



# Real estate developers

IFRS 15 Revenue – Are you good to go?

April 2017

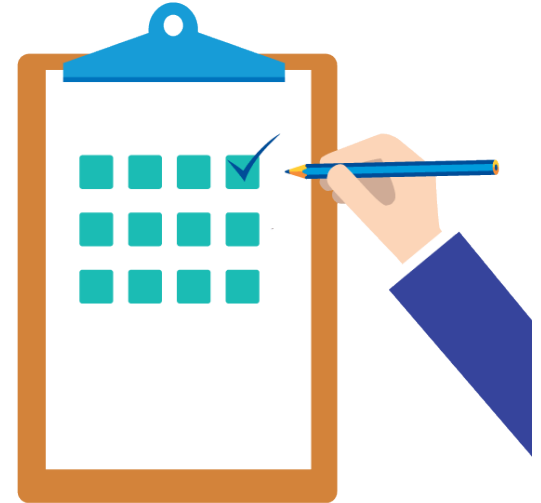
[kpmg.com/ifrs](http://kpmg.com/ifrs)



# Are you good to go?

IFRS 15 will change the way many real estate developers account for sales contracts.

To help you drive your implementation project to the finish line, we've pulled together a list of key considerations that all real estate developers need to focus on.



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



# Assessing collectibility

Have you evaluated how **assessing collectibility** will impact your revenue recognition?

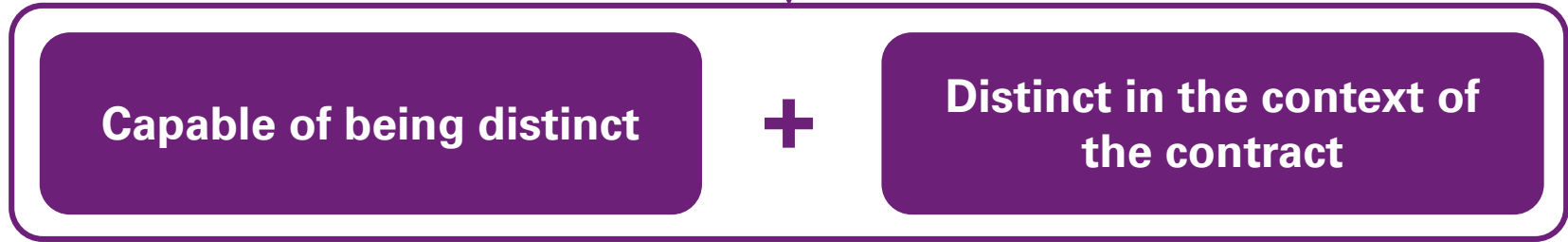
You generally can't recognise revenue from a contract until **collection is considered probable**



Under IFRS 15, collectibility is *assessed up-front* rather than *when deciding whether to recognise revenue*

# Performance obligations

Do land, buildings and other elements of your contracts meet the new **'distinct' test** to be accounted for separately?



**Think about...**

**Common areas | Car parks | Management services | Golf memberships**

# Over-time recognition

**Do your sales contracts meet one of the three criteria that require revenue to be recognised over time – i.e. percentage of completion?**

**Customer consumes benefits as entity performs**

**e.g. management services**

**Customer controls asset as it's created**

**e.g. building on customer land**

**Asset has no alternative use and right to payment exists**

**e.g. off-plan apartment sales**

# 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

**Does the measure of progress you've chosen depict performance under the contract?**

Use either

**Output method**

e.g. survey of construction

or

**Input method**

e.g. cost-to-cost method



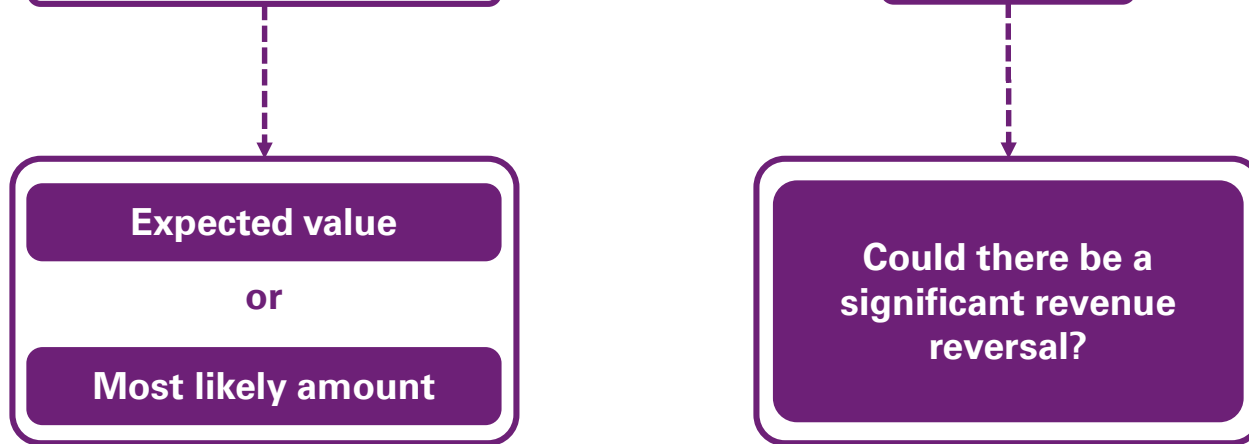
**Have you considered the impact on cost accounting?**

e.g. uninstalled materials, wastage



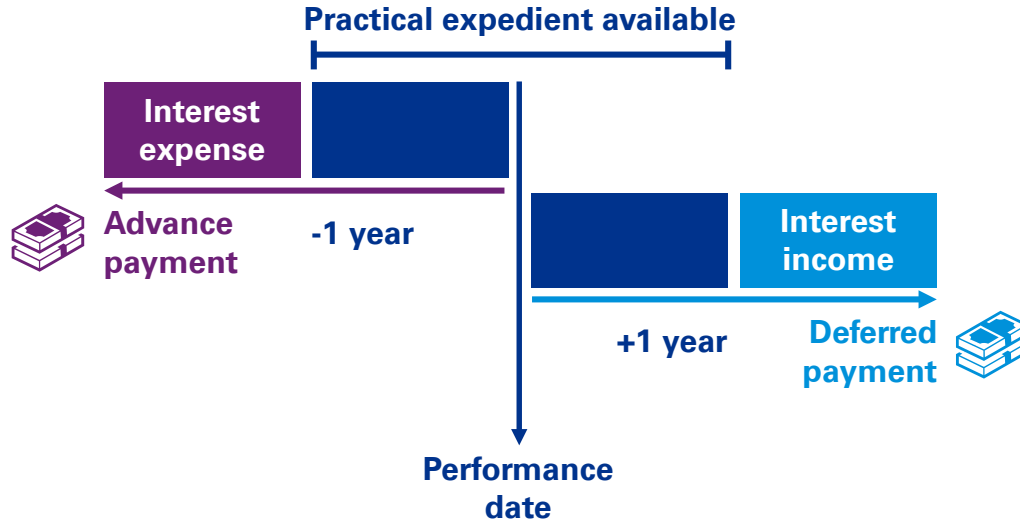
# Variable consideration

For completion and occupancy bonuses, have you decided on the **estimation method** and applied the **constraint**?



# Significant financing components

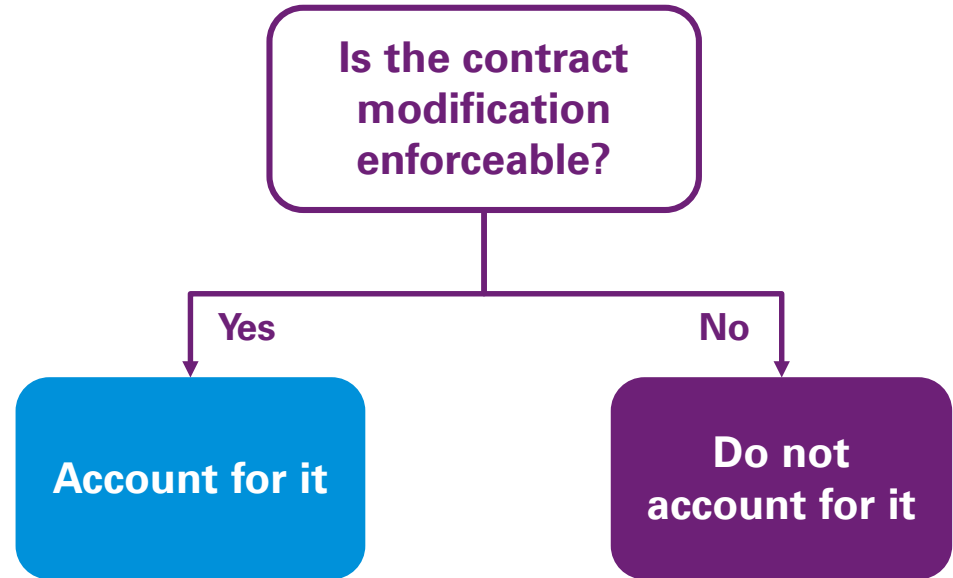
**Do deferred or advance payment terms in your contracts give rise to a significant financing component?**



**Calculations can be complex, especially for contracts recognised over time**

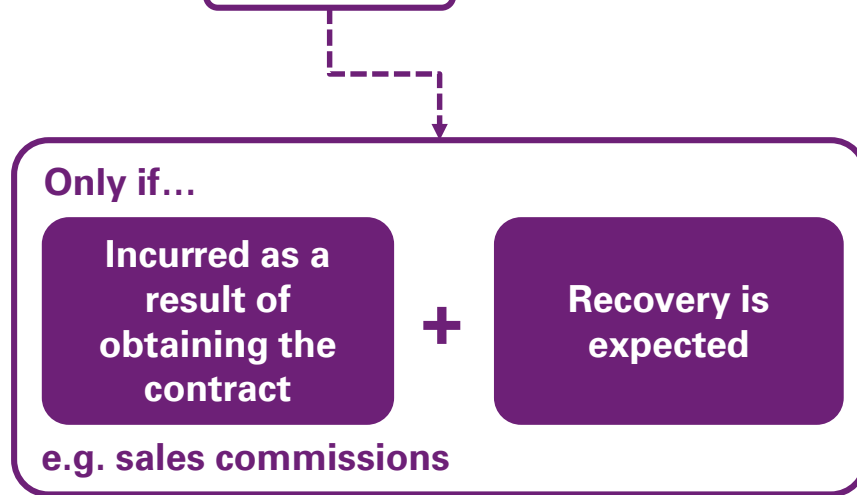
# Claims and variations

**Does your accounting policy reflect the enforceability requirement for contract modifications?**



# Costs of obtaining contracts

Will you **capitalise** or expense your sales and marketing costs?



**Generally, sales and marketing costs are expensed as incurred**



**Practical expedient – Expense costs as incurred if amortisation period < 1 year**

# 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"/>
Evaluated the impact of <b>assessing collectibility</b> of consideration?	<input type="checkbox"/>
Determined whether contracts include <b>more than one performance obligation</b> – e.g. land, common areas and car parks?	<input type="checkbox"/>
Identified contracts that meet the criteria for <b>over-time recognition</b> ?	<input type="checkbox"/>
Checked that your accounting policy for <b>work in progress</b> meets IFRS 15's requirements?	<input type="checkbox"/>
Selected the <b>measure of progress</b> for contracts recognised over time?	<input type="checkbox"/>

Have you...?	<input checked="" type="checkbox"/>
Revised your estimates of <b>variable consideration</b> elements – e.g. completion and occupancy bonuses?	<input type="checkbox"/>
Identified and calculated any <b>significant financing components</b> ?	<input type="checkbox"/>
Documented your accounting policy for <b>claims and variations</b> ?	<input type="checkbox"/>
Decided whether you will capitalise any of your <b>sales and marketing costs</b> ?	<input type="checkbox"/>
Identified and quantified your <b>transition adjustments</b> ?	<input type="checkbox"/>
Identified the additional information needed to meet the <b>disclosure requirements</b> ?	<input type="checkbox"/>

# How did you do?

**How many of our 11 questions  
have you answered 'yes'?**

**All 11 – You're good to go!**

**5-10 – You're on your way**

**0-4 – You really need to engage**





# Don't forget the broader business impacts



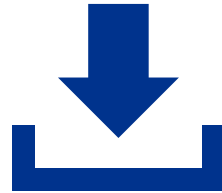
## Have you...

- 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  
LinkedIn**



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)

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