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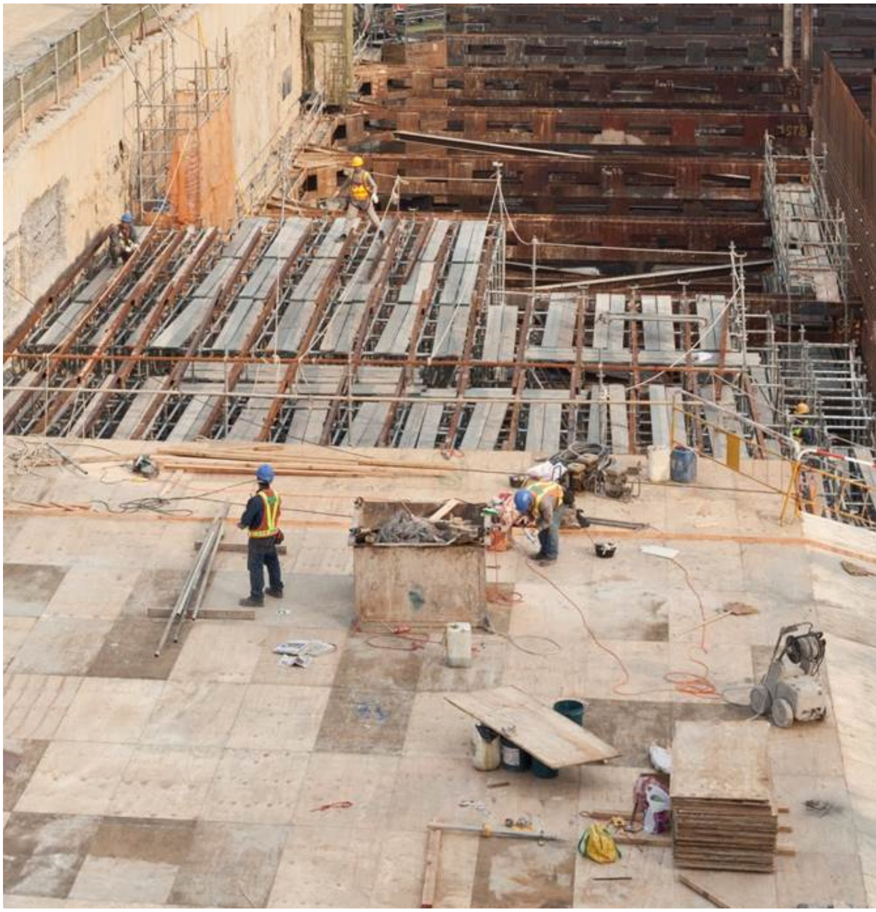
PwC Alert

The new revenue standard is here. How will it affect property developers?



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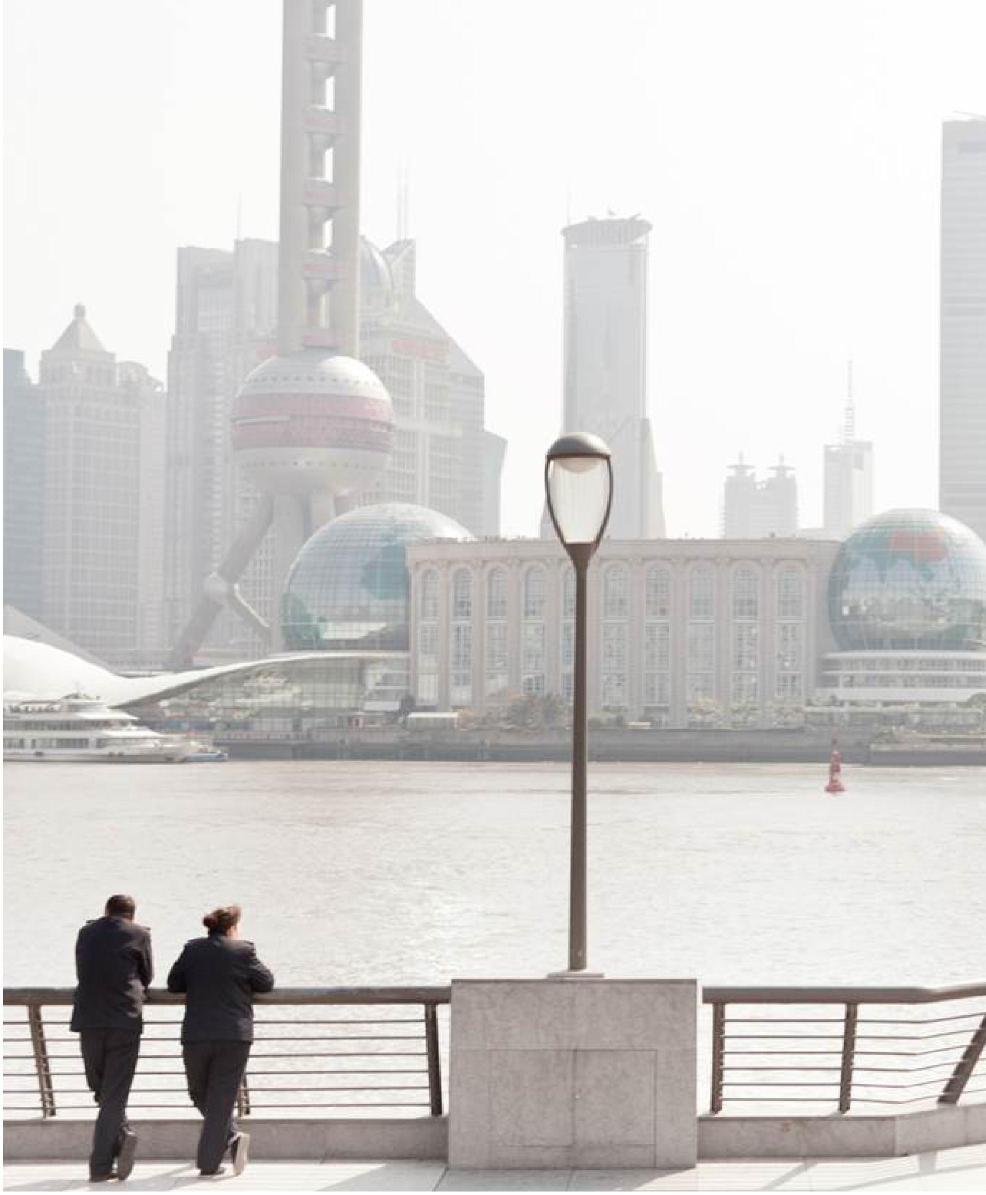


The new framework for revenue recognition is here.

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 and the Financial Accounting Standards Board. Entities are required to apply MFRS 15 for annual periods beginning on or after 1 January 2017. Early adoption is permitted.

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.

The new revenue standard will replace substantially all existing revenue recognition guidance under IFRS, MFRS and FRS, including the current practice in Malaysia based on FRS 201 *Property Development Activities*.

This publication takes a look at some of the key challenges affecting property developers moving from FRS 201 to MFRS 15, by illustrating the related MFRS 15 principles.

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. Evaluate how revenue recognition affects each function and the business as a whole.

Where might your company feel the impact?

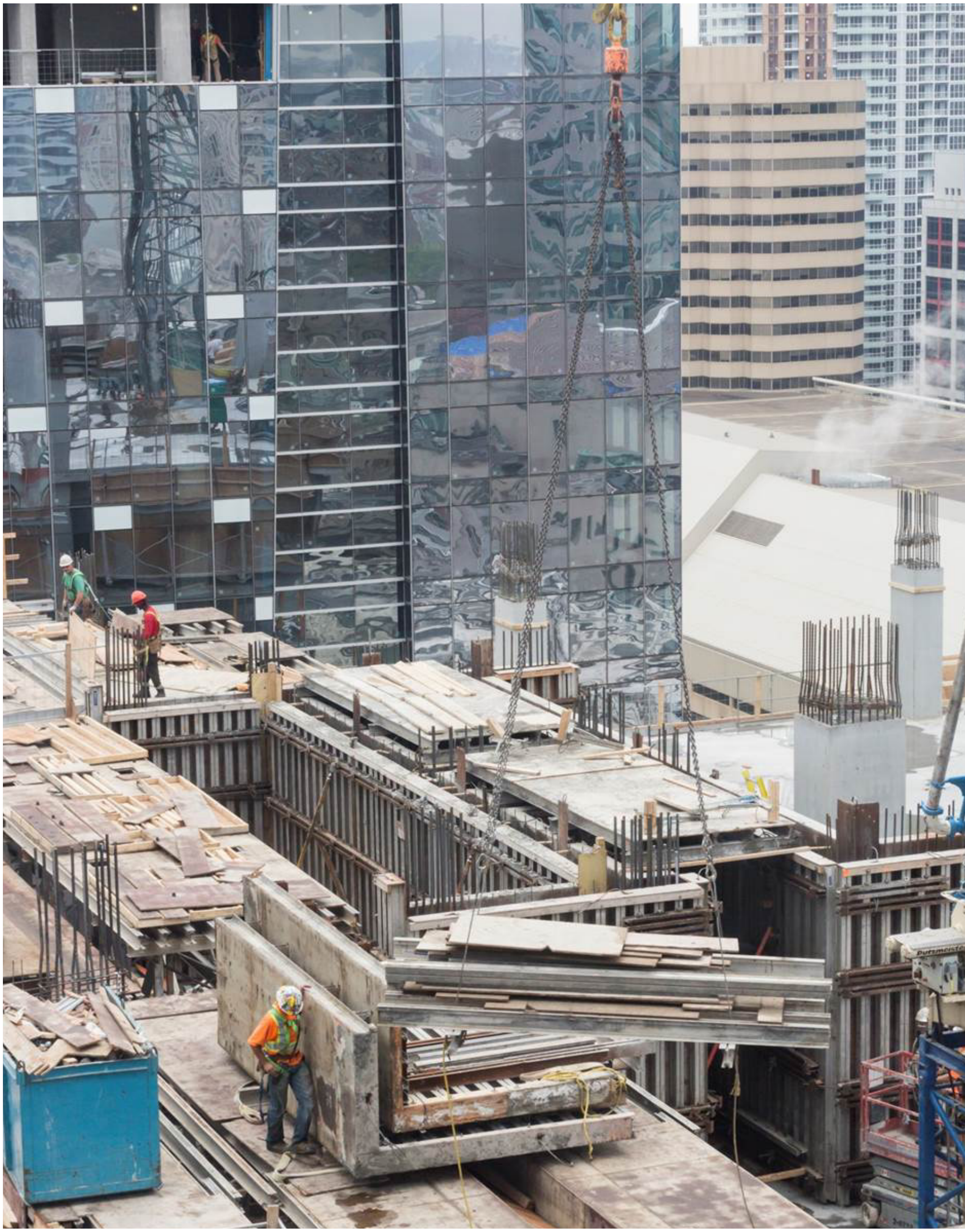
- **Tax implications.** The timing of cash payments could be affected if, for example, you recognise revenue sooner than in the past.
- **Investor relations.** Stakeholders would want to know how your revenue recognition will change and how the new standard will affect your company's financial picture.
- **Controls and processes.** The standard requires you to make more estimates and disclosures, calling for new controls and processes.
- **Technology.** You may need to update your current software to capture new information that might not have been necessary before.
- **Key performance indicators.** Revenue recognition can impact performance measurements including compensation and bonus plans of employees of a company, and earnings based loan covenants. Consider how changes in the timing of revenue recognition affect these and other internal arrangements.

Why change?

The objective of the new revenue standard 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 property developers, will need to start now to get the necessary process changes implemented in time."



Two adoption methods

(1) Full retrospective method
Companies can choose how they want to adopt the new standard. One way is by applying the revenue standard to each prior period financial statements presented as if the guidance had always existed, which may require a lot of time and effort. Certain practical expedients are available for entities that elect to apply the standard using the full retrospective method.

Because redoing accounting for the prior comparable periods is a big undertaking, another option is available.

(2) Simplified transition method
Companies can alternatively 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 20) for key areas and activities to consider in your implementation plan.

1 Develop — a plan to communicate to stakeholders

2 Consider — changes to strategies and contract terms

3 Identify — gaps in system and controls

4 Strategise — affected contract provisions

5 Form — a cross-functional steering committee

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	Step 2	Step 3	Step 4	Step 5
Identify the contract	Separate performance obligations	Determine transaction price	Allocate transaction price	Recognise revenue

Step 1: Identify contract(s) with customer

A contract creates enforceable rights and obligations. It may be written, oral, or implied by customary business practices. 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. The revenue standard generally applies to an individual contract with a customer. The standard can be applied to a portfolio of contracts or performance obligations if the entity reasonably expects that the effect of applying a portfolio approach would not differ materially from considering each contract or performance obligation separately. Some entities enter into contracts with a large number of customers, all of which have the same or similar terms and conditions. It is appropriate in these situations to consider whether the revenue standard could be applied to a portfolio of contracts or performance obligations.

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. Separate the performance obligations if they are capable of being distinct and if they are distinct based on the context of the contract (i.e. 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 meets this criterion 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 challenges?

Recognition at a point in time, or over time

Revenue from pre-sales of properties under development may be recognised at a point in time or over a period of time depending on the terms of the contract.

The timing of revenue recognition for sale of a completed property, which is currently based on whether the significant risk and reward of ownership of the property has been transferred, may also need to be revisited under the transfer of control model.

Allocating bundled sales

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

Entities shall defer a portion of revenue related to unsatisfied performance obligations.

Variable considerations

Transaction price might include an element of consideration that is variable or contingent on the outcome of future events, e.g. discounts, rebates, and liquidated damages due to late delivery, which requires an estimation to be made at contract inception, and subsequently at the end of each reporting period.

What are the changes affecting property developers?

Step 1: Identify contract(s) with customers

A contract is an agreement between two or more parties that creates enforceable rights and obligations.

Each contract with a customer is within the scope of MFRS 15 when all of the following criteria are met:

Criterion 1:
The parties have approved the contract (in writing, orally or implied by customary business practices) and are committed to perform their respective obligations.

Criterion 2:
Each party's rights regarding the goods or services to be transferred can be identified.

Criterion 3:
The payment terms can be identified.

Criterion 4:
The contract has commercial substance, (that is, the contract is expected to change the risk, timing or amount of the property developer's future cash flows).

Criterion 5:
It is probable that the property developer will collect the consideration to which it will be entitled in exchange for goods or services transferred, considering the customer's ability and intention to pay that consideration when it is due.

Apply MFRS 15 to account for a contract with a customer

A contract with a customer that meets all of the above criteria at contract inception need not be reassessed unless there is an indication of a significant change in facts and circumstances. If any of the criteria are not met at contract inception, a property developer shall continue to assess the contract at each reporting period to determine whether all of the criteria are subsequently met.

Step 2: Identify the separate performance obligations in the contract

A performance obligation is a promise in a contract with a customer to transfer to the customer a distinct good or service (or a bundle of goods or services) or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to a customer. The promise can be explicit or implied by a property developer's customary business practice if it creates a valid expectation that the property developer will transfer goods or services to the customer. Identifying performance obligations is more challenging when there are multiple explicit or implicit promises in a contract. If goods or services are distinct, they are accounted for as separate promises (performance obligations) for revenue recognition purposes. Revenue is recognised when or as the property developer depicts the delivery of the promises in the contract with a customer and is measured at an amount determined based on the allocation principle in MFRS 15.

Multiple performance obligations

Management will need to determine whether promises are distinct when there are multiple promises in a contract. This is important because distinct performance obligations are the units of account that determine when and how revenue is recognised.

A good or service is distinct only if:

- the customer can benefit from the good or service either on its own or together with resources readily available to the customer, and
- the good or service is separately identifiable from other promises in the contract.

Goods and services that are not distinct and therefore not separate performance obligations should be combined with other promised goods or services until the entity identifies a bundle of goods or services that is distinct.

Performance of promises in addition to the delivery of property units

The new standard will significantly affect the accounting for sales of real estate in situations where certain performance obligations are satisfied only after the property units are completed and delivered to the customers. Such performance obligations could be explicitly defined in the contract (e.g. an amenity such as a pool or club house), implied in the property developer's marketing brochures (e.g. landscaping) or as required by the local governments as part of the conditions for the approval for the development (e.g. roads, main infrastructure, schools etc.).

At present, it is a common practice that property developers would accrue a liability for the common costs attributable to development activities in general and allocate these costs in the cost of sales at the time when the sales of the property units are recognised, even though these costs have yet to be incurred. However under the new standard, there may be multiple performance obligations that could result in different recognition patterns for all promises with customer in the same contract. It is imperative for property developers to assess whether these performance of promises after the delivery of property units are distinct and hence are separate performance obligations.

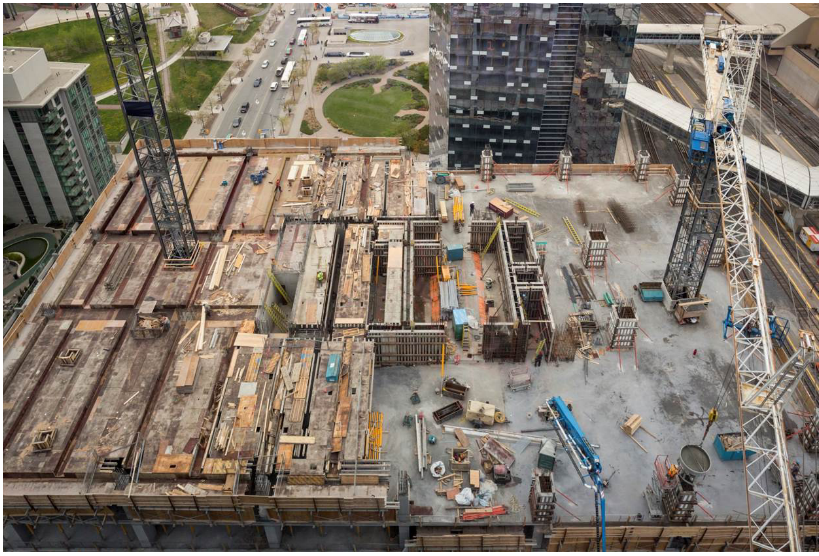
In addition, the property developer may offer incentives in the form of additional goods or services for free to entice customers. At present, FRS 201 "Property Development Activities" requires the estimated obligations under sales incentives to be accounted for as a provision in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets". Under the new standard, the property developer should assess if the additional goods or services that it promises is distinct from the property unit. It should be accounted for separately from the property units if such additional goods or services are determined to be separate performance obligations.

Step 3: Determine the transaction price - Variable consideration

Transaction price is the amount of consideration the property developer 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 includes an element of consideration that is variable or contingent on the outcome of future events, including (but not limited to) discounts, rebates and incentives. Besides, the promise to pay liquidated damages due to late delivery is also viewed as a variation to the contracted purchase price, thus requiring the estimation to be made at contract inception, and subsequently at the end of each reporting period, but is constrained up to the amount that is highly probable of no significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

At present, FRS 201 requires the estimated obligations under sales incentives such as a guaranteed return to the customer for a specified period to be accounted for as a provision in accordance with FRS 137. Similarly, the present FRS 201 requires any liquidated damages payable to the customer to be recognised in profit or loss separately from the property development revenue. However, such incentives or compensation effectively varies the property developer's entitlement to the amount of consideration for the sale of the property unit pursuant to the contract with the customer; hence the new standard requires such incentive to be factored in determining the transaction price.

Variable considerations should be estimated using one of the two methods depending on which method the entity expects to better predict the amount of consideration in which it will be entitled: the expected value or the most likely amount.



Step 4: Allocate the transaction price

When more than one performance obligation is identified in a contract with the customer, the transaction price shall be allocated to each performance obligation in proportion to the observable stand-alone selling price of each distinct goods or services at contract inception. However, there could be a number of instances where the stand-alone selling price is not observable. This often requires the property developers to make estimates for items they do not sell on a stand-alone basis and will require significant judgement.

Allocation of discounts

Property developers commonly give discounts to selected customers, either as required by the authorities (e.g. discounts for Bumiputera buyers) or as part of its marketing strategies (e.g. early bird discounts). Discounts shall be allocated proportionately to all performance obligations in the contract unless there is observable evidence that the entire discount relates to only one or more, but not all, performance obligations, i.e. when all of the following criteria are met:

- Property developer regularly sells each distinct good or service in the contract on a stand-alone basis;
- Property developer regularly sells, on a stand-alone basis, a bundle of some of those distinct goods or services at a discount to the stand-alone selling prices of the goods or services in each bundle; and
- Discount attributable to the bundle of goods or services is substantially the same as the discount in the contract.

Illustration:

On the launch date of a property development, the property developer enters into a sale and purchase agreement with a customer for the sale of a property unit, priced at RM1,000,000, that is developed adjacent to a country club which is also operated by the property developer. To entice the customer to sign up on the launch date, the property developer agreed to also provide the following to the customer:

- Early bird discount of 5% of the purchase consideration; and
- Waiver of one-off membership fee in the country club.

A similar property unit sold after the launch date is also priced at RM1,000,000 per unit but does not come with any of the incentives above. The membership in the country club could be obtained separately by paying a one-off membership fee of RM50,000 and is transferable.

At contract inception, the property developer assessed and identified two performance obligations, i.e. the property unit and access to the country club. There is no observable evidence that the entire early bird discount relates to only one of the two performance obligations.

The early bird discount of RM50,000 is taken into account in determining the transaction price, hence the transaction price is RM950,000. The transaction price is then allocated to the separate performance obligations on relative stand-alone selling price basis, as follows:

	Standalone price RM	Allocation of transaction price RM
Property unit	1,000,000	[a] 904,762
Country club membership	50,000	[b] 45,238
	1,050,000	**950,000**

(a) Transaction price allocated to property unit:
(RM1,000,000 / RM1,050,000) x RM950,000 = RM904,762

(b) Transaction price allocated to country club membership:
(RM50,000 / RM1,050,000) x RM950,000 = RM45,238

Step 5: Should revenue be recognised over time or at a point in time?

Revenue recognition under FRS 201 is based on the activities of the property developer. Provided that the financial outcome of the development activities can be reliably estimated, revenue is recognised as the property developer performs and the amount is determined by reference to the stage of completion (also known as the percentage-of-completion method).

Revenue is recognised under the new standard when a performance obligation is satisfied, which occurs when control of the promised good or service is transferred to the customer. Control can transfer either at a point in time or over time.

Determination of whether control is transferred over time or at a point in time requires careful assessment and should be determined during contract inception, based on specific contract terms. An entity should first assess whether the performance obligation is satisfied over time. If not, the performance obligation is satisfied at a point in time.

Here is some guidance to help property developers determine if revenue should be recognised over time:

Identify if any one the following three criteria for recognising revenue over time are met.

- The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
- The entity's performance creates or enhances a customer-controlled asset.
- The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

What is alternative use?

The entity should consider its ability to redirect an asset that is partially completed to another customer, considering both contractual restrictions and practical limitations. A substantive contractual restriction that limits an entity's ability to redirect the asset indicates that the asset has no alternative use. Practical limitations, such as significant costs required to rework the asset so it could be directed to another customer, could also indicate that the asset has no alternative use. In the context of real estate industry, the property developer considers whether the property can be transferred or redirected to a third party after the legal sales and purchase agreement is signed, considering both contractual and practical limitations.

What is enforceable right to payment?

A right to payment exists if an entity is entitled to payment for performance completed to date if the customer terminates the contract for reasons other than the entity's non-performance. A specified payment schedule does not, by itself, indicate the entity has a right to payment for performance to date. This is because, for example, the contract could specify that the consideration received from the customer is refundable for reasons other than the entity failing to perform as promised in the contract. The assessment of the enforceability of the right to payment should include consideration of the contract terms as well as any legislation and legal precedents that could override the contract terms.

The amount that the entity is entitled to must at least compensate the entity for its performance completed to date rather than provide compensation for only costs incurred to date or the entity's potential loss of profit if the contract is terminated. This would be an amount that covers an entity's cost plus a reasonable profit margin for work completed.

How do property developers apply this standard?

Recognising revenue at a point in time

Example 1:

A property developer enters into a contract with a customer to deliver a property unit which has similar floor plan and size with other property units within a multi-unit residential complex which is still under construction. The customer pays a deposit upon signing of sale and purchase agreement. Deposit is refundable only if the property developer fails to deliver the property unit in accordance with the agreement. The contract has substantive terms that preclude the property developer from being able to direct the property unit to another customer. The balance of the contract price is payable upon the delivery of vacant possession of the property unit and if the customer defaults on the contract before completion, the property developer only has the right to retain the deposit.

Analysis:

In this situation, the property developer should recognise revenue at the point in time when the control of the property unit is transferred to the customer.

Although the property unit has no alternative use to the property developer as the property developer cannot transfer or redirect the property unit to another customer after the sale and purchase agreement is signed, the criteria of recognising revenue over time are not met because there is no enforceable right to payment for performance completed to date because until the construction of the property unit is completed, the property developer only has a right to the deposit paid by the customer.

Recognising revenue over time

Example 2:

The same facts in Example 1 apply to Example 2 except that the customer will make progress payments during the construction of the property unit, and if the customer defaults on its obligations by failing to make the promised progress payments as and when they are due, the property developer would have a right to all of the consideration promised in the contract if it completes the construction of the property unit. The courts have previously upheld similar rights that entitle property developers to require the customer to perform, subject to the property developer meeting its obligations under the contract.

Analysis:

The property developer should recognise revenue over time as both criteria of no alternative use and enforceable right to payment for performance to date are met. The contract has substantive terms that preclude the property developer from being able to direct the property unit to another customer. The property developer does not consider the possibility of a contract termination by the customer in assessing whether the property developer is able to direct the asset to another customer.

In addition, the property developer has a right to payment for performance completed to date in the event that the customer defaults on its obligations, as the property developer would have an enforceable right to all of the consideration promised under the contract if the property developer continues to perform and delivers the property unit as promised.

Example 3:

The same facts in Example 2 apply to Example 3 except that in the event of a default by the customer, the property developer can either require the customer to perform as required under the contract or the property developer can cancel the contract. Upon cancellation of the contract, the ownership of the property unit reverts to the property developer and the property developer is entitled to a penalty of a proportion of the contract price as stated in the contract.

Analysis:

Notwithstanding that the property developer could cancel the contract (in which case the customer's obligation to the property developer would be limited to transferring control of the partially completed asset to the property developer and paying the penalty prescribed), the property developer has a right to payment for performance completed to date because the property developer could also choose to enforce its rights to full payment under the contract if the property developer continues to perform and delivers the property unit as promised. The fact that the property developer may choose to cancel the contract in the event the customer defaults on its obligations would not affect that assessment, provided that the property developer's rights to require the customer to continue to perform as required under the contract (i.e. pay the promised consideration) are enforceable. Accordingly, the property developer should recognise revenue over time.

Local environment adaptation

The terms of the sale and purchase agreements ("SPA") for sale of residential properties in Peninsula Malaysia by licensed housing developers is prescribed by the Housing Development (Control and Licensing) Regulations, 1989 ("HDR"). The SPAs, which are legislated agreements, cannot be amended except by the Controller of Housing.

The contract of "sell then build" is in the form prescribed in Schedule G (landed property) and Schedule H (strata-title property) of the HDR.

Can sale of properties pursuant to Schedule G or H of the HDR be recognised over time?

MIA FRSIC Draft Consensus D11 was released for comments in September 2014. The Draft Consensus proposes that the revenue from the sale of properties under Schedule G or Schedule H of the HDR can be recognised over time.

For sale of other real estate not governed under Schedule G or Schedule H of the HDR, the property developer needs to assess on a contract by contract basis to identify if any one of the three criteria for recognising revenue over time is met.

What about performance obligation satisfied at a point in time? When does control transfer?

Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

To determine when the customer obtains control and the property developer satisfies a performance obligation, the property developer should consider the following indicators:

- The property developer has present right to payment
- The property developer has transferred legal title to the asset
- The property developer has transferred physical possession of the asset
- The property developer has transferred the significant risks and rewards of ownership to the customer
- The customer has accepted the asset

Not all indicators need to be met in order for management to conclude that control has been transferred and revenue can be recognised. Management should practise significant judgement, based on the indicators collectively, to determine whether the customer has obtained control.

Measuring performance obligations satisfied over time

A property developer should measure progress toward satisfaction of a performance obligation that is satisfied over time using a single method that faithfully depicts the transfer of goods or services to the customer.

Methods that can be used to measure progress towards satisfaction of a performance obligation include:

- Output methods that recognise revenue on the basis of direct measurement of the value to the customer of the property developer's performance to date (for example, surveys of work performed to date, or contract milestones)
- Input methods that recognise revenue on the basis of the property developer's efforts or inputs to the satisfaction of a performance obligation (for example, cost incurred).

  The effects of any inputs that do not represent the transfer of goods or services to the customer, such as abnormal amounts of wasted materials or materials which have been delivered to site but not yet used, should be excluded from the measurement of progress.

The method selected should be applied consistently to similar performance obligations and in similar circumstances. Once the quantitative measure of progress of a performance obligation satisfied over time is determined, it shall be applied to the amount of transaction price allocated to the said performance obligation to determine the amount of revenue to be recognised.

Other considerations

Onerous performance obligations

FRS 201 requires any expected loss to be recognised as an expense immediately when the expected total costs exceed the total contract revenue. The new standard does not have the equivalent requirement. In assessing whether a contract becomes an onerous contract, the principle in FRS 137 "Provisions, Contingent Liabilities and Contingent Assets" is applied.

Joint arrangements

The new revenue standard applies to contracts with collaborators or partners if the collaborator or partner has contracted with the property developer to obtain goods or services that are an output of the property developer's ordinary activities in exchange for consideration. It excludes arrangements which the contracting parties are participating in an activity together to share the risks and benefits of that activity.

For example, a landowner that has signed an agreement with a developer of a joint property development project (which involves building a complex by the developer on the land and then sell land and building together after completion). Management would need to carefully analyse the terms of the arrangements to consider whether it is a joint arrangement (which is under the scope of MFRS11 "Joint Arrangements") or whether the landowner is in substance selling its land to the developer (i.e. the property developer is the customer to the landowner) or the property developer is merely providing a construction service to the landowner (i.e. the landowner is the customer to the property developer). Management will also need to evaluate whether the arrangement contains elements of both collaboration and a sale to a customer.

Disclosures

Extensive disclosures are required to provide greater insight into both revenue that has been recognised, and revenue that is expected to be recognised in the future from contracts with customers. In applying the new standard, information is required to be provided about the significant judgments and changes in those judgments that management made with customers.

The more significant disclosure requirements are as follows:

- a disaggregation of revenue into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors;
- information about a property developer's rights to consideration and obligations to transfer goods or services (also known as contract assets and contract liabilities, respectively) and when those rights and obligations convert to revenue, and, the reasons for changes in those balances during the period;
- quantitative or qualitative information about when remaining performance obligations are typically satisfied and the amount of the transaction price that is allocated to remaining performance obligations in the contract;
- explanation about how the timing of satisfaction of a property developer's performance obligation relates to the typical timing of payment and the effect that those factors have on the contract asset and contract liability balances; and
- more information about the estimates and judgements a property developer makes in determining the amount allocated to each performance obligation and timing of revenue recognised.

How does the new revenue standard affect your operations?

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, 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.

Tax and regulatory implications

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

Lack of documentation on judgements and estimates

Revenue recognition policies largely depend 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 is 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

Key performance indicators may need to be analysed

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

Financial disclosures may need to be enhanced

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

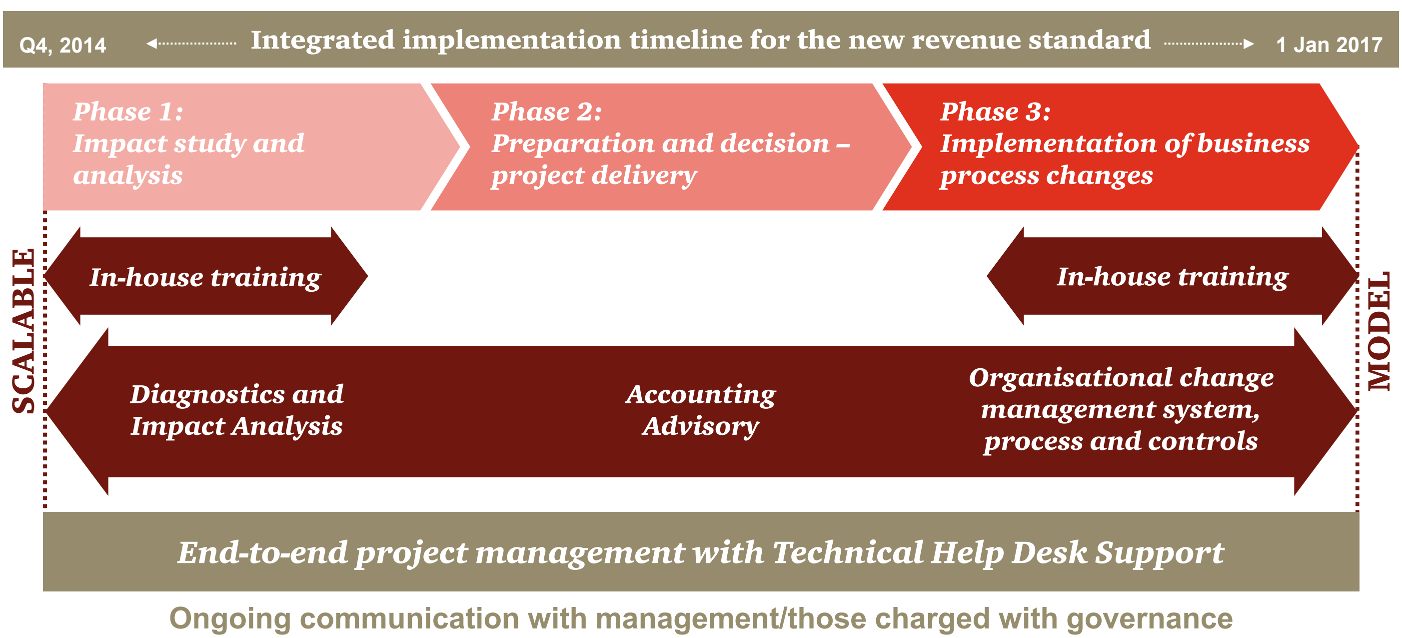
Investor relations plans need to be developed

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	• 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 in 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	• 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	• 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's 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	• Understand existing contractual arrangements • Identify separate performance obligations and incremental costs through the contracts review	
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) 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; − revision of bundling packages − fine tuning of existing contract templates and processes, 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. tax computation, budget and management report, etc.) • 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	

Notes

Let's talk

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