



# Technology

IFRS 15 Revenue – Are you good to go?

May 2017

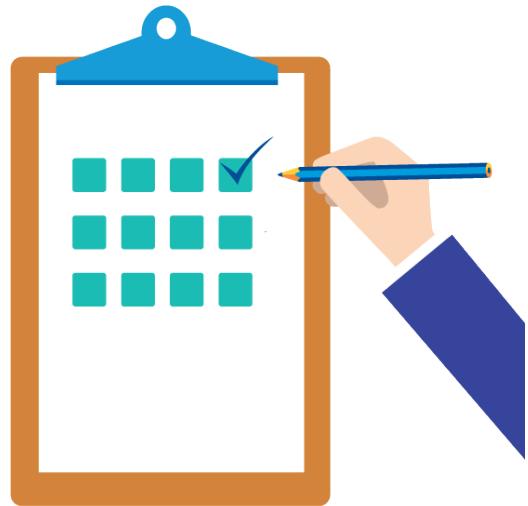
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# Are you good to go?

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?**



Capable of being distinct



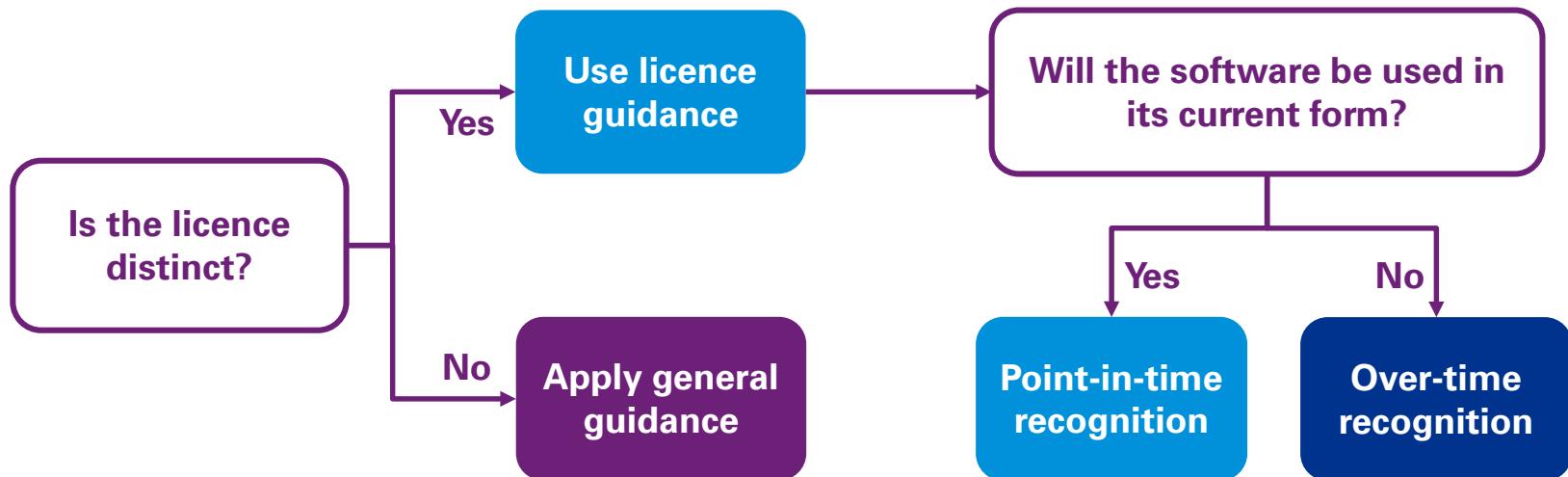
Distinct in the context of the contract

Think about...

Licences | Customisation | Installation | Cloud services | Customer support | Updates

# Licences of intellectual property

## How and when will you recognise licence revenue?

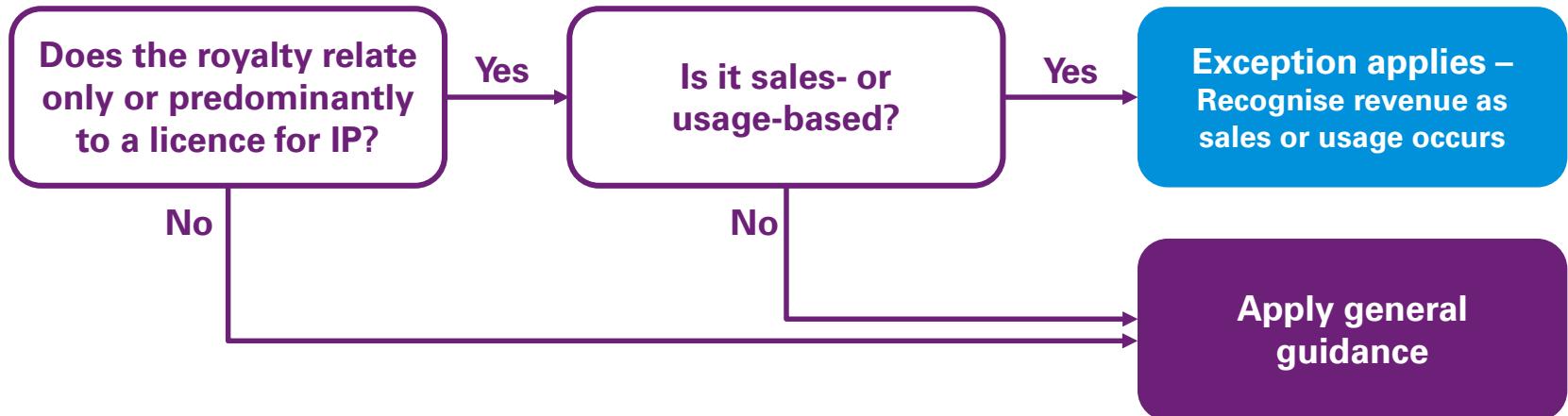


Think about...

Software: Is it complete or does it require constant updates?

# Royalty arrangements for licences

## Do your royalty arrangements qualify for the royalty exception?



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?**

## Variable consideration

**Include an estimate of expected future purchases in the transaction price**

## Customer option

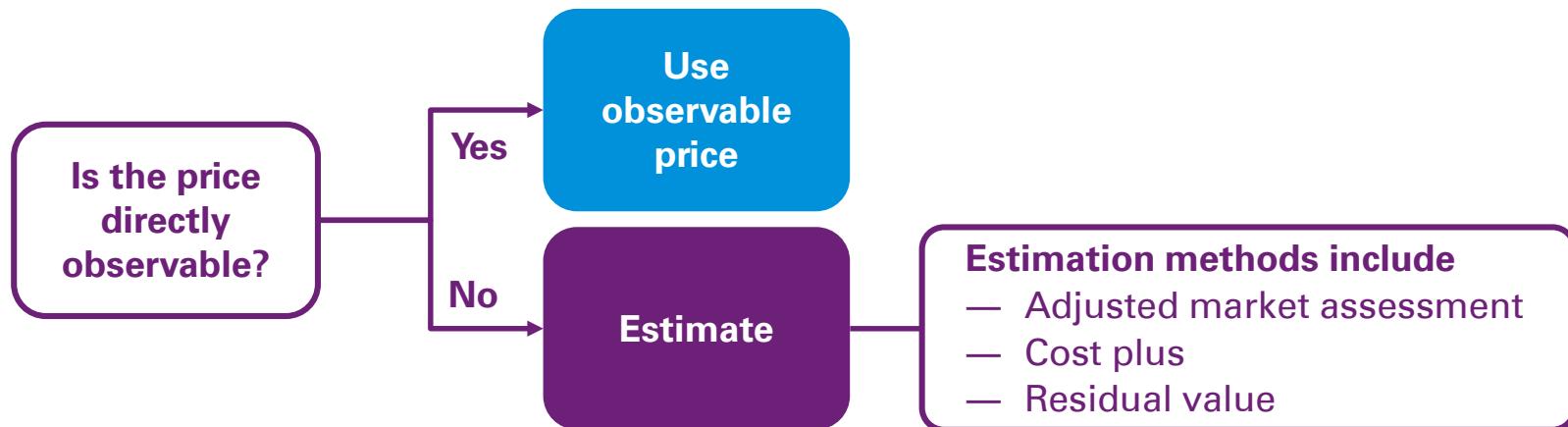
**Exclude consideration from exercise of the option from the transaction price**

**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?**



**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**

**or**

**Over time if specific  
criteria are met**

**Think about...**

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

# 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**

# Contract costs

**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?**



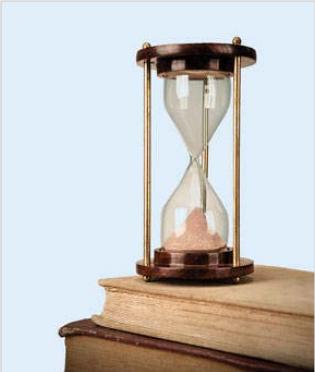
**Use the helpful guidance in our *Transition Options* and *Issues In-Depth* publications**



**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

Have you...?	<input checked="" type="checkbox"/>	Have you...?	<input checked="" type="checkbox"/>
Determined whether your contracts include <b>more than one performance obligation?</b>	<input type="checkbox"/>	Assessed whether the <b>timing of your revenue recognition</b> will change?	<input type="checkbox"/>
Determined how to account for your <b>licences of intellectual property?</b>	<input type="checkbox"/>	Selected your <b>measure of progress</b> for contracts recognised over time?	<input type="checkbox"/>
Assessed whether your <b>royalty arrangements</b> qualify for the royalty exception?	<input type="checkbox"/>	Decided which <b>contract costs</b> you will capitalise?	<input type="checkbox"/>
Assessed whether your contracts include <b>variable consideration</b> or <b>customer options?</b>	<input type="checkbox"/>	Identified and quantified your <b>transition adjustments?</b>	<input type="checkbox"/>
Determined the stand-alone selling prices of your performance obligations and <b>allocated the transaction price?</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 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



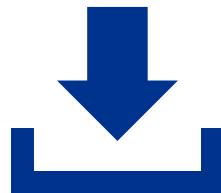
**Have you...**

- **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**



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

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