Technology

IFRS 15 Revenue – Are you good to go?

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Are you good to go?

IFRS 15 will change the way many technology 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 technology companies need to focus on.
For each of the following, documenting your analysis and the conclusions drawn will be essential.
Performance obligations

Do any of the goods or services promised in the contract meet the new ‘distinct’ test to be accounted for separately?

Think about…
Licences | Customisation | Installation | Cloud services | Customer support | Updates
Licences of intellectual property

How and when will you **recognise licence revenue?**

- **Is the licence distinct?**
  - Yes
    - Use licence guidance
    - Will the software be used in its current form?
      - Yes
        - Point-in-time recognition
      - No
        - Over-time recognition
  - No
    - Apply general guidance

Think about…

**Software: Is it complete or does it require constant updates?**
Royalty arrangements for licences

Do your royalty arrangements qualify for the royalty exception?

Does the royalty relate only or predominantly to a licence for IP?

Yes

Is it sales- or usage-based?

No

No

Yes

Exception applies – Recognise revenue as sales or usage occurs

Apply general guidance

Think about…

Tiered royalties | Royalties with a guaranteed minimum
Variable consideration and customer options

Have you decided whether your arrangements include variable consideration or customer options?

<table>
<thead>
<tr>
<th>Variable consideration</th>
<th>Customer option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Include an estimate of expected future purchases in the transaction price</td>
<td>Exclude consideration from exercise of the option from the transaction price</td>
</tr>
</tbody>
</table>

Think about...
Processing fees  |  Transaction fees  |  Price concessions  |  Discounts  |  Refunds
Allocating the transaction price

How will you determine the stand-alone selling prices of your performance obligations and allocate the transaction price?

Is the price directly observable?

Yes

Use observable price

No

Estimate

Estimation methods include
- Adjusted market assessment
- Cost plus
- Residual value

Think about...

Selling price of licences | Allocation of discounts and variable consideration
Timing of revenue recognition

Will there be any changes to the timing of your revenue recognition?

Revenue is recognised...

- At the point in time when the customer obtains control
- Over time if specific criteria are met

Think about...

Customisation | Access keys | Hosting services | Licence renewals | Customer support

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Measure of progress

Have you determined a **single measure of progress** for the performance obligations satisfied over time?

**Input method**
- Costs incurred
- Labour hours

**Output method**
- Milestones reached
- Time elapsed

Think about…
Customised software | Outsourcing arrangements | Anti-virus software
Does your accounting policy for contract costs meet the requirements of IFRS 15?

You’ll need to...

- Capitalise costs...
  - incremental to obtaining a contract
    - e.g. sales commissions
  - related to future performance

You can no longer...

- Recognise work in progress as a balance sheet ‘true up’ to ensure a smooth profit margin

Think about...

- Renewal commissions
- Customisation costs including licences
- Set-up costs
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

<table>
<thead>
<tr>
<th>Have you...?</th>
<th>✓</th>
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</thead>
<tbody>
<tr>
<td>Determined whether your contracts include more than one performance obligation?</td>
<td></td>
</tr>
<tr>
<td>Determined how to account for your licences of intellectual property?</td>
<td></td>
</tr>
<tr>
<td>Assessed whether your royalty arrangements qualify for the royalty exception?</td>
<td></td>
</tr>
<tr>
<td>Assessed whether your contracts include variable consideration or customer options?</td>
<td></td>
</tr>
<tr>
<td>Determined the stand-alone selling prices of your performance obligations and allocated the transaction price?</td>
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<th>Have you...?</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessed whether the timing of your revenue recognition will change?</td>
<td></td>
</tr>
<tr>
<td>Selected your measure of progress for contracts recognised over time?</td>
<td></td>
</tr>
<tr>
<td>Decided which contract costs you will capitalise?</td>
<td></td>
</tr>
<tr>
<td>Identified and quantified your transition adjustments?</td>
<td></td>
</tr>
<tr>
<td>Identified the additional information needed to meet the disclosure requirements?</td>
<td></td>
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</table>
How did you do?

How many of our 10 questions have you answered ‘yes’?

All 10 – You’re good to go!
6-9  – You’re on your way
0-5 – 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