IFRS 15 – Earnings surprises in store?

Investor insights

The new revenue recognition standard goes live at the start of 2018.
It brings greater transparency, but what do investors need to look out for?

Timing of revenues

Revenues may get lumpier – some revenues may be pulled forward and others pushed back

Examples of changes

— Greater emphasis on **separating performance obligations** could create fluctuations in margins

— **Mobilisation** and **activation fees** will need to be deferred if they do not represent services delivered to customers

— New criteria for **long-term contract** accounting could apply to different contract types – e.g. manufacturing

Increased subjectivity

Increased management judgement is involved in identifying performance obligations and allocating consideration

Things to think about

Emphasis on transfer of control means there is less scope for management to manage revenues through billing schedules

But, more **accounting judgement** is needed to determine…

— the components of the contract

— the timing for each component

— the revenue to allocate to each

Transition surprises

There's a risk that transition adjustments could obscure underlying trends in companies' track records

Things to look out for

Revenues that bypass the income statement: Some revenues pulled forward could be recorded as an adjustment to retained earnings

Revenues double-counted: Revenues pushed back could appear twice – once in the 2017 income statement and again in 2018

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