



IFRS 15 Revenue

It's time to engage

**High level impact assessment for
Management**

KPMG in Nigeria

September 2016

kpmg.com/ng

Contents

- 1. Introduction**
- 2. How to use this document**
- 3. Dashboard Summary**
- 4. High Level Industry Impact Assessment**
 - Telecommunications sector
 - Power & Utilities sector
 - Foods, Drinks and Consumer goods
 - Real Estate
 - Construction and transport Sector
 - Oil and Gas Sector
 - Insurance and Investment sector
- 5. Transition Options**

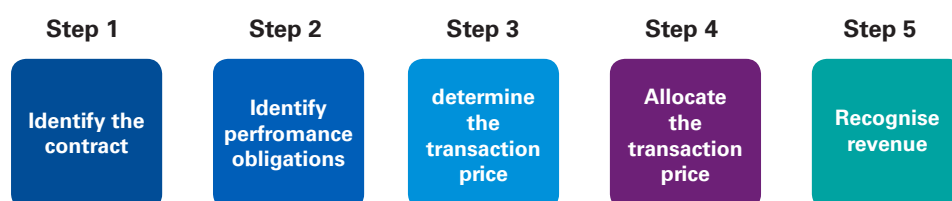


Introduction

Entities operating in Nigeria are required to adopt IFRS 15 Revenue from Contracts with Customers effective 1 January 2018. Early application is however permitted. The new revenue standard will significantly impact the way revenue is recognized going forward.

Old standards provided limited guidance and were difficult to apply to complex transactions

The five step revenue recognition model under IFRS 15



Entities will apply a five step model to determine when to recognize revenue and at what amount. The model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized;

- Over time, in a manner that depicts the entity's performance; or
- At a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 requires a comprehensive implementation plan. Companies that have commenced their initial impact assessment have been surprised at the length and complexity of the implementation phase.

The new requirements will affect different companies in different ways. All companies need to assess the extent of the impact, so that they can address the wider business implications – e.g. changes to the profile on margins on contracts, systems and processes, compliance with debt covenants and employee reward schemes.



Impacts on Businesses in Nigeria

Key Impact	Details
Re-assessment on timing of revenue recognition	Entities that currently use the stage of completion/percentage of completion method will need to reassess whether to recognize revenue over time or at a point in time. Other entities that currently recognize revenue at a point in time may now need to recognize it over time. Entities will need to evaluate the nature of their performance obligations and review their contract terms, considering what is legally enforceable in their jurisdiction.
Revenue recognition may be accelerated or deferred	Compared with the current accounting treatment, revenue recognition may be accelerated or deferred for transactions with multiple components, variable considerations (e.g. discounts, credits, incentives) or licences. Key financial measures and ratios may therefore be impacted.
Revisions to taxation, covenant compliance and sales incentive plans	The timing of tax payments, the ability to pay dividends in some jurisdictions and covenant compliance may all be affected. Tax changes caused by adjustments to the timing and amounts of revenue, expenses and capitalised costs may require revised tax planning.
Sales and contracting processes may need to be reconsidered	Entities may wish to reconsider current contract terms and business practices – e.g. distribution channels – to achieve or maintain a particular revenue profile
IT systems may need to be updated	Entities may need to capture additional data required under the new standard (e.g. data used to make revenue transaction estimates and to support disclosures).
Accounting policies, manual, processes and internal controls will need to be revised	Entities will require new accounting manuals, reset internal controls and processes to capture new information at their source.
No rules on accounting for modifications	Modification rules can result in complicated accounting
Entities will need to communicate with stakeholders	Investor, regulators and other stakeholders will want to understand the effect on financial results, transition approach selected and any proposed changes to business practices.
New estimates and judgements will be required	The new standard introduces new estimates and judgemental thresholds that will affect the amount or timing of revenue recognized.
Extensive new disclosures will be required	Preparing new disclosures may be time-consuming, and capturing the required information may require incremental effort or system changes. There are no exemptions for commercially sensitive information.

This high level impact assessment has been prepared to provide information on the impact of IFRS 15 on a number of sectors.

The practical implications of the IFRS 15 changes for each sector is analysed across the following categories:

- Reporting: Significance of the expected changes on reported financial information
- Business: Impact on financial statements and key ratios, e.g.. whether or not the debt/equity ratio will be affected
- Systems: Expected changes to IT systems and manual processes to provide the required information
- Processes: Extent to which processes will require change
- Communication: Need for stakeholder communication
- Training: Initial training hurdle to effect the change.



Dash board summary

Sector	Key impact Areas
Telecommunications, Software and Technology	Subsidised handsets, multi-user plans, non refundable fees for set-up services, long term contracts, commissions and other contract cost and indirect channel sales, Contract modifications, performance obligations and transaction price
Power and Utilities	Transfers of assets from customers, take or pay arrangements, variable consideration, contract modifications, contract costs and contracts with multiple goods and services
Foods, Drinks and Consumer Goods	Payments to distributors and retailers, discounts, rebates and other incentives, contract manufacturing arrangement and warranties, Sales returns, licenses, franchises and Royalties
Real Estate	Sales of completed and incomplete or off-plan purchases, sales with part exchange, sales with extras, amenities specified in contract conditions, sale of multiple units, contract modifications, warranties and upfront payments
Construction and Transport Sector	Loyalty programme, ticket breakage, rebates, ancillary services and extra charges, freight and shipping and new disclosures, collectability and change of ticket fees
Oil and Gas	Collaborative arrangements, oil and gas lifting imbalances, production- and sales-based royalties, take or pay arrangements, long-term sales contract, contracts with multiple goods and services, agency relationships , provisional pricing arrangements, delivery cost, insurance and freight versus free on board
Insurance and Investment Management	Multiple arrangements (insurance and non-insurance components), provision of non-insurance services, non-refundable up-front fees, performance-based incentive fees and costs related to obtaining and fulfilling contracts. Performance obligations, placement of an insurance policy and other performance obligations.

High Level Industry Impact Assessment

Telecommunications Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> Companies need to allocate the transaction price to each promised obligation based on their relative stand-alone prices. Therefore, a greater amount of revenue on subsidised handsets will be recognised upfront Reconciliation between reported revenue and the amount invoice will be required. Telcos that charge non-refundable fees (for example access or installation fees) would need to assess if such fees constitute separate performance obligations Promotional offers to current customers may be construed as contract modifications Credit sales to customers where payment is expected over a period exceeding one year includes a significant financing component and the Telco needs to adjust to reflect the time value of money Telcos that sell equipment, data and other services through dealers are required to assess if the dealer is acting as a principal or an agent to determine the appropriate treatment for the sales Telcos to capitalise incremental contract acquisition cost – e.g.. sales commissions and other installation costs if they expect to recover these costs. Extensive new disclosures incorporating both quantitative annual revenue per unit and qualitative information are required
Business	<ul style="list-style-type: none"> KPIs on revenue and other related metrics (e.g. ARPU) would be impacted due to the possible change in the revenue recognition of certain items in the statement of profit or loss Additional line items in the Statement of Financial Position in the form of contract assets and/or contract liabilities and may affect the computation of ratios . Possible impact on Value Added Tax and Company Income Tax Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised
Systems	<ul style="list-style-type: none"> It is envisaged that a sub-system, incorporating a database of sales transaction and co-ordinating the accounting, control and disclosure of such transactions, may have to be implemented. Increased use of judgement and estimates on inception and throughout the tenure of the sales . The system would need to be able to accommodate changes in assumptions as they occur. A new system or model may need to be developed to comply with the proposed disclosure requirements.



Processes	<ul style="list-style-type: none">• The proposal to recalculate the amount of revenue earned on contracts with customer leads to a process change as additional calculations are necessary.• Increased use of judgement and estimates on inception and throughout the lease term will need to be incorporated into Telco's process.• Update of accounting and internal manuals would likely be necessary.• The complexity, judgment and continuous reassessment will require additional resources focused on the monitoring of sales contract. Additional cross-organisational training for employees will be required.• The contract asset must be tested for impairment. The record-keeping burden and complexity of maintaining accounting treatment under the new revenue standard may increase
Communication	<ul style="list-style-type: none">• Communication to shareholders and other stakeholders may be required if there are any material impacts on the Telco's financial statements and key financial ratios. Areas of interest for stakeholders may include the effect of the proposals on financial results, the costs of implementation and any proposed changes to your business practices.
Training	<ul style="list-style-type: none">• Training required for:<ul style="list-style-type: none">- Finance teams- Procurement and Marketing- Leadership (Board, Audit Committee CFO, CEO)- Tax

Power & Utilities Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> Power & Utilities Companies need to assess if the timing of revenue recognition from transfer of assets from customers will be deferred or recognised immediately Breakage amount arising under take or pay contracts is estimated as a proportion to the pattern of rights exercised by the customer. Contract modification are accounted for either prospectively or by a cumulative- catch adjustment depending on whether distinct goods and services are added to the sales arrangement Capitalisation of certain expenses incurred in obtaining a customer contract is allowed for Power and Utilisation companies Extensive new disclosures incorporating both qualitative and quantitative information are required.
Business	<ul style="list-style-type: none"> KPIs on revenue and other related metrics will be impacted due to the possible change in the revenue recognition of certain items in the statement of profit or loss. Additional line items in the Statement of Financial Position in the form of contract assets and/or contract liabilities and may affect the computation of ratios . Possible impact on Value Added Tax and Company Income Tax Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised
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Training	<ul style="list-style-type: none"> Training required for: <ul style="list-style-type: none"> - Specific members of the finance teams - Procurement and Marketing - Leadership (Board, Audit Committee CFO, CEO) - Tax



Foods, Drinks and Consumer Goods Sector

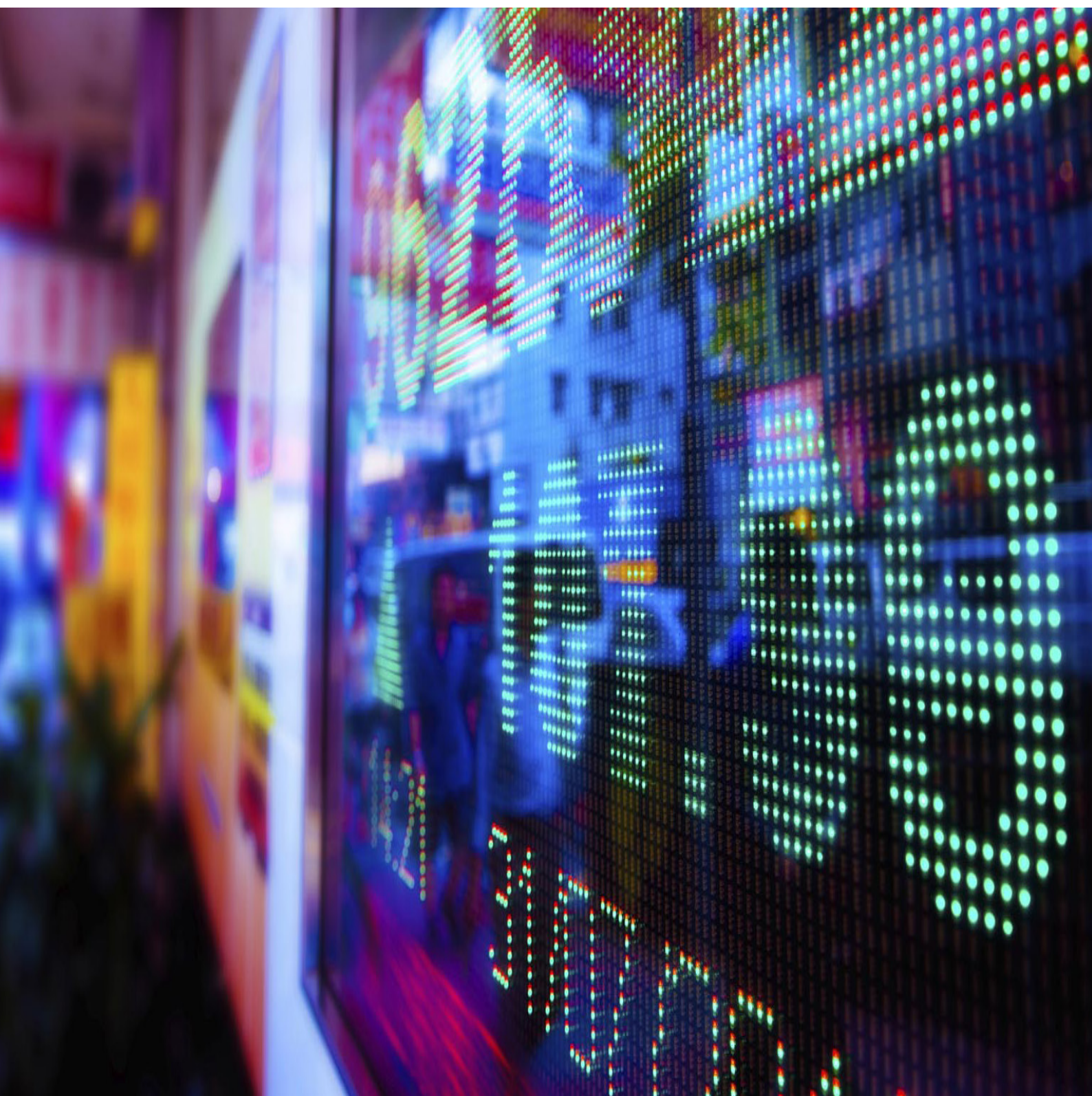
Accounting, Tax and Reporting	<ul style="list-style-type: none"> FDCG Companies would need to evaluate if payments to distributors and retailers to determine if the payments are made in exchange for distinct goods or services or they represent a sales incentive FDCG Companies would need to consider if discounts, rebates, credits, price concessions, performance bonuses and similar incentives should be treated as variable consideration. Recognition of the variable consideration is based on 'expected value' and 'most likely amount' The new standards require FDCG Companies to consider if revenue from contract manufacturing should be recognise over time or as a point in time. Contract manufacturing arrangement is currently recognised as sales of goods. Warranty arrangements are grouped into 'service-type warranty' and 'assurance- type warranty' depending on the category FDCG would recognise warranty as part of the transaction price or as a cost accrual. Detailed methodology for estimating customer returns may differ from each company Revenue recognition for licenses and franchises may differ depending on the terms of each arrangement.
Business	<ul style="list-style-type: none"> KPIs on revenue and other related metrics will be impacted due to the possible change in the revenue recognition of certain items in the statement of profit or loss\ Possible impact on Value Added Tax and Company Income Tax Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised
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Processes	<ul style="list-style-type: none"> The proposal to recognise the right of use "ROU" asset and obligation to pay rentals in the statement of financial position leads to a process change as additional calculations are necessary. Increased use of judgement and estimates on inception and throughout the lease term will need to be incorporated into the Company's process. Update of accounting and internal manuals would likely be necessary. The complexity, judgment and continuous reassessment will require additional resources focused on the monitoring of sales contract. Additional cross-organisational training for employees will be required. The contract asset must be tested for impairment. The record-keeping burden and complexity of maintaining accounting treatment under the new revenue standard may increase
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Real Estate Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> • Emphasis on revenue recognition on sales of completed units is based on ‘transfer of control to the customer’ vs ‘the transfer of significant risks and rewards’. • For sale of incomplete units or off plan purchases, developers will need to assess if the customer controls the asset it has created or enhanced and also determine if revenue should be recognised over time or at a point in time. • Developer may need to consider if the government agency is a collaborator or partner under sales made under government backed loan mortgage guarantee schemes. If the Government agency is assessed as a collaborator or a partner then the contract with the government is not accounted for under IFRS 15. • Developer that include “extras” (e.g.. furniture and fittings) or promise the additional amenities in the contract with a customer are required to determine if the ‘extras’ are distinct and therefore accounted for as a separate performance obligation • Developer are also required to determine if the sale of numerous houses to a single customer represents multiple performance obligations or a promise to deliver a single development to the customer. • Contract variations and claims are included as part of contract modification. • The timing of upfront payments in comparison with the transfer of goods and service may give rise to a significant financing component. • Extensive new disclosures are required, incorporating both qualitative and quantitative information
Business	<ul style="list-style-type: none"> • The change in revenue recognition of certain items would impact the revenue reported on a periodic basis Additional line items in the Statement of Financial Position in the form of contract assets and/or contract liabilities and may affect the computation of ratios . • Possible impact on Value Added Tax and Company Income Tax • Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised
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Construction and transport Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> • The amount of consideration allocated to loyalty points is based on the relative stand alone price of the loyalty points rather than fair value. • 'Ticket breakage' (i.e. tickets that are not used for travel and cannot be refunded) are now required to be recognised as revenue to the extents that it is highly probable that there will be no significant revenue reversal. • Rebates and customer discounts are accounted for as variable consideration and can be included as part of the transaction price. • Transport Companies (such as airlines) that provide ancillary services and extra charges are required to assess if the ancillary services and extra charges are a distinct from the transportation service and should therefore be accounted as a separate performance obligations. • Shipping Companies would be required to consider the appropriate measure of progress –i.e. voyage days or cost in recognising revenue from freight or shipping services • Construction Companies would need to consider if pre-contract cost (e.g. sales commission) can be capitalised • Construction Companies would need to carefully consider the number of performance obligations promised the customer in a construction contract. The consideration will significantly impact the revenue recognition profile of the construction contract. • Accounting for long term sales contract may change under IFRS 15 due to issues relating to accounting for variable consideration, contract modification and discounting transaction price for time value of money • Contract variation claims and rebates are accounted for as variable consideration. • Extensive new disclosures are required, incorporating both qualitative and quantitative information.
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Oil and Gas Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> Companies operating in the oil & gas (O&G) sector often enter into diverse and collaborative arrangements that can be complex and therefore O&G Companies will need to assess if the counterparty to a contract are customers and therefore within the scope of IFRS 15 or partners or collaborators which are outside the scope of IFRS 15 There is currently diversity in practice on how O&G companies account for lifting imbalances. Under IFRS 15 O&G companies would need to consider if the counterparty in an imbalance arrangement meets the definition of a customer for all or part of the imbalance arrangement to determine whether imbalances should be recognised as revenue. Estimation of production and sales based royalties are different under the new standards as they are considered as variable consideration and included as part of the transaction price of the contract. Breakage amounts arising under take or pay contracts is estimated as a proportion to the pattern of rights exercised by the customer. Accounting for long term sales contract may change under IFRS 15 due to issues relating to accounting for variable consideration, contract modification and discounting transaction price for time value of money. O&G companies should consider if contracts with customer contain separate performance obligations and if there are separate performance obligations O&G companies are required to allocate the transaction price based on the relative stand alone prices of the performance obligations. Multiple arrangement include engineering, procurement, construction or maintenance services.
Business	<ul style="list-style-type: none"> Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised. KPIs on revenue and other related metrics would be impacted due to the possible change in the revenue recognition of certain items in the statement of profit or loss. Additional line items in the Statement of Financial Position in the form of contract assets and/or contract liabilities may affect the computation of ratios . Possible impact on Value Added Tax and Income Taxes
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Insurance and Investment Management Sector

Accounting, Tax and Reporting	<ul style="list-style-type: none"> Contracts that include non-insurance service contracts such as insurance broking, pension administration, claims handling services fall under the scope of IFRS 15 while insurance contracts are accounted for under IFRS 4. Non insurance contract may integrate various services and therefore Insurance companies would need to consider if there are separate performance obligation and therefore the need arises to allocate the transaction price over the relative stand alone prices. The accounting for upfront fees will depend on if the upfront fees are for specific goods or services or for future goods or services. The timing of the receipt of upfront fee in comparison to the transfer of the services it relates to may give rise to a significant financing component Companies may earn performance based incentive fees for investment management services which would be considered as variable consideration. When determining the transaction price of the variable consideration, the company uses either the 'expected value' method or 'most likely amount method'. Companies are required to capitalise cost required to fulfil the promised made to the customer. However, entities can elect not to capitalise cost that will be expenses with a year or less. Judgment would be required to determine the appropriate period and the relevant amortisation method to be used in amortising the cost
Business	<ul style="list-style-type: none"> KPIs on revenue and other related metrics would be impacted due to the possible change in the revenue recognition of certain items in the statement of profit or loss Additional line items in the Statement of Financial Position in the form of contract assets and/or contract liabilities and may affect the computation of ratios . Possible impact on Value Added Tax and Company Income Tax Routine change in contractual terms and clauses may result in contract modification with implications on the amount of revenue recognised
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Transition Option

- IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Early adoption is permitted.
- IFRS 15 allows three approaches to ensure effective transition from the old standards (IAS 11 and IAS 18). The three approach are effectively captured below:

Approach	2016	2017	2018	Date of equity adjustment
Full retrospective - no practical expedients	IAS 11/18	IFRS 15	IFRS 15	1 January 2017
Full retrospective - practical expedients	IAS 11/18	Mixed requirements*	IFRS 15	1 January 2017
cummulative effect	IAS 11/18	IAS 11/18	IFRS 15	1 January 2018



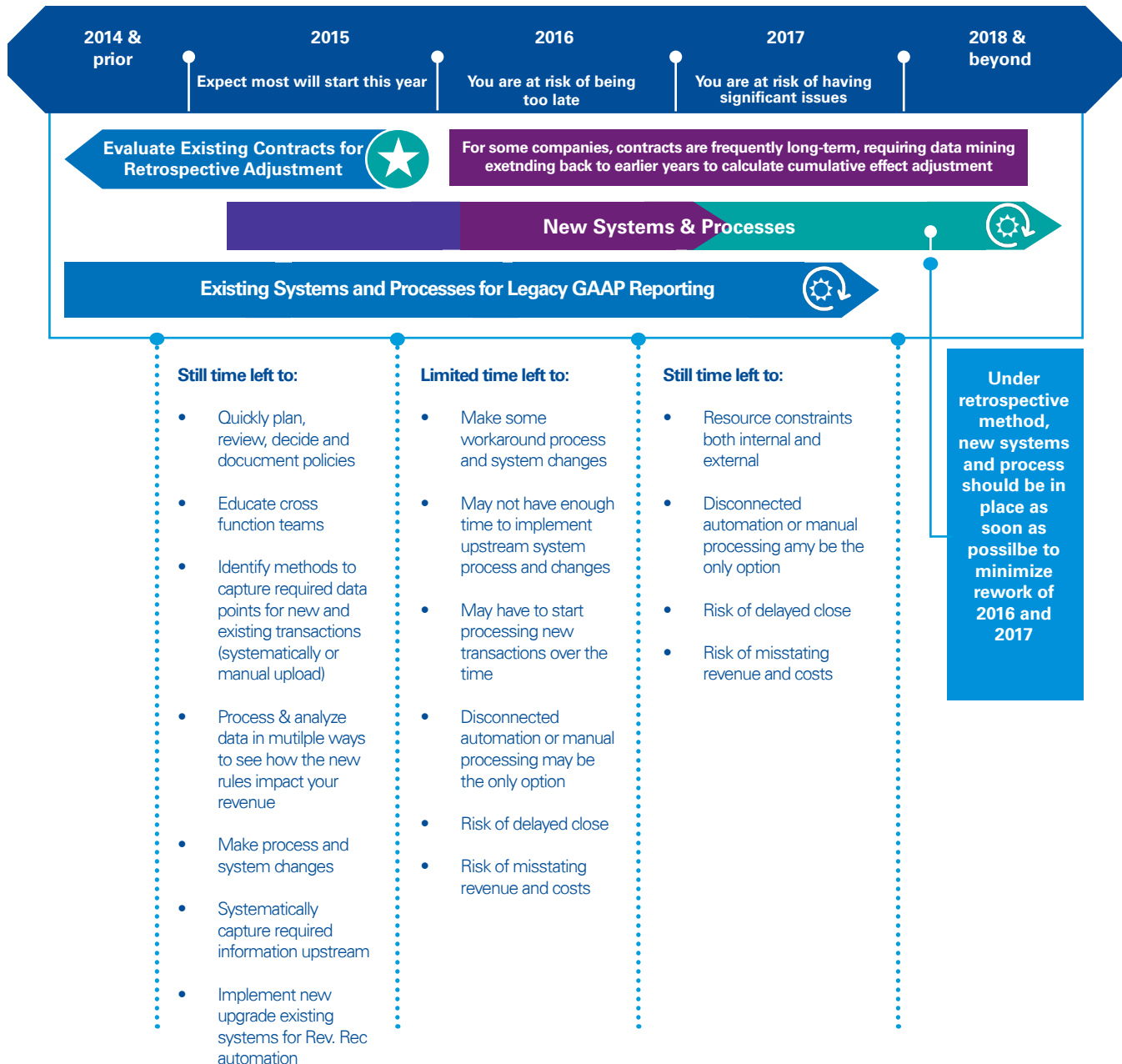
Regardless of the transition approach adopted. Each Entity is required to provide information regarding the changes in its reported results based on IFRS 15 and those under IAS 11/18

*Application of IFRS 15 with practical expedient

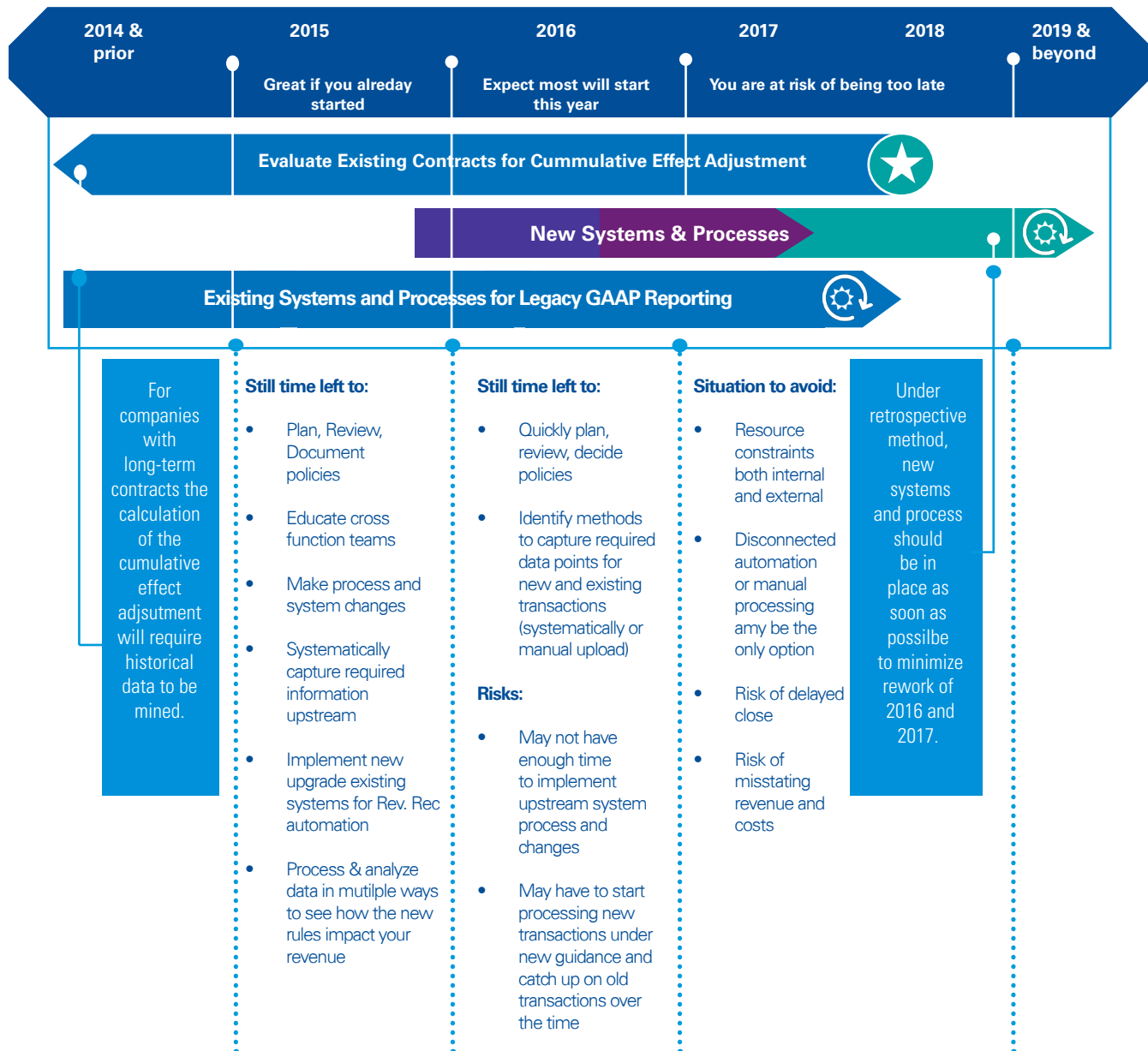
- For completed contracts, no restatement of contracts that begin and complete in the same annual reporting period.
- For completed contracts with variable consideration (i.e ongoing contracts), use the transaction price at the date the contract was completed.
- For periods before the date of initial application, exempt from providing disclosures for remaining performance obligations.

Transition Option

Full retrospective transition method



Cumulative effect transition method



Contact us

For other enquiries, please email NG-FMDPPWestAfrica@ng.kpmg.com

Send your details to NG-DLAIIDPPWestAfricaPersonnel@ng.kpmg.com to be included on our mailing list to receive IFRS-related communications.

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