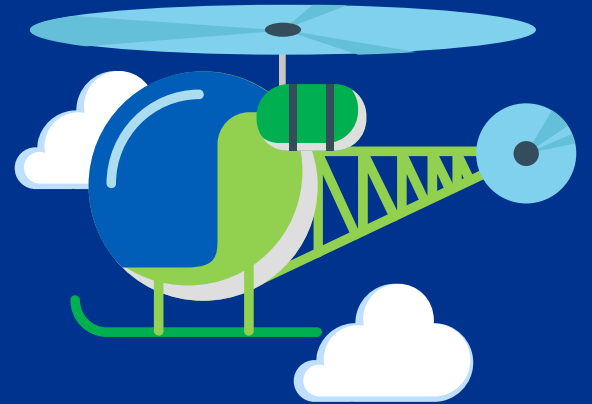




Aerospace and defence



IFRS 15 Revenue – Are you good to go?

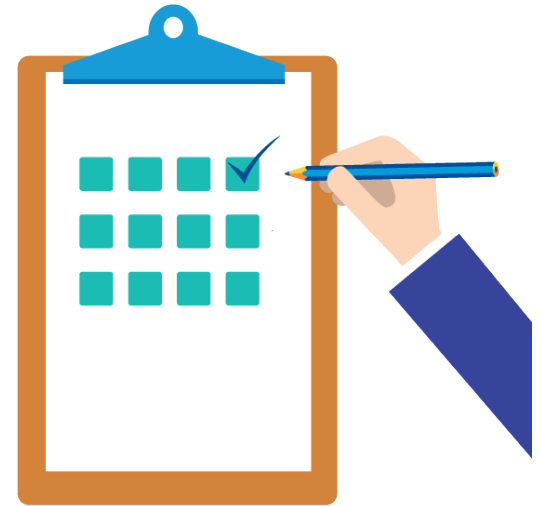
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Are you good to go?

IFRS 15 will change the way many aerospace and defence companies account for their contracts.

To help you drive your implementation project to the finish line, we've pulled together a list of key considerations that many aerospace and defence companies need to focus on.



**For each of the following,
documenting your analysis
and the conclusions drawn
will be essential**



Contract existence

Do your agreements meet the **contract existence criteria**?

Generally, you can only recognise revenue from a contract once all these criteria are met

Collection of consideration is probable

Contract has commercial substance

Identifiable rights and payment terms

Approved and parties committed to obligations

Think about...

MSAs | Government approvals | Unfunded contracts | Termination clauses

Combining contracts

Do you enter into multiple contracts with the same or related parties – e.g. government entities?

Contracts are combined if:

- entered into at or near the same time with the same customer; and
- any one of these criteria are met...



**Price
interdependent**



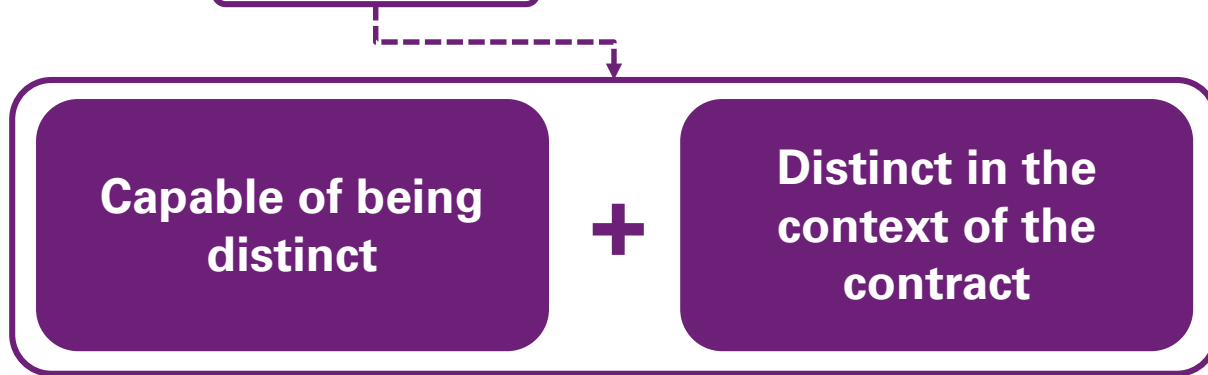
**Single performance
obligation**



**Single commercial
objective**

Distinct goods and services

Do several goods and services promised in the contract meet the new **'distinct' test** to be accounted for separately?



Think about...

Spare parts | Multi-unit contracts | Warranties | Integration services | Offset obligations

Series of distinct goods

Do your **contracts for multiple units** meet the 'series' requirements?



The series guidance may bring forward revenue recognised in cases of 'learning curve costs'

Over-time recognition

Meeting the definition of a construction contract is no longer a reason to use **percentage of completion accounting**

Instead, assess whether **one of these three criteria are met**

Customer consumes benefits as entity performs

e.g. training services

Customer controls asset as it's created

e.g. refurbishing a customer's aircraft

Asset has no alternative use and right to payment exists

e.g. built-to-order satellite

Work in progress

Does your accounting policy for work in progress meet the requirements of IFRS 15?



You'll need to...

Capitalise amounts related to future performance



You can no longer...

Recognise work in progress as a balance sheet 'true up' to ensure a smooth profit margin

Measure of progress

Do you use the units of production or units of delivery methods to recognise revenue?

? Only permissible if...

They do not give rise to material amounts of WIP controlled by the customer



Alternative measures include cost-to-cost method and surveys of construction

Variable consideration

If the contract price contains variable consideration, have you decided on the **estimation method** and applied the **constraint**?

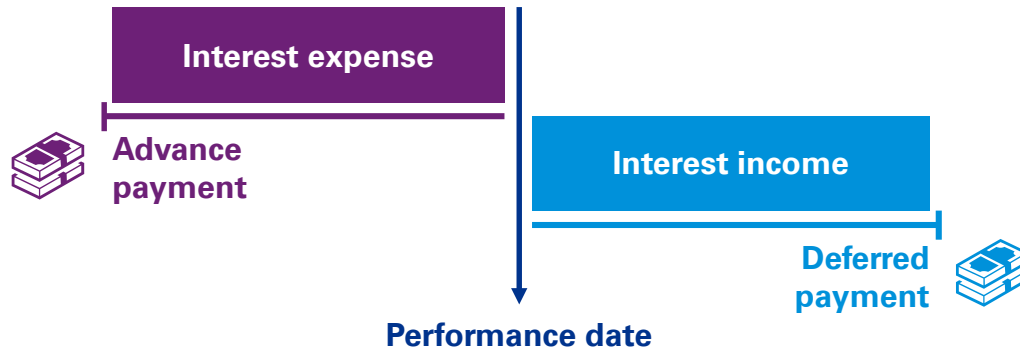


For example...

Penalties | Cost escalation clauses | Completion and performance bonuses

Significant financing components

Do deferred or advance payment terms in your contracts give rise to a significant financing component?



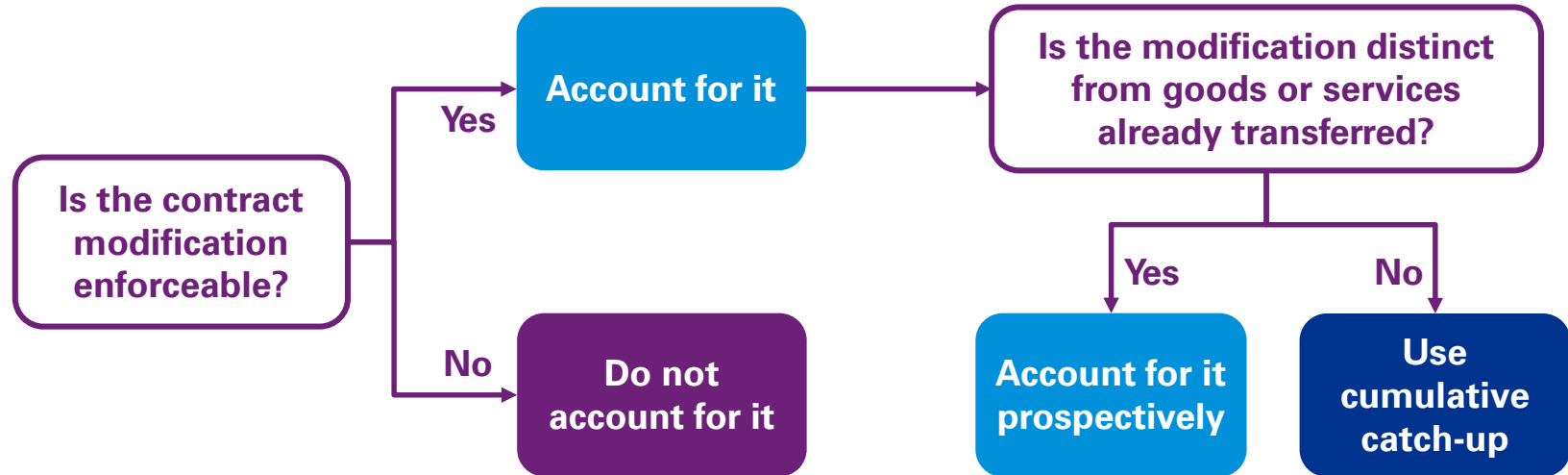
Practical expedient – No need to recognise if period between payment and performance is < 1 year



Adjustments for financing components will be more common

Claims and variations

Can your internal controls identify contract modifications accounted for **prospectively**?



Loss-making contracts

There is no specific guidance in IFRS 15 on accounting for loss-making contracts

You are now required to assess losses at the contract level using the onerous contract guidance in IAS 37



Transition adjustments

Have you **identified all** of the areas where **differences** exist between **IFRS 15** and your **existing accounting**?



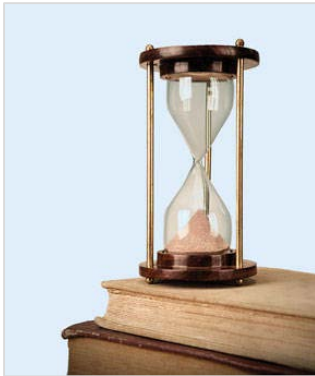
Use the helpful guidance in our *Transition Options* and *Issues In-Depth* publications



IFRS 15 is more detailed than the existing revenue requirements, so you may find unexpected changes in your accounting

Disclosure requirements

Have you identified the additional information and processes needed to meet the disclosure requirements?



Read our *Guide to annual financial statements – IFRS 15 supplement*



Under IFRS 15, you'll need to provide more detailed information about contract terms, as well as how and when you recognise revenue

Checklist of actions

Have you...?	<input checked="" type="checkbox"/>	Have you...?	<input checked="" type="checkbox"/>
Determined whether your agreements meet the contract existence criteria ?	<input type="checkbox"/>	Revised your estimates of variable consideration elements?	<input type="checkbox"/>
Assessed whether you need to combine multiple contracts with the same party?	<input type="checkbox"/>	Identified and calculated any significant financing components ?	<input type="checkbox"/>
Determined whether your contracts include more than one performance obligation ?	<input type="checkbox"/>	Documented your accounting policy for claims and variations ?	<input type="checkbox"/>
Decided how you will account for series of distinct goods ?	<input type="checkbox"/>	Assessed your loss-making contracts using the guidance in IAS 37?	<input type="checkbox"/>
Identified contracts that meet the criteria for over-time recognition ?	<input type="checkbox"/>	Identified and quantified your transition adjustments ?	<input type="checkbox"/>
Checked that your accounting policy for work in progress meets IFRS 15's requirements?	<input type="checkbox"/>	Identified the additional information needed to meet the disclosure requirements ?	<input type="checkbox"/>
Selected your measure of progress for contracts recognised over time?	<input type="checkbox"/>		

How did you do?

**How many of our 13 questions
have you answered 'yes'?**

All 13 – You're good to go!

7-12 – You're on your way

0-6 – You really need to engage



Don't forget the broader business impacts



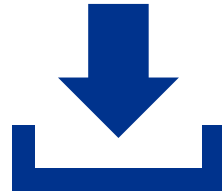
Have you...

- updated your management reporting, including KPIs?
- developed a transition plan for parallel runs, including reconciliations?
- thought about the tax implications?
- calculated the impact on bonus schemes?
- compared your approach with peers?

Find out more



**Talk to your
usual KPMG
contact**



**Use our
Transition
toolkit**



**Follow the
discussion on
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