



CASEWARE

DEALING WITH THE CHALLENGES OF IFRS 15

A CaseWare eBook



CONTENTS

3. Introduction
4. IFRS 15 - the changes
5. How it works in practice
6. The challenges
7. Transition options
8. Reporting
9. The automated option
11. Conclusion



INTRODUCTION

For entities reporting under IFRS or FRS 101, December 31, 2018 marked the end of the first year in which the new IFRS 15 standard applied.

IFRS 15 is a very significant and wide-ranging change that fundamentally alters the way revenue is recognised. It will affect the majority of companies reporting under IFRS or FRS 101.

The standard became mandatory for all companies with accounting periods beginning on or after January 1, 2018.

Some companies with shorter accounting periods may already be incorporating the changes into their financial statements, while other entities can also choose to early adopt the new standard.

In this eBook we examine the changes introduced under IFRS 15, outline the challenges and explain how accounting software can help those reporting under the new standard.



IFRS 15 – THE CHANGES

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. It covers how and when to recognise revenue and aims to increase comparability among companies across sectors.

Previously, the principles for recognising revenue were very broad and companies were interpreting the rules in different ways. This made it difficult for investors to get a true picture of a company from its financial statements as methods for recognising revenue were so varied across, and even within, sectors.

Under IAS 18, revenue was typically recognised as soon as a contract was started but there were problems with this approach. Several years ago a number of retailers saw big share price falls after it emerged they were accounting for supplier rebates before they materialised – and in some cases they didn't, meaning they had to revise their profit forecasts.

There was also scope for companies to manipulate the recognition of revenue for tax or earnings purposes. For example, in a bad year a company might have added in revenue for a contract that came in right at the end of the year, even if the benefit of that contract was not expected to arrive for some time. On the other hand, in a good year a company may have chosen to recognise revenue in a later period to avoid a higher tax bill.

IFRS 15 aims to reduce ambiguity and make things more black and white.



HOW IT WORKS IN PRACTICE

IFRS 15 introduces a new five-step model for determining when revenue should be recognised, based on the various phases of companies' contracts with clients.

The five steps are:

1. **Identify the contract or contracts with a customer;**
2. **Identify the performance obligations within the contract;**
3. **Determine the transaction price;**
4. **Allocate the transaction price to performance obligations; and**
5. **Recognise revenue when or as performance obligations are satisfied.**

Although some companies may have been doing something similar in the past, IFRS 15 sets out a defined step-by-step method for determining how much revenue from a contract can be recognised at any particular point in time.

A simplistic example of the difference between the old standard and the new standard would be to look at a mobile phone contract.

If a customer signed up for a 12-month deal at £50 a month and was given a new handset as part of the package, it's likely most companies would have simply multiplied £50 by 12 to arrive at £600, and included that revenue monthly, from the date of the contract signing. The cost of the handset itself would have been treated as a cost of sale.

Under IFRS 15, however, the company would instead need to work out what the value of the handset is and what the value of the line rental is. It would then need to recognise the handset and first month's rental when the contract is signed, then the remaining portion every month thereafter as it is paid by the customer.



THE CHALLENGES

In the example of the mobile phone contract, the method of splitting out revenue is relatively simple. But in many other areas of business, the process will be much more complicated.

For example, there are changes to the rules relating to when contracts should be combined or modified, royalty and licence payments, non-refundable upfront fees and customer incentives and loyalty programmes.

It could be particularly difficult for firms that sell goods that come with some type of service element, for example, a software company that provides initial programs and also technical support and updates for a certain period afterwards.

Whatever industry they operate in, companies will need to have detailed methods for measuring the progress of the performance obligations that make up each stage of a contract to ensure compliance with the new standard.

The new rules are likely to have a wide-ranging impact on the financial controls and management reporting of firms across a wide range of industries. Many will need project management and auditing help from external providers to get to grips with the changes, and indeed most large firms will already be well advanced in their preparations for IFRS 15.



TRANSITION OPTIONS

In the year of transition, there are two options for transitioning to IFRS 15: the retrospective approach and the cumulative approach.

With the former, companies use the traditional method of restating their prior year figures under the new standard. With the latter they apply it from the date of transition, leaving their prior year untouched and making a one-time opening adjustment to their reserves for the current year.

In theory, the second option may seem simpler, but in practice it is likely to necessitate a similar level of background accounting work to determine what that adjustment is going to be.

For most companies, whichever method is chosen, the introduction of IFRS 15 is going to involve a significant amount of effort in looking at contracts already in place to work out any adjustments that need to be made to comply with the new standard.

Many companies will financially model both transition options to work out which one is most suitable for their circumstances, and we recommend you work with your auditors to determine which option to choose.



REPORTING

Once you've chosen your preferred method and are at the reporting stage, there are further challenges ahead. Even if the new standard does not have a significant effect on the timing of your revenue recognition and does not require extensive backtracking through contracts, the number of disclosures required will certainly increase.

The good news is that even if you're not yet completely prepared for the change to IFRS 15, at CaseWare we are. We've updated our AccountsAdvanced template with a host of new mapping codes to automate the disclosures within the financial statements so they are compliant with IFRS 15.

We also have new mapping codes available to adjust your prior year figures and equally we have new mapping codes available to adjust your brought forward reserves figures, so whichever transition method you've chosen, CaseWare will help you make sure your accounting policy reflects the way you've adopted the new standard.

We've also added additional help text within the face of the accounts to assist users throughout the process.

Our update is already live, so if you're working on a period start date from 2017 and want to early adopt, you'll be able to do so.

However, if you do not wish to early adopt, you can simply opt not to take the update until you've finalised any financial statements for periods commencing prior to this date.

Safeguards are also built in to restrict FRS 102 reporters from erroneously using the new mappings and disclosures within their financial statements.



THE AUTOMATED OPTION

If you're still reporting using Word and Excel, you're missing a trick – reporting doesn't need to be time-consuming and laborious. The benefit of CaseWare is that it automates processes that are otherwise being done manually by those using Word or Excel.

Our IFRS template takes all the hassle out of reporting.

CaseWare provides a very simple process for you to get the report that you want directly from your general ledger system; and is flexible enough that you can then change that report as you like.

Think of it as the difference between starting with a blank piece of paper and trying to design a table that accurately reflects your accounts, and having a complete toolkit filled with options to choose from to build your table.

Our AccountsAdvanced template is similar to a large word document, but instead of starting from scratch when it comes to entering information and formatting, you'll be using a Wizard with click buttons that allow you to choose, for example, whether a particular note is two columns or four columns, whether it includes financial instruments or not and if so, what type of financial instruments.

After importing your data from your general ledger system, CaseWare will prompt you to answer some basic questions, such as who the directors are and where the registered office is, then it automatically builds your entire set of accounts.



THE AUTOMATED OPTION (CONTINUED)

Importantly, our Wizard will also make sure that you include everything needed to be fully compliant with all IFRS reporting requirements.

And it's not only in terms of formatting that CaseWare shines, it also checks that all your numbers add up any time a change is made. Imagine that you're doing things manually and someone makes a change in one table but forgets to check that it is reflected in the primary statement of the balance sheet or the P&L? In a worst case scenario, you could have to restate your accounts and lose the confidence of your investors.

With CaseWare there's no more spending hours changing page numbers or cross-checking documents to make sure any changes made are reflected throughout your documents. CaseWare does it all for you.



CONCLUSION

We've invested a huge amount of time in developing and keeping up to date our IFRS template so that it's compliant with IFRS 15 and also IFRS 9, which came into force at the same time.

But IFRS 15 and IFRS 9 are simply the latest changes in standards that companies need to be aware of. Financial reporting standards are constantly changing – IFRS 16 is less than a year away and after that there will most certainly be something else to contend with.

We'll be integrating IFRS 16 later this year so that clients that wish to early adopt can do so. At CaseWare we maintain our software so it is not only up to date, but also ahead of any reporting changes.

As regulations continue to evolve, reporting using systems such as Word and Excel, which were never designed for such complex uses, is likely to become more and more burdensome. If you haven't already, now is the perfect time to consider a more professional reporting solution.

Interested in streamlining and simplifying your financial reporting process?

Faster, simpler financial reporting

Our accounts production software enables you to quickly and simply produce financial statements across a wide range of entity types, however complex your your accounting structure.

WATCH NOW



CASEWARE



Sales & Enquiries

UK: 01622 355 200

IE: 0818 333 981

contact@caseware.co.uk



Technical Support

UK: 01622 355 250

IE: 0818 333 980

www.caseware.co.uk

CaseWare UK Ltd | County Gate 2,
Staceys Street, Maidstone, Kent, ME14 1ST