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Automotive suppliers

IFRS 15 Revenue – Are you good to go?

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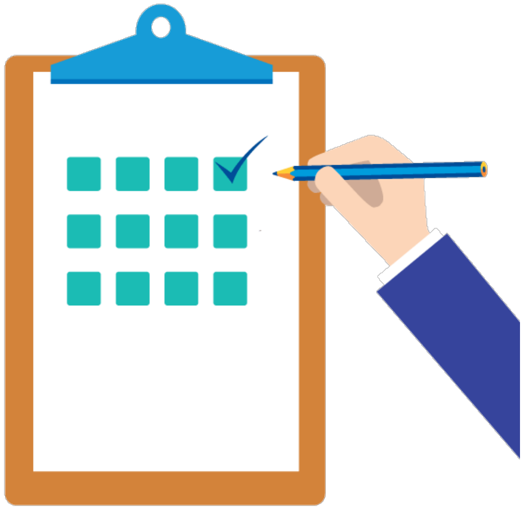
Are you good to go?

IFRS 15 may change the way many automotive suppliers account for different stages of their projects, such as framework agreements, tooling arrangements, serial production and subsequent contract modifications.

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



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

Nomination fees

Should payments to customers made during the tender process be netted against revenue?

A payment to a customer that is not for a distinct good or service is netted against revenue…

… at the later of when you…

- **recognise revenue for related goods or services, or**
- **pay, or promise, the amount**

Think about…

Payments made before a contract exists

Framework agreements

Do your framework agreements meet the contract existence criteria?

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

- Collection of consideration is probable
- Contract has commercial substance
- Rights and payment terms are identified
- Approved and parties committed to obligations

Think about…

Master service agreements (MSAs) | Tooling arrangements | Subsequent purchase orders

Pre-production engineering

How will you account for your engineering and development activities?

The accounting will depend on the scope of your activities

- **Collaborative arrangement**
- **Promised service**
- **Intangible asset/ fulfilment costs**

Think about…

Who develops the intellectual property | Who controls the intellectual property

Tooling

Have you determined the accounting treatment for tools manufactured?

- **Sale?**
- **Lease?**
- **Property, plant and equipment?**

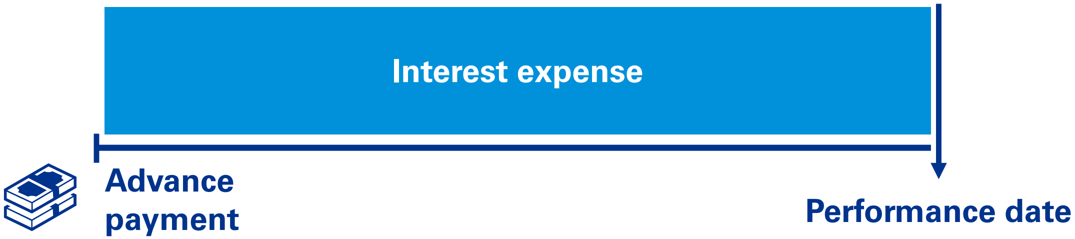
Think about…

Who develops them | Who owns them | Who directs their use

Tooling arrangements vary and need to be analysed on a case-by-case basis

Financial assistance by car makers

Do 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

If the timing of performance is at the customer's discretion, then there is no significant financing component

Pricing arrangements

Do you need to defer revenue because promised price reductions and cross-subsidies give rise to material rights?

A material right is an option to acquire additional goods or services…

Obtained by entering into the original contract + **At a price lower than their stand-alone selling prices**

Think about…

Efficiency savings passed on to a customer | Replacement tools | Other discounts

Production phase - Over-time vs point-in-time

Some of your production orders or services may qualify for percentage of completion accounting

You'll need to assess whether one of these three criteria are met

Customer consumes benefits as entity performs	Customer controls asset as it's created	Asset has no alternative use and right to payment exists
e.g. engineering services	e.g. modifying parts owned by car makers	e.g. serial production of built-to-order parts

Production phase - Serial production

Do your contracts for multiple units of similar parts or components meet the ‘series’ requirements?

A series of distinct goods are accounted for as a single performance obligation if each good…

Is substantively the same

+

Meets the over-time recognition criteria

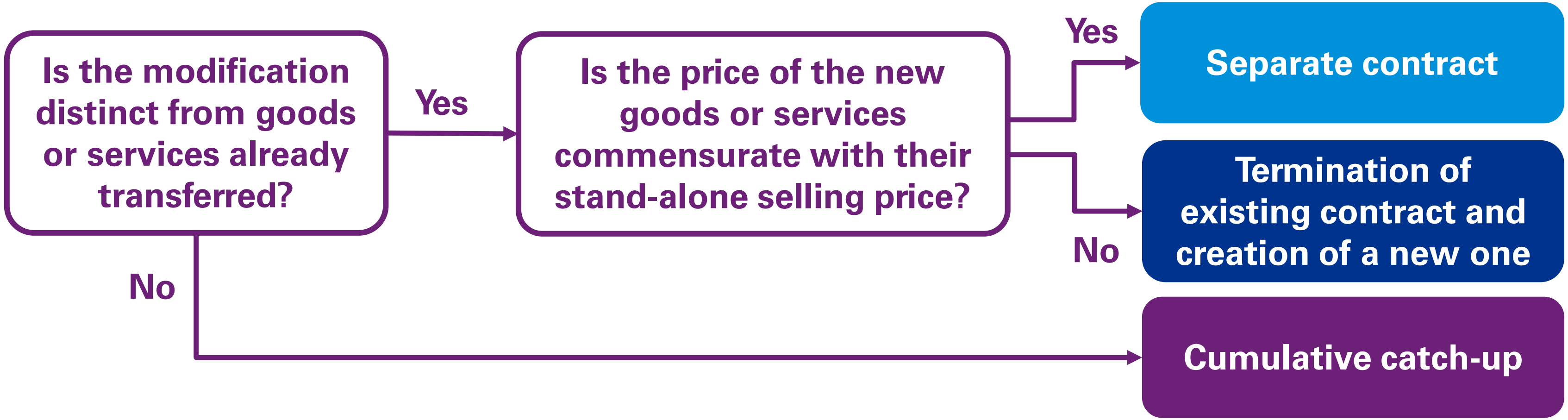
+

Uses the same method to measure progress

The series guidance may bring forward revenue recognised in the case of ‘learning curve costs’

Modifications and price adjustments

Have you documented your accounting policy for contract modifications and price adjustments?

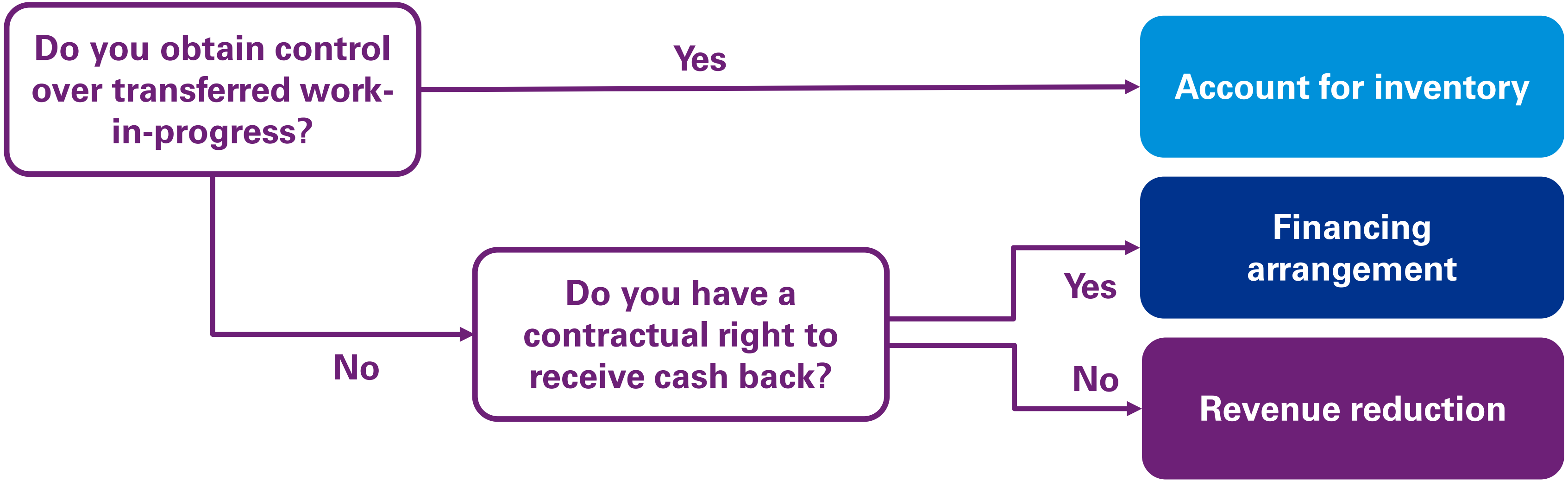


Think about…

Purchase orders under MSAs | Renegotiations of terms and specifications

Transfer of work-in-progress

How will you account for work-in-progress transferred from car makers?



Transition adjustments

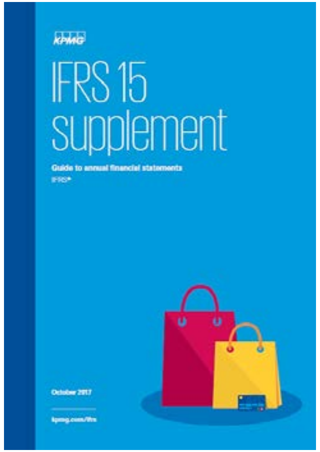
Have you identified all of the areas where differences exist between IFRS 15 and your existing accounting?

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…?	☑
Adjusted revenue for **nomination fees**?	☐
Determined how you will account for projects in the **framework agreement** stage?	☐
Chosen your accounting policies for **pre-production engineering** activities?	☐
Determined your accounting treatment for **tooling**?	☐
Identified and calculated any significant financing components arising from **financial assistance**?	☐
Determined whether your **pricing arrangements** – e.g. efficiency savings and other discounts – require you to defer revenue?	☐

Have you…?	☑
Assessed whether any of your production orders or services qualify for **over-time** revenue recognition?	☐
Decided how you will account for **serial production** of distinct units (e.g. parts or components)?	☐
Documented your accounting policy for **modifications and price adjustments**?	☐
Assessed how you will account for **work-in-progress transferred** from car makers?	☐
Identified and quantified your **transition adjustments**?	☐
Identified the additional information and processes needed to meet the **disclosure requirements**?	☐

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How did you do?

How many of our 12 questions have you answered ‘yes’?

All 12 – You’re good to go!

5-11 – 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?

Next steps

Talk to your usual KPMG contact

Use our Transition toolkit

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