THE 5 ESSENTIAL STEPS

FROM *HERE* TO IFRS 15 COMPLIANCE

BUILD A ***BETTER PATH*** TO REVENUE RECOGNITION

With the January 2018 IFRS 15 effective date looming, affected organizations need to start planning now to lay the foundation for compliance. If they haven't yet, organizations will need to develop and apply a five-step model to determine when to recognize revenue and at what amount.

Global services leader KPMG provides a great overview guide[1] for businesses navigating the IFRS 15 changes and looking for best options to ensure compliance with these five necessary steps.

Create repeatable value from the contract outward

The key influencer in how you recognize revenue lies within the structure of your complex customer contracts. Currency differences, consumer price index and a host of other varied characteristics can require a different recognition term depending on the customer.

For large B2B businesses, it's a challenge allocating time and energy appropriately to evaluate the relevant contracts for risky terms or trip wires. But to not devote time means a costly compliance risk that your organization can't afford.

Understand the implications of each step, and let Pramata help you simplify and accelerate along the road to IFRS 15 compliance.

01 IDENTIFY THE CONTRACT

First, identify the contracts impacted. Currently, several schools of thought prevail advocating for different approaches: individual contract basis or contract portfolio basis. Individual contract basis means each contract is evaluated individually to understand rev rec requirements. Contract portfolio basis requires contracts be grouped into "like contract portfolios" against which the same rev rec method can be applied.

Solve it with Pramata

Centralize customer contracts into an organized, searchable repository

02 IDENTIFY PERFORMANCE OBLIGATIONS

Once you've identified, classified and evaluated the contracts, you'll need to identify what goods or services are promised under the agreement and whether the promise meets the necessary criteria to be considered a performance obligation.

Solve it with Pramata

Easily report across specific contract sets and compare that information to the mandated criteria.

03 DETERMINE THE TRANSACTION PRICE

Under the new rules, a company needs to evaluate the pricing structure in a contract to determine whether—and to what extent—it contains variable considerations (bonus, discount tiers, rebates). Variable considerations will be treated differently under the new rules and may allow companies to recognize revenue sooner than under current GAAP or IFRS rules.

Entities also need to evaluate whether their existing systems can identify and calculate the necessary adjustments.

Solve it with Pramata

Automatically flag contracts with trip wires for fast review.

04 ALLOCATE THE TRANSACTION PRICE

Companies will generally allocate the transaction price to each performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is defined as an observable price from stand-alone sales of that good or service to "like" customers. At times, you may need to estimate it via a number of methods requiring a mix of pricing data and forecasted numbers.

Solve for it with Pramata

Store your analysis along side the contract and track which contracts you've analyzed to ensure compliance.

05 RECOGNIZE REVENUE

An entity recognizes revenue when (or as) it satisfies a performance obligation by transferring control of a good or service to a customer. Control may be transferred either at a point in time or over time, based on specific application guidance.

- A right to use the intellectual property as it exists at the time the license is granted (PIT)
- A right to access the intellectual property as it exists throughout the license period (OT)

Solve for it with Pramata

Automatically flag all newly signed contracts with key trip wires and track rev rec review for robust go-forward controls.

FIND AND DEFUSE THE TRIP WIRES WITH PRAMATA

In addition to centralizing and storing contracts, Pramata automatically flags high risk contract terms

- Market-based pricing
- Embedded leases
- Multiple element arrangements
- Transfer of ownership & risk
- Rebates & discounts
- Currency
- Embedded derivatives
- Acceptance and return rights

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Take the first step with Pramata

Make Pramata your partner on the IFRS 15 compliance journey. With a strategic approach to this practical challenge, you'll greatly strengthen your internal controls processes, and ensure compliant and complete documentation of the rev rec process, every time. With timely, easy access to the precise information you need when you need it, you're prepared to handle wearisome audits efficiently and thoroughly … and any other compliance headaches that roll your way.

Contact Pramata today to get started!
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[1]https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/revenue-transition-options.pdf