



cutting through complexity

New revenue standard

A clearer view of IFRS 15

30 July 2015

kpmg.com/ifrs



A clearer view of IFRS 15



Users and preparers of financial statements have said they find aspects of the new revenue requirements unclear. The FASB plans several detailed exposure drafts, but the IASB expects to issue just this one set of targeted amendments.

These slides take you through the proposed changes to IFRS 15. If you want to discuss the possible impacts for your implementation plan, please speak with your usual KPMG contact.

*Prabhakar Kalavacherla (PK)
KPMG's global IFRS revenue leader*

The evolution of IFRS 15





Transition Resource Group meetings

5 TRG meetings



discussing...



leading to IASB proposals on...

4 key areas of IFRS 15



How do the Boards' proposals compare?



Both Boards are addressing...

licences

principal vs agent

identifying performance obligations

transition

...but are proposing different clarifications



1

Licences of intellectual property
Revised drafting and new examples



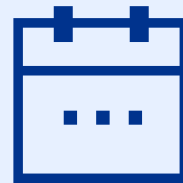
Licences

What's the IASB proposing?

The IASB plans **revised drafting** and **new examples** to clarify whether revenue from a licence is recognised...



Up-front
on the day the
licence is granted



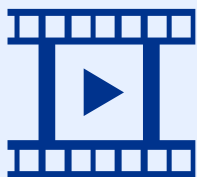
Over time
during the
licence period



Licences

What's the core idea?

The core idea is to focus on the **functionality** of the licence, for example:



Movies

Recognise revenue **up-front** because the functionality exists once the movie has been shot



Brands

Recognise revenue **over time** because the functionality changes constantly as the company updates the brand



Licences

What about royalties?



The IASB plans to clarify when and how to apply the **exception** that says to recognise **sales- and usage-based royalties** as the sales or usage occur

100%

When

If the royalty relates only to a licence, or the licence is the predominant item

How

All or nothing – a royalty that relates to more than one thing is either in or out of the exception



Licences

What's the FASB proposing?

The FASB is proposing more new words and more new examples than the IASB

When to recognise revenue

New classification of all licences as either functional or symbolic

Licences that are not distinct

Clarification of when to apply the licences guidance

Sales- or usage-based royalties

Similar to IASB proposals

Contractual restrictions

Additional guidance and new examples



2

Principal vs agent

Revised drafting and new examples



Principal vs agent What's the IASB proposing?

The IASB plans **revised drafting**
and **new examples** to clarify
whether a company is acting as...



Principal
Recognise revenue
and costs gross



Agent
Recognise commission
as revenue



Principal vs agent What's the core idea?

The core idea is to focus on whether a company **controls** a good or service before it is transferred to the customer



It would apply the **indicators** that are **relevant** to the case being considered



Virtual or **intangible** goods and services are more complex – **new examples** would help address these



Principal vs agent What's the FASB proposing?

We expect the FASB's proposals to
be **similar to the IASB's proposals**



3

Identifying performance obligations New examples



Performance obligations What's the IASB proposing?

The IASB plans **new and revised examples** to illustrate when **goods and services** in a contract are accounted for...



As a bundle
Single performance obligation



Individually
Separate performance obligations



Performance obligations
What's the core idea?

**The new examples would illustrate
difficult cases**



**Installation
services**



**Multiple
items**



**Equipment and
consumables**



Performance obligations What's the FASB proposing?

The FASB is proposing
**more new words and
more new examples**
than the IASB, and
plans to...

Rearticulate the **principle** of when a good or service is separately identifiable in the context of the contract

Redraft the existing **indicators**

Specify that goods and services that are **immaterial** at the contract level can be **ignored** when identifying performance obligations

Include a **practical expedient** for **shipping and handling** services



4

Transition to the new standard
New practical expedients



Transition What's the core idea?

The IASB plans to **reduce the complexity** of applying the new standard for the first time...



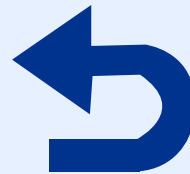
...by adding **new reliefs**, allowing companies to apply the new standard to **fewer existing contracts**





Transition What's the IASB proposing?

The IASB is proposing
that on transition a
company could elect to ...



Use **hindsight** when
determining the effects of
contract **modifications**



Not restate **completed contracts**
when applying the retrospective
transition method



Transition What's the FASB proposing?

We expect the FASB
to propose that on
transition a company
could elect to...



Use **hindsight** when
determining the effects of
contract **modifications**...



...but isn't proposing a practical
expedient for **completed**
contracts when applying the
retrospective transition method



5

FASB-only proposals
Clarifications in three areas



FASB-only proposals What's the FASB proposing?

We expect the
FASB to propose
the following
clarifications

Non-cash consideration

Measurement date is contract inception
Constraint only applies to variability that
doesn't result from the form of consideration

Collectibility

How to assess it, and the meaning of
'contract termination'

Sales taxes

Election to present net



Next steps



Read the ED and **comment** on the proposals



Update your implementation plan



Watch out for our detailed analysis at www.kpmg.com/ifrs



cutting through complexity

kpmg.com/socialmedia



kpmg.com/app



© 2015 KPMG IFRG Limited, a UK company limited by guarantee and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.