TFRS 15
Ready for the Challenges

AC Forum
KPMG in Thailand
New accounting standards - Timeline

**TFRS 15:** Revenue from Contracts with Customers
TFRS 9: Financial Instruments  
TFRS 16: Leases
TFRS 15
Revenue from Contracts with Customers

Five-step Model

Presentation & Disclosure

Transition

Preparation for Year End
Five-step Model

What’s new

Many standards
TAS 18, 11 & Others  ➔  One standard
apply to all industries

Risk & Reward
model  ➔  Control model

Sales or services  ➔  Overtime or
Point in time

Limited disclosure  ➔  More detailed
disclosure

- Revenue recognition may be accelerated
  or deferred
- New estimates and judgements will be required
- Significant impact when sells bundling products,
  or when engages in major project
  – e.g. real estate

5-Step Model

Step 1:
Identify the contract with a customer

Contract
(or combined contracts)

Step 2:
Identify the performance
obligations in the contract

Performance
Obligation (PO) 1

Performance
Obligation (PO) 2

Step 3:
Determine the transaction price

Transaction price for the
contract

Step 4:
Allocate the transaction price to the
performance obligations in the contract

Transaction price
allocated to PO1

Transaction price
allocated to PO2

Step 5:
Recognize revenue when (or as)
satisfies a performance obligation

Recognize
revenue

Recognize
revenue
Variable consideration can be

- Discounts
- Rebates
- Rights of return
- Incentives
- Performance bonuses
- Credits
- Penalties
- Many more...

If the contract price contains variable consideration, have you decided on the estimation method and applied the constraint? Could there be a significant revenue reversal?

Expected value or most likely amount.
Variable consideration

Sales with a right of return

Does your accounting policy for sales with a right of return meet the requirements of IFRS 15?

When an entity makes a sale with a right of return it recognises...

Revenue net of expected returns

Liability for expected returns

Asset for carrying amount of expected returns less recovery costs

Expected returns are estimated using the variable consideration guidance
Example of impact on FS

Sales with a right of return

<table>
<thead>
<tr>
<th>PL</th>
<th>TAS 18</th>
<th>TFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>100</td>
<td>Sales</td>
</tr>
<tr>
<td>Less: sales return</td>
<td>(20)</td>
<td>Less: sales return</td>
</tr>
<tr>
<td>Total sales</td>
<td>80</td>
<td>Total sales</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(50)</td>
<td>Cost of sales</td>
</tr>
<tr>
<td>Less: asset</td>
<td>10</td>
<td>Total cost</td>
</tr>
<tr>
<td>Total cost</td>
<td>(50)</td>
<td>Gross profit</td>
</tr>
<tr>
<td>Gross profit</td>
<td>30</td>
<td>Gross profit</td>
</tr>
</tbody>
</table>

Balance sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Accounts payable (xx)</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>xx</td>
</tr>
<tr>
<td>Refund liabilities (20)</td>
<td></td>
</tr>
<tr>
<td>Contract assets</td>
<td>Other payables (xx)</td>
</tr>
<tr>
<td>10</td>
<td>Other current liabilities (xx)</td>
</tr>
<tr>
<td>Other current assets</td>
<td>xx</td>
</tr>
</tbody>
</table>
Disclosure objective

Disclose quantitative and qualitative information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.
Disaggregation of revenue

Quantitative disclosure

- Type of good or service
- Market or type of customer
- Geography
- Type of contract
- Contract duration
- Timing of transfer of goods or services
- Sales channels
Example - Disaggregation of revenue

Notes to the consolidated financial statements (extract)

1. Revenue (continued)

C. Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group’s four strategic divisions, which are its reportable segments (see Note 3). A, B

<table>
<thead>
<tr>
<th>Reportable segments</th>
<th>Telecom – EU</th>
<th>Telecom – Non-EU</th>
<th>SATCOM – Government</th>
<th>SATCOM – Non-government</th>
<th>Total reportable segments</th>
<th>All other segments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary geographical markets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe</td>
<td>44,118</td>
<td>42,800</td>
<td>-</td>
<td>-</td>
<td>12,498</td>
<td>17,361</td>
<td>59,528</td>
</tr>
<tr>
<td>North America</td>
<td>-</td>
<td>-</td>
<td>22,053</td>
<td>22,956</td>
<td>10,045</td>
<td>10,641</td>
<td>33,454</td>
</tr>
<tr>
<td>Asia</td>
<td>-</td>
<td>-</td>
<td>18,314</td>
<td>14,847</td>
<td>-</td>
<td>4,699</td>
<td>23,013</td>
</tr>
<tr>
<td></td>
<td>44,118</td>
<td>42,800</td>
<td>40,367</td>
<td>37,803</td>
<td>22,543</td>
<td>28,002</td>
<td>115,995</td>
</tr>
<tr>
<td>Major products/service lines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile devices</td>
<td>15,487</td>
<td>15,137</td>
<td>14,296</td>
<td>14,139</td>
<td>-</td>
<td>-</td>
<td>29,783</td>
</tr>
<tr>
<td>Mobile telecommunications service</td>
<td>27,213</td>
<td>26,551</td>
<td>24,911</td>
<td>22,604</td>
<td>-</td>
<td>-</td>
<td>52,124</td>
</tr>
<tr>
<td>Extended warranty</td>
<td>1,228</td>
<td>997</td>
<td>1,101</td>
<td>979</td>
<td>-</td>
<td>2,329</td>
<td>1,976</td>
</tr>
<tr>
<td>SATCOM products</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21,341</td>
<td>27,016</td>
<td>8,422</td>
<td>8,155</td>
</tr>
<tr>
<td>Other</td>
<td>190</td>
<td>115</td>
<td>59</td>
<td>81</td>
<td>1,202</td>
<td>986</td>
<td>545</td>
</tr>
<tr>
<td></td>
<td>44,118</td>
<td>42,800</td>
<td>40,367</td>
<td>37,803</td>
<td>22,543</td>
<td>28,002</td>
<td>115,995</td>
</tr>
</tbody>
</table>

Timing of revenue recognition

Products transferred at a point in time

Products and services transferred over time

* The Group has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 4.
Example - Contract balances

Guide to annual financial statements – IFRS 15 supplement

1. Revenue (continued)

D. Contract balances

The following table provides information about receivables, contracts assets and contract liabilities from contracts with customers.\(^a\)

<table>
<thead>
<tr>
<th>In thousands of euro</th>
<th>31 December 2015</th>
<th>31 December 2014 Restated*</th>
<th>1 January 2014 Restated*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables, which are included in 'Trade and other receivables'(^b)</td>
<td>12,615</td>
<td>10,654</td>
<td>10,485</td>
</tr>
<tr>
<td>Contract assets</td>
<td>721</td>
<td>1,681</td>
<td>1,573</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>(5,567)</td>
<td>(5,202)</td>
<td>(5,140)</td>
</tr>
</tbody>
</table>

The amount of revenue recognised in 2015 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion of SATCOM contracts with government, is €265 thousand (2014: €105 thousand).
Transition options?

- Full retrospective
  - Enhanced comparability
  - Need to look at all contracts – i.e. closed and open contracts under current GAAP
  - Requires more historical information

- Retrospective with practical expedient

- Cumulative effect
  - Reduced comparability, dual reporting in year of initial application
  - Only need to look at contracts open under current GAAP – not all contracts
  - Requires less historical information

Implementation consideration

- Sales schemes may change?
- Tax implication?
- IT system?
Next Step & Management Support

1. Communicate new accounting policy & process to all entities

2. Gather data & Calculate impact adjustment for the opening balance of retained earning (1 Jan 18/19)
   ** If there’s no significant change & adjustment, the facts should be disclosed **

3. Prepare new disclosures for Q1’19 FS & consider which level of commercially sensitive information should be disclosed
   ** Need support information from other departments **
   - Marketing, IT, etc...

4. Prepare information to communicate to all stakeholders + Prepare MD&A for Q1’19

5. Business As Usual: Inform accounting department if there’s new revenue schemes or any discount/incentive provided to customers
TFRS 15 not yet adopted disclosure

If that impact is not known or reasonably estimable, a statement to that effect

Types of disclosure - FS illustrative

Either: 1) During the process to assessed the impact

Management is presently considering the potential impact of adopting and initially applying TFRS 15 on the [*consolidated and separate] financial statements. [*amend as appropriated]

Or: 2) complete assessment and found no material impact

The [Group/Company] has made a preliminary assessment of the potential impact of adopting and initially applying TFRS 15 on the [*consolidated and separate] financial statements and expects that there will be no material impact on the [*consolidated and separate] financial statements in the period of initial application. [*amend as appropriated]

Or: 3) complete assessment and found material impact, please discuss with DPP.
Disclosure examples (partial)

Source: Financial statement of Rolls-Royce for the year ended 31 December 2017

Source: Financial statement of Kingfisher PCL for the year ended 31 January 2017

Source: Financial statement of Prudential PCL for the year ended 31 December 2017
Disclosure examples (partial)

3 Changes in accounting policy and disclosures

Impact of new International Financial Reporting Standards
The Group has adopted IAS 7 (Amendment) ‘Statement of cash flows’ for the first time in the year ended 31 December 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group has addressed this requirement by providing a reconciliation between the opening and closing balances of long-term borrowings (see note 24f).

Other amendments adopted for the first time in the year ended 31 December 2017 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.

New standards, amendments and interpretations not yet effective
The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

The Group has identified the following changes to revenue recognition on adoption of IFRS 15: Revenue from Contracts with Customers:

- Passenger revenue – revenue associated with ancillary services that is currently recognised when paid, such as administration fees, will be deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue will be presented gross rather than net of related costs as BA is considered to be principal rather than agent in these transactions.
- Other revenue – revenue associated with holiday revenue with performance obligations that are fulfilled over time, will be deferred (with the related costs) and recognised over the performance obligation period.

The Group expects to apply the standard on a fully retrospective basis. On adoption of the standard, the adjustment to retained earnings as at 1 January 2017 is expected to be a charge of £12 million. For the year ended 31 December 2017, adjustments to reflect the new standard are expected to be: increase to revenue £46 million; and increase to operating costs £50 million, resulting in a reduction in operating profit of £4 million. As at 31 December 2017, current assets will have no impact and current liabilities will increase by £19 million.

Source: British Airways Plc, Annual Report and Accounts Year ended 31 December 2017
Disclosure examples (partial)

Source: Financial statement of Vodafone Group PCL for the year ended 31 March 2017

**IFRS 15 “Revenue from Contracts with Customers”**

IFRS 15 “Revenue from Contracts with Customers”, which has been endorsed by the EU, was issued in May 2014 and subsequent amendments, “Clarifications to IFRS 15”, which have not yet been endorsed by the EU, were issued in April 2016. IFRS 15, as amended, is effective for accounting periods beginning on or after 1 January 2018. IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements; it will have a material impact on the Group’s reporting of revenue and costs as follows:

- IFRS 15 will require the Group to identify deliverables in contracts with customers that qualify as separate “performance obligations”. The performance obligations identified will depend on the nature of individual customer contracts, but might typically be identified for mobile handsets, other equipment provided to customers and for services provided to customers such as mobile and fixed line communications services. The transaction price receivable from customers must be allocated between the Group’s performance obligations under the contracts on a relative stand-alone selling price basis. Revenue will then be recognised either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer. Stand-alone selling prices will be based on observable sales prices; however, where stand-alone selling prices are not directly observable, estimates of stand-alone selling prices will be required which will maximise the use of observable inputs.

- Currently revenue allocated to deliverables is restricted to the amount that is receivable without the delivery of additional goods or services; this restriction will no longer be applied under IFRS 15. The primary impact on revenue reporting will be that when the Group sets subsidised devices together with airtime service agreements to customers, revenue allocated to equipment and recognised at contract inception, when control of the device typically passes to the customer, will increase and revenue subsequently recognised as services are delivered during the contract period will reduce. Where additional upfront unbilled revenue is recorded for the sale of devices, this will be reflected in the consolidated statement of financial position as a contract asset.

- Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer will be deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees.

- Certain costs incurred in fulfilling customer contracts will be deferred on the consolidated statement of financial position under IFRS 15 and recognised as revenue when recognised under the contract. Such deferred costs are likely to relate to the provision of deliverables to customers that do not qualify as performance obligations and for which revenue is not recognised; currently such costs are generally expensed as incurred.

The impact of the changes above on the Group’s reportable segments will depend largely on the extent to which customers receive discounted goods or services, such as mobile handsets, when they enter into airtime service agreements with the Group in the relevant markets. The combined impact of the changes is expected to increase the gross profit, or reduce the gross loss, recorded at inception on many customer contracts; in such cases, this will typically reduce the gross profit reported during the remainder of the contract however, these timing differences will not impact the total gross profit recorded for a customer contract over the contract term.

The transactions impacted by IFRS 15 are high in volume, value and complexity, therefore the Group is continuing to assess the impact of these and other accounting changes that will arise under IFRS 15 and cannot reasonably estimate the impact; however, the changes highlighted above will have a material impact on the consolidated income statement and consolidated statement of financial position after the Group adopts IFRS 15 on 1 April 2018. The Group expects to be in a position to estimate the impact of IFRS 15 early in the first quarter of the year commencing 1 April 2018.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 15 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period. The Group will reflect the cumulative impact of IFRS 15 in equity on the date of adoption.

Source: Consolidated Financial statement of Nestle Group 2017

**Changes in accounting standards that may affect the Group after 31 December 2017**

The following new accounting standards, interpretations and amendments to existing standards have been published and are mandatory for the accounting period beginning on 1 January 2018 or later. The Group has not yet adopted them.

IFRS 15 — Revenue from Contract with Customers

This standard combines, enhances and replaces specific guidance on recognising revenue with a single standard. It defines a new five-step model to recognise revenue from customer contracts. The Group has undertaken a review of the main types of commercial arrangements used with customers under this model and has tentatively concluded that the application of IFRS 15 will not have a material impact on the consolidated results or financial position. The effects identified so far are as follows:

i) a small proportion of sales (less than 0.5% of annual sales) is expected to be recognised on average 2 days later under the new standard, but the impact at the end of the period is compensated by a similar effect at the start of the year leading to a net nil impact at Group level;

ii) an estimated amount of CHF 0.2 billion in payments to customers currently treated as distribution costs would be reclassified as deductions from sales under the new standard.

This standard is mandatory for the accounting period beginning on 1 January 2018. The Group is planning to apply the standard retrospectively, utilising the practical expedient to not restate contracts that begin and end within the same annual accounting period.
Thank you

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