

Newsletter

IFRS Alert

IFRS 15 - Revenue from Contracts with Customers

March 2019





At a glance

IFRS 15 applies to financial periods beginning on or after 1 January 2018. All IFRS reporters are impacted by this new revenue. Some industries will experience greater changes than others. However, the impacts to your business, systems, data needs and financial reporting are expected to be far reaching. This alert serves as a reminder of how IFRS 15 would impact to your business.

- 1 IFRS 15 introduces a new 5-step model with a focus on when 'transfer of control' occurs (rather than when 'risk and rewards' are passed to customers)
- 2 The impact extends beyond accounting (e.g. contracts, executive compensation agreements, tax, debt covenants, investor relations, operational processes and systems, business models, pricing, etc.)

What are the key changes?

Superseded standards:

The new standard replaces the following standards and interpretations:

- IAS 18, Revenue
- IAS 11, Construction Contracts
- SIC-31, Revenue-Barter Transactions Involving Advertising Services

- IFRIC 13, Customer Loyalty Programmes
- IFRIC 15, Agreements for the Construction of Real Estate
- IFRIC 18, Transfers of Assets from Customers

1 One common model

IFRS 15 introduces a five-step model of revenue recognition applicable to all types of transactions and to all companies and industries.

2 When to recognize revenue

The basic principle of IFRS 15 is recognising revenue when the control over a product / service is transferred to customers. Control is a broader term than the previously used criterion of risk and rewards under IAS 18.

3 More guidance

IFRS 15 introduces guidance on variable considerations, payments to customers, significant financing components, etc

4 The use of judgement

Reporting entities will likely have to apply significant judgement when accounting for revenue under IFRS 15. Reporting entities will be required to present the key judgements made by management in applying the standard.

5 Disclosure

IFRS 15 has more explicit disclosure requirements than previous standards or interpretations on revenue recognition such as transition method, key judgments, disaggregation of revenue, etc.

What are the potential impacts on Vietnamese entities?

The industries that are likely to be affected include banking and securities, real estate, retail, wholesale and distributions, travel and hospitality, and telecommunications. Other business sectors may also be impacted. This is not purely a financial reporting matter. Entities will need to consider wider implications such as changes to key performance indicators, profits available for distributions, bonus schemes, borrowing covenants, capabilities of information systems, etc.

1. Banking & securities

- Pricing with variable amounts
- Costs related to obtaining contracts
- Allocation of revenue to goods and services
- Upfront fees
- Credit card loyalty schemes



2. Real estate

- Revenue recognised over time or at a point in time
- Significant financing component
- Changes/modifications of contracts
- Selling prices with variable amounts



3. Retail & wholesale

- Warranty coverage to customers
- Customer loyalty schemes
- Shipping terms' impact on timing of revenue recognition
- Customer options to acquire additional goods and services at a discount
- Slotting fees



4. Travel & hospitality

- Membership fees
- Breakage
- Licence agreements
- Incentive fees to hotel managers



5. Telecommunications

- Bundling of goods and services
- Contract modifications
- Sales commissions and success fees
- Financing components





Recommendations in a Vietnamese context

IFRS 15's impacts vary depending on which business sector or industry your entity operates in. Applying IFRS 15 requires a considerable amount of work by personnel across different functions such as financial reporting, sales and marketing, product development, treasury, IT technology, etc. Appropriate recognition and measurement of revenue is critical to stakeholders such as shareholders, creditors and regulators. Entities, therefore, need to invest resources to build up their IFRS 15 capabilities. Our experience has shown that success in applying IFRS 15 requires entity-wide efforts including participation from senior-level management.

Please talk to your consultants at the soonest possible about how the new standard will impact your people, processes and systems, and financial and non-financial information. While this discussion must be practical in terms of what can and cannot be carried out, it needs to revolve around the transition and investment your company will need to make to be able to substantially apply the new standard.

Please feel free to reach out to us if you have any questions about IFRS 15. We are keen to share with you our to-date experience.

Contact us

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. For further information, please reach out to us.



Tran Hong Kien
Assurance Partner

 +84 24 3946 2232

 kien.tran.hong@pwc.com



Pham Thai Hung
Assurance Director

 +84 28 3823 0796, Ext. 4010

 pham.thai.hung@pwc.com

www.pwc.com/vn



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