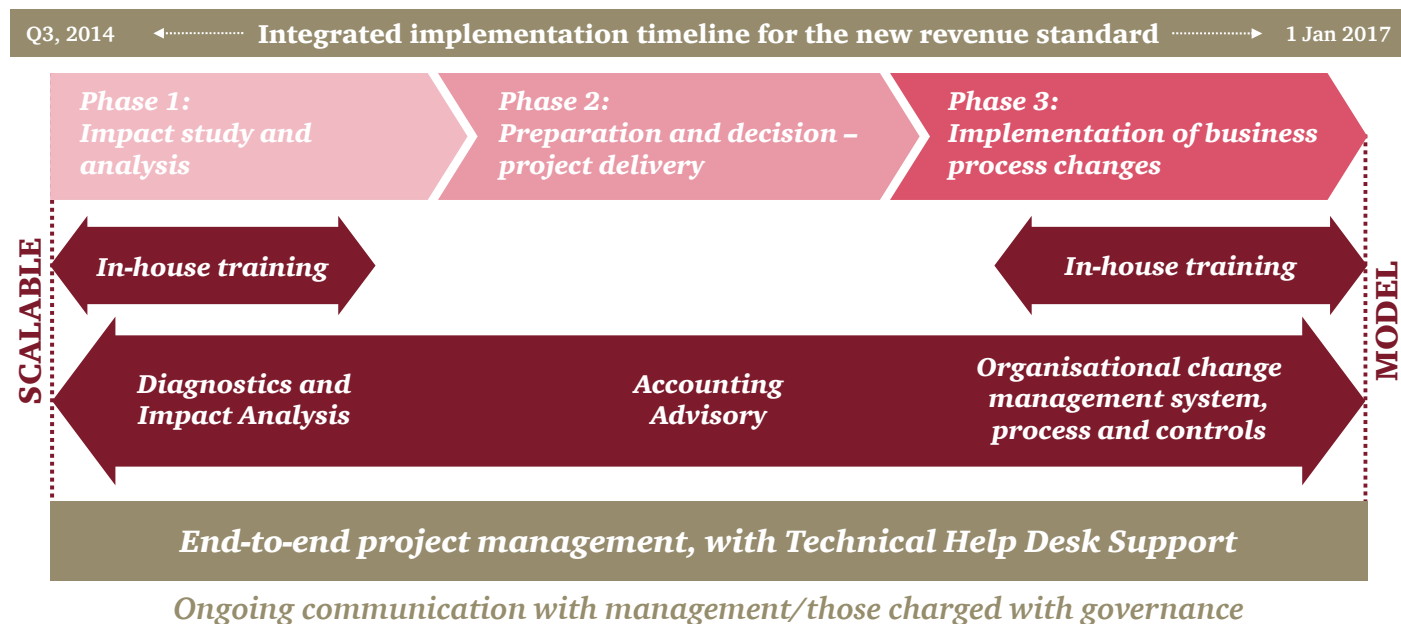
Investor relations plans need to be developed

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 of the ways in which we can help you as you plan for adoption. All the services described below can be customised to suit your needs.

Service	What we will do
In-house training and technical help-desk	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Work with your finance and IT teams on updating revenue recognition process, system change, books and records through the transition period • 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	<ul style="list-style-type: none"> • 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 gathering the data, testing IT concept, adjusting 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	<ul style="list-style-type: none"> 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	<p>Assess Information Gaps</p> <ul style="list-style-type: none"> 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) <p>Conduct Impact Study</p> <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> • Work with respective business divisions to develop a solution blueprint that clearly defines: <ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 	

Notes

Let's talk



Irvin Menezes

Partner
PricewaterhouseCoopers (AF1146)

Tel: +603 2173 0668
irvin.menezes@my.pwc.com



Soo Kwai Fong

Senior Executive Director
PricewaterhouseCoopers (AF1146)

Tel: +603 2173 0774
kwai.fong.soo@my.pwc.com

pwc.com/my

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