



IFRS 15 - Roadmap to Readiness: Are you Ready?

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

AGENDA

- Who does the standard impact?
- What is that impact?
- Tell me about the standard
- What should I be asking management?
- Broader impacts of the standard
- Transition roadmap
- What do I need to communicate?
- What if I wait?





SPEAKERS' BIOGRAPHIES



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JANET STOCKTON, FCA, FCPA NATIONAL PROFESSIONAL STANDARDS PARTNER

Janet provides practice leadership and promotes audit quality for the audit of reporting issuers of the firm. She also consults with clients on matters including complex accounting, auditing and financial reporting, as well as audit technical consulting, and team development of technical accounting training and publications.

She has over 30 years of experience in the audit and accounting practice, with exposure to various levels of organizations and industries, including mining. Her areas of expertise include Canadian GAAP and IFRS, consulting on complex accounting matters and US GAAP to Canadian companies, public companies, consulting on regulatory issues, and acting as a gatekeeper for foreign filers into Canada – including the US and Europe.

Credentials include:

- Member of CICA's Securities Regulation Advisory Group
- Member of the CSA's Financial Reporting Advisory Committee

SPEAKERS' BIOGRAPHIES



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MARC PRIESTLEY, CPA, CA SENIOR MANAGER, ACCOUNTING ADVISORY SERVICES

Marc Priestley is a senior manager in BDO's accounting advisory service line. He obtained his Chartered Accountant designation in 2011.

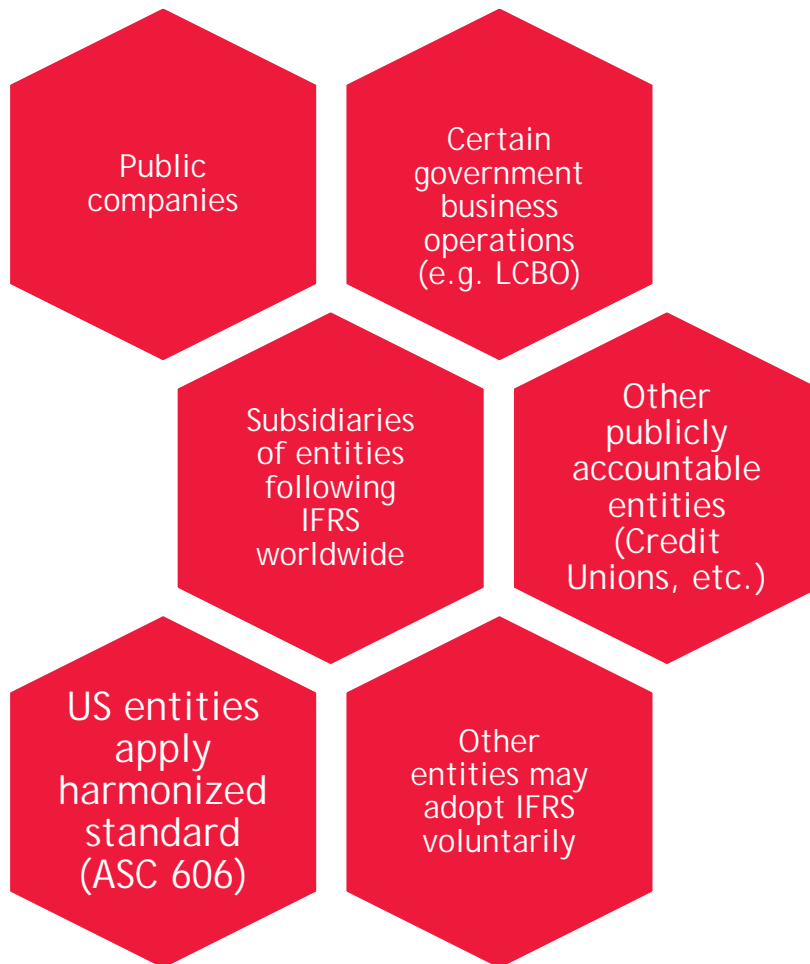
Marc's responsibilities include advising audit and advisory clients on the implications of new accounting standards, analyzing the effects of complex transactions and designing practical solutions to compliance with accounting standards. He also supports engagement teams in dealing with complex accounting issues, and provides thought leadership in the firm on developments in the accounting standard setting and compliance communities.

Credentials include:

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IFRS 15 OVERVIEW

WHO DOES THE STANDARD IMPACT?



Effective for reporting periods beginning on or after January 1, 2018...

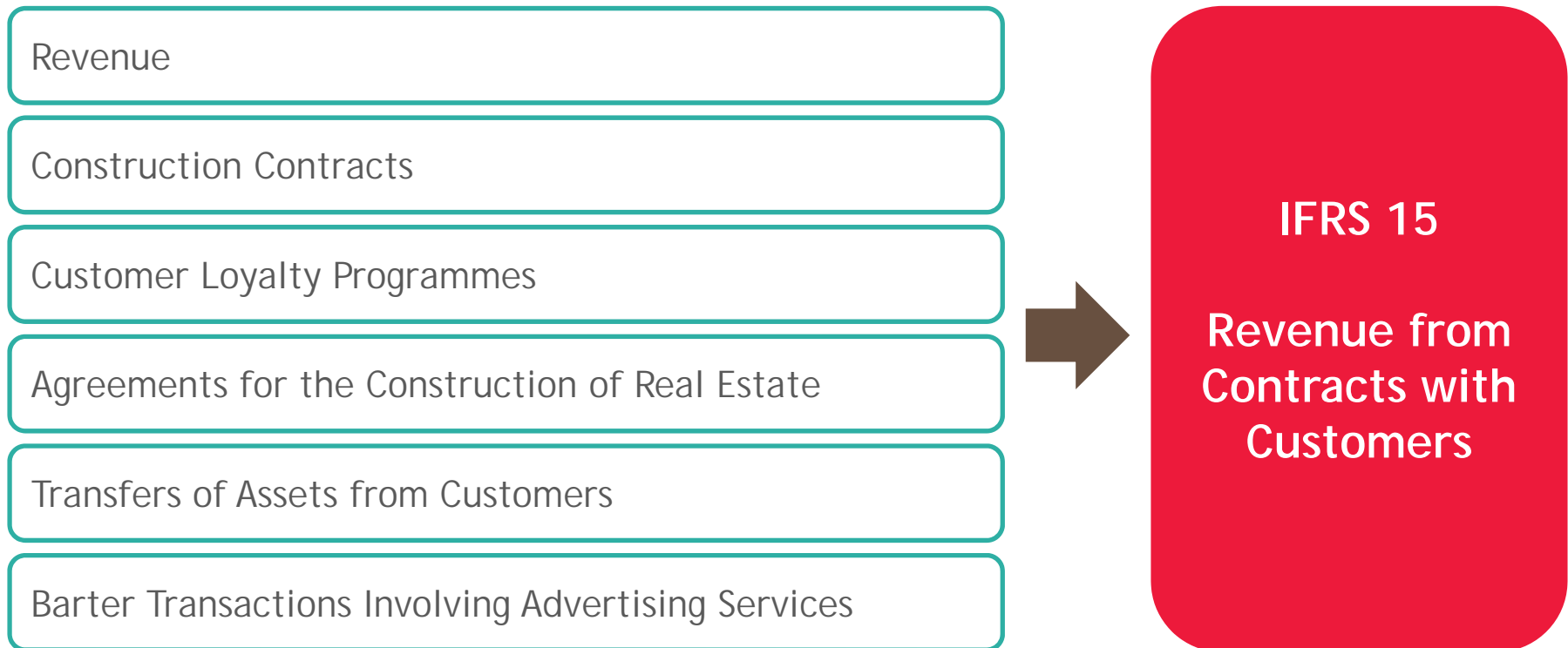
Which is now!



IFRS 15 OVERVIEW

SUPERSEDED GUIDANCE

- IFRS 15 supersedes previous IASs, SICs and IFRICs related to revenue:



IFRS 15 OVERVIEW

SIZE OF IFRS 15

	IFRS 15	Existing IFRSs	IAS 18	IAS 11	SIC 31	IFRIC 13, 15, 18
Standard	39	33	10	11	1	11
Application guidance	17	1	n/a	n/a	n/a	1
Transition guidance	2	n/a	n/a	n/a	n/a	n/a
Amendments to other standards	26	n/a	n/a	n/a	n/a	n/a
Illustrative Examples	82	21	8	4	n/a	9
Basis for conclusions	175	22	n/a	n/a	2	20
Total pages	341	77	18	15	3	41

x4 increase in guidance!

IFRS 15 OVERVIEW

DIFFERENCES FROM EXISTING IFRS

Scope	<ul style="list-style-type: none">• Applies only to contracts with customers. Other income streams dealt with in other standards.
Step 1: Identify the contract	<ul style="list-style-type: none">• More or less arrangements that are contracts and within scope.
Step 2: Identify separate performance obligations	<ul style="list-style-type: none">• Combining or separating goods or services differently.
Step 3: Determine transaction price	<ul style="list-style-type: none">• Amount of revenue (variable consideration, consideration payable to customers, financing components).
Step 4: Allocate transaction price to performance obligations	<ul style="list-style-type: none">• Pattern of revenue (amount apportioned to goods and services).
Step 5: Recognize revenue when performance obligation is satisfied	<ul style="list-style-type: none">• Timing of revenue recognition (control versus risk and rewards).
Other	<ul style="list-style-type: none">• Contract costs, contract modifications, licensing arrangements, warranties, agent/principal, customer loyalty programs.
Presentation/Disclosure	<ul style="list-style-type: none">• Asset and liability presentation. More extensive disclosure.



IFRS 15 OVERVIEW

KEY DIFFERENCES HIGHLIGHTED

The prescriptive nature of IFRS 15 will result in changes to virtually every company, though specific impacts will vary:

- Changes in amount and timing of revenue recognition
- Recognition based on transfer of control versus risks and rewards
- Use of significant estimates and judgments
- Extensive disclosure

Some causes for the key industry impacts:

- Separate accounting for distinct goods/services (versus bundling)
- Contract modifications (scope/price change)
- Variable consideration (customer discounts, vouchers, rebates)
- Licensing arrangements (specific guidance to contracts involving the licensing of intellectual property rights)

IFRS 15 OVERVIEW

KEY INDUSTRY IMPACT

Most prominently affects

Telecommunications

Technology

Companies party to long-term contracts

Although all industries will be affected in some way

Transport

Manufacturers

Retail and
Consumer
Products

Real Estate

Mining

Media and
Entertainment

Professional
Services

Licensors

Construction

Power and
Utilities



IFRS 15 OVERVIEW

REVENUE WITH A CUSTOMER

“A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.”

A grocery store receives payment from a beverage company to stock their product at the front of the shelf

- From the grocery store's perspective, is the beverage company a customer?
- From the beverage company's perspective, is the amount paid to the grocery store considered in the overall consideration received for the product?



IFRS 15 OVERVIEW

SCOPE EXCLUSIONS

IFRS 15 does not apply to certain income streams within the scope of other IFRSs
In general, they can be described as:

Lease contracts

Insurance contracts

Contractual rights arising from a
financial instrument (e.g. revenue
earned from lending)

Certain non-monetary exchanges

Income not derived from 'contracts' with customers

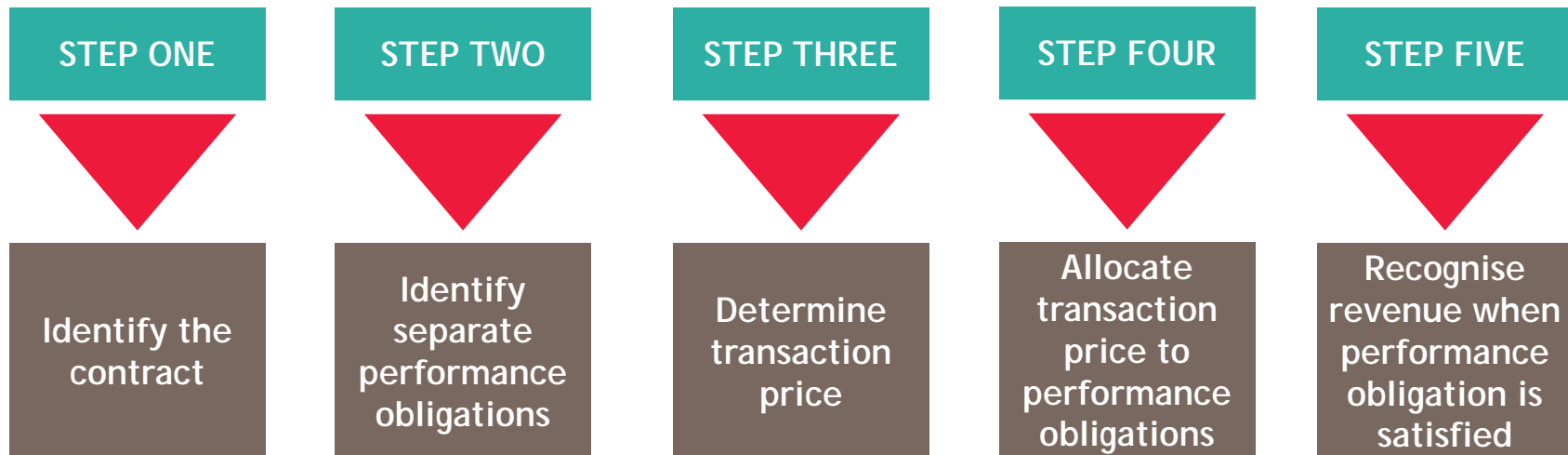
IFRS 15 OVERVIEW

'FIVE-STEP MODEL'

Core principle:

Recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services

Steps to apply the core principle:



IFRS 15 OVERVIEW

STEP #1 IDENTIFY THE CONTRACT

- Contracts can be written, oral, or implied by the entity's business practices
- Contracts with customers must meet ALL the following criteria:

(i) The contract must have commercial substance.

(ii) The contract must be approved by all parties to the contract.

(iii) Each party's rights regarding goods and services to be transferred can be identified.

(iv) The payment terms for goods and services to be transferred can be identified.

(v) Each party is committed to perform their obligations.

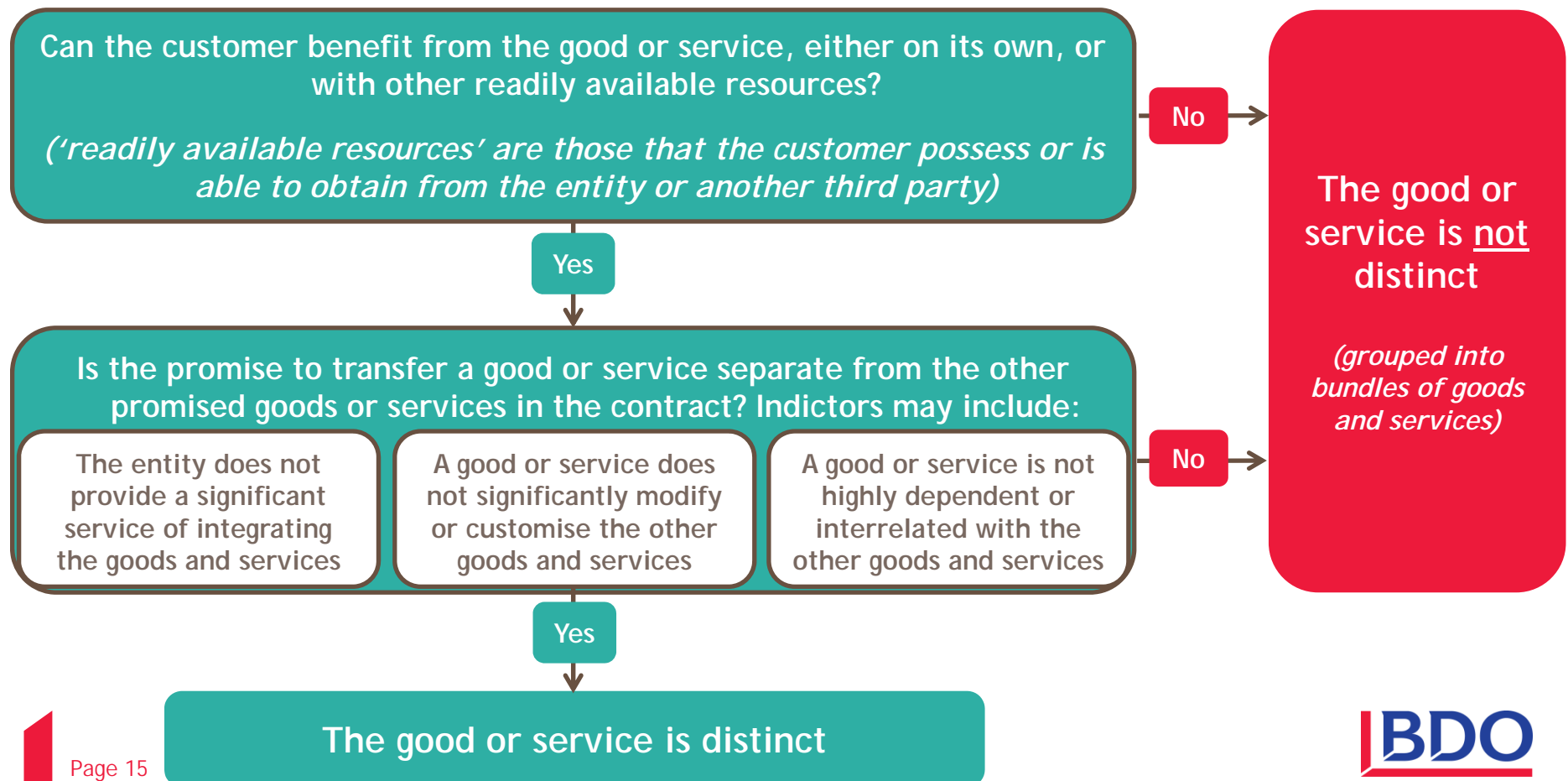
(vi) It is probable that the entity will collect the consideration to which it is entitled.

Reassess at each reporting date.

IFRS 15 OVERVIEW

STEP #2 IDENTIFY SEPARATE PERFORMANCE OBLIGATIONS

Determination of 'distinct' good or service, and hence a performance obligation:

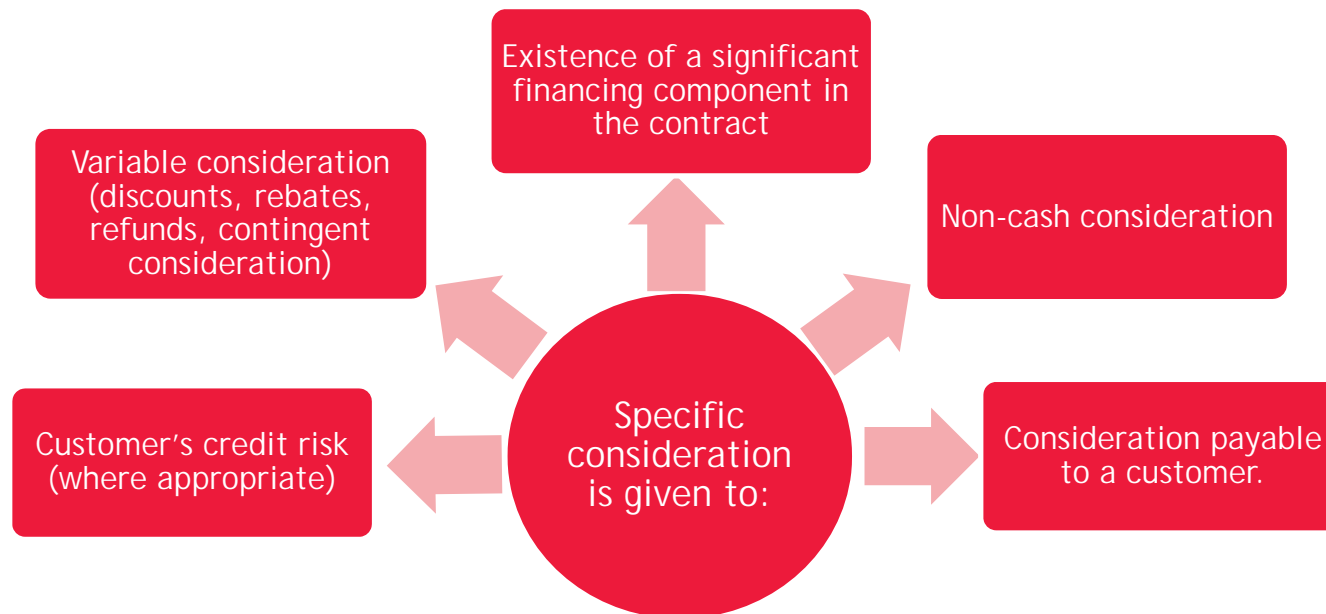


IFRS 15 OVERVIEW

STEP #3 DETERMINE THE TRANSACTION PRICE

The amount of consideration an entity expects to be entitled in exchange for transferring promised goods or services to a customer.

Excludes amounts collected on behalf of third parties - e.g. sales taxes etc.

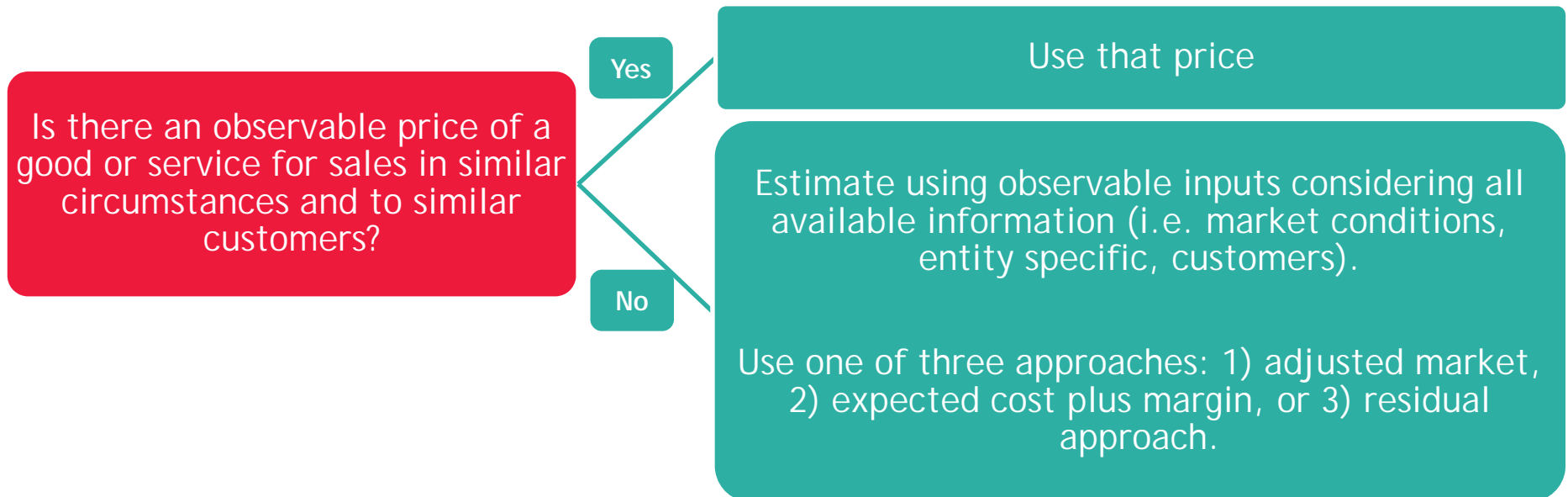


IFRS 15 OVERVIEW

STEP #4 ALLOCATE TRANSACTION PRICE TO PERF. OBGLIATIONS

Allocate transaction price (Step #3) between performance obligations (Step #2) based on their relative 'standalone selling prices'.

Standalone selling price is determined as follows:



IFRS 15 OVERVIEW

STEP #5 RECOGNIZE REVENUE

Revenue is recognized when each performance obligation is satisfied. Satisfaction occurs as/when the entity transfers 'control' of the goods or services to the customer.

Indicators whether control has been transferred include:

(i) Is there a present right to payment for the asset?

(ii) Who has legal title to the asset?

(iii) Has physical possession of the asset been transferred?

(iv) Have the significant risks and rewards of ownership been transferred?

(v) Has there been acceptance of the asset by the customer?



IFRS 15 OVERVIEW

WHAT SHOULD I ASK MANAGEMENT?

As an executive, you should consider asking management the following:

- Have we developed an approach to determining whether IFRS 15 has an effect on any of our revenue streams?
- Have we had discussions with our auditors about their views on the impact of IFRS 15 on our business?
- Have we considered the potential impacts to our IT systems that may be required to comply with IFRS 15? What about the cost?
- Have we made any communication to stakeholders (e.g. banks, regulators, parent companies) about the impact of IFRS 15?
- What about the broader impact of the standard on other areas?

IFRS 15 OVERVIEW

BROADER IMPACTS OF THE STANDARD

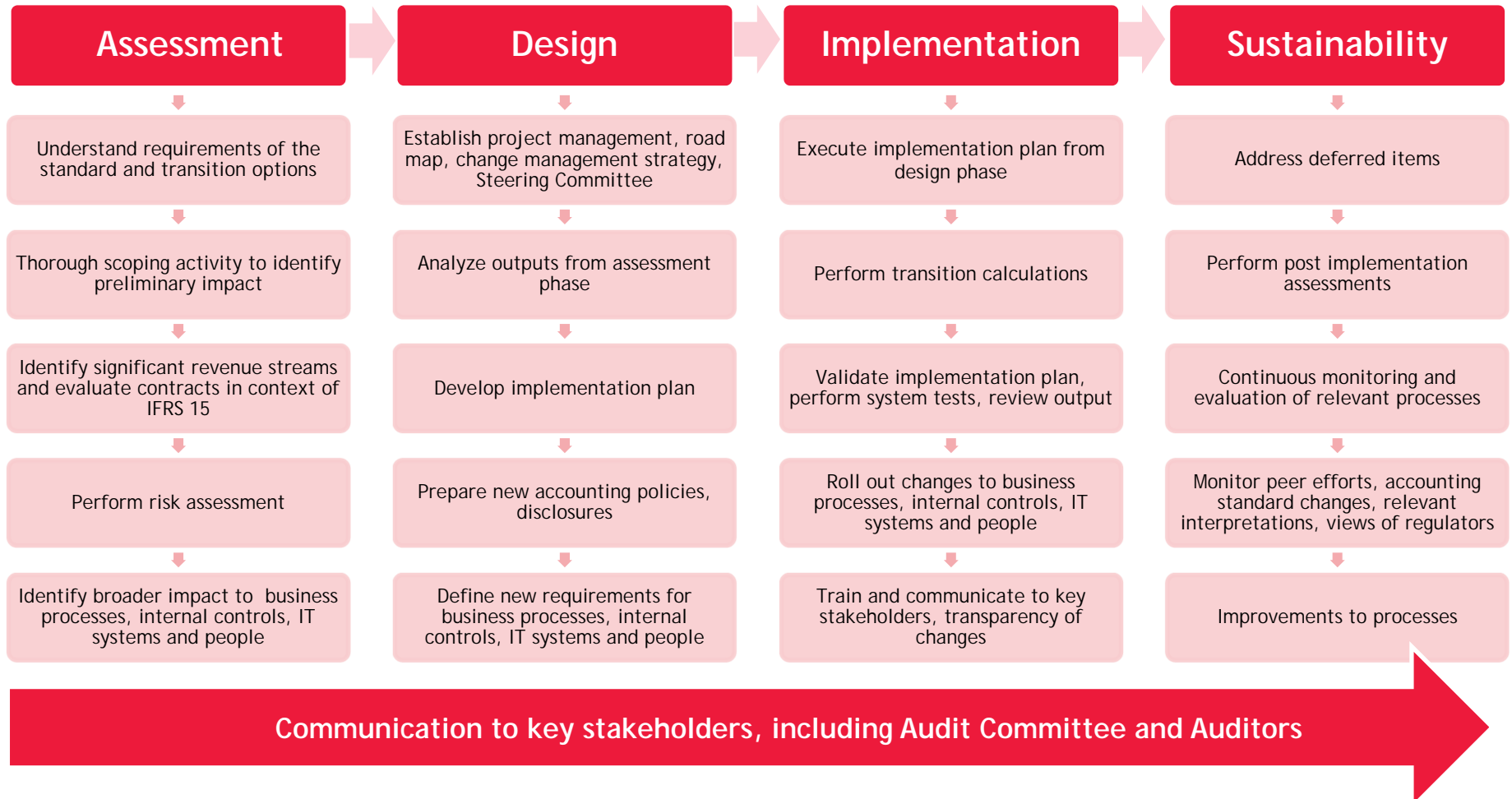
Revenue recognition impacts

- Royalty arrangements
- Bonus schemes/employee incentives
- Earn outs/contingent consideration
- KPI's/revenue based metrics
- Budgeting processes
- Corporate tax obligations
- Dividend payments
- Compliance with debt covenants/contract terms & conditions
- Contract negotiations with customers
- Investor relations/MD&A (continuity of revenue disclosures)
- Systems and processes/data collection

Not just an accounting change

IFRS 15 OVERVIEW

TRANSITION ROADMAP





IFRS 15 OVERVIEW

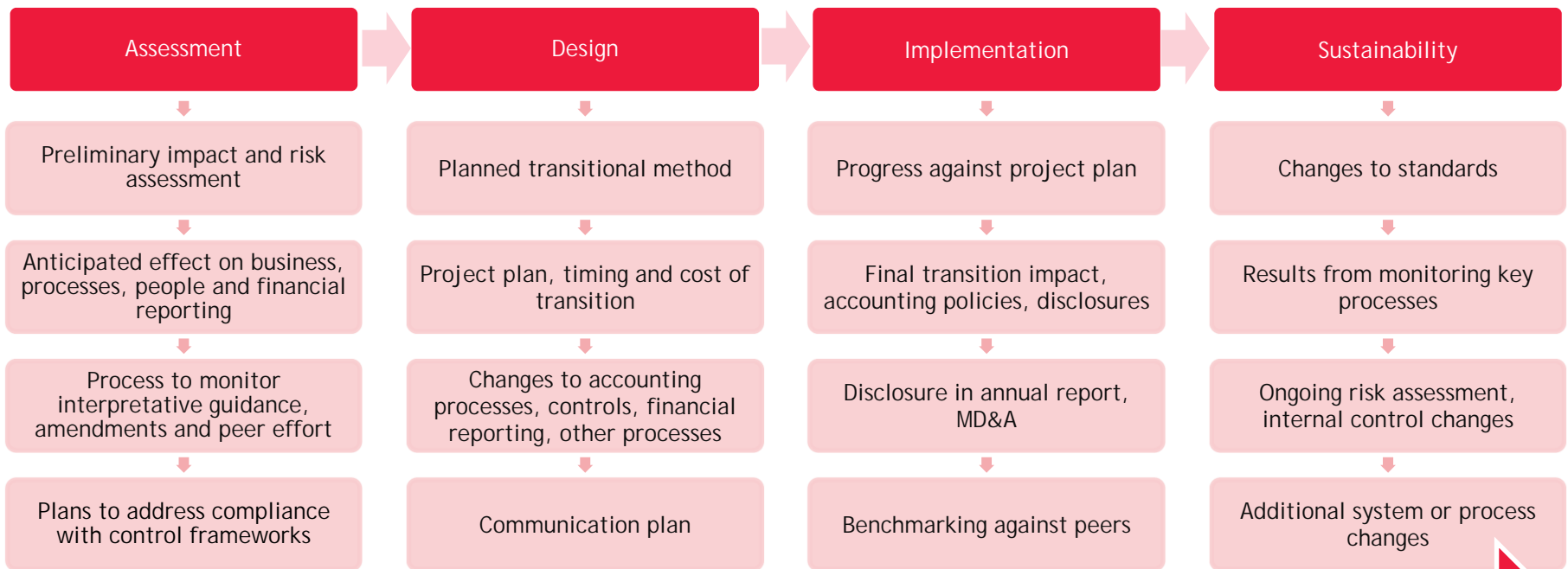
WHAT DO I NEED TO COMMUNICATE?

- What expectations are with management on timelines for research and assessment of the issues
- Dialogue with auditors should begin sooner rather than later
- Communication to audit committees and the market through MD&A must also be carefully planned
- Press releases and other information released to the public must be vetted carefully

IFRS 15 OVERVIEW

COMMUNICATION TO AUDIT COMMITTEE

Audit Committees, in their oversight capacity, have an important role in overseeing the entity as it implements IFRS 15. Transparency and communication with Audit Committee throughout each phase is fundamental.



Transition to IFRS 15 should be a standing item on Audit Committee Agendas

IFRS 15 OVERVIEW

COMMUNICATION IN MD&A

As a cornerstone of continuous disclosure, MD&A should integrate and present information significant to users

Significant accounting policies

- policies adopted, rationale for changes, transition approach applied, effect of changes on reported results, policies to be adopted after period end

Critical accounting estimates

- description and methodology applied, range of assumptions, trends or uncertainties, impact to reported results

Key performance measures and indicators

- effect on key metrics of performance and in achieving strategies

Comparative information

- explanation of changes in computation and presentation over successive reporting periods (depends on transition approach)

Provide meaningful quantitative and qualitative explanations and analysis



IFRS 15 OVERVIEW

COMMUNICATION IN FINANCIAL STATEMENTS (TELUS)

- IFRS 15, *Revenue from Contracts with Customers*, is required to be applied for years beginning on or after January 1, 2018, such date reflecting the one-year deferral approved by the International Accounting Standards Board on July 22, 2015; we are retrospectively applying the new standard effective January 1, 2018. The International Accounting Standards Board and the Financial Accounting Standards Board of the United States worked on this joint project to clarify the principles for the recognition of revenue. The new standard was released in May 2014 and supersedes existing standards and interpretations, including IAS 18, *Revenue*. In April 2016, the International Accounting Standards Board issued *Clarifications to IFRS 15, Revenue from Contracts with Customers*, clarifying application of some of the more complex aspects of the standard.

The effects of the new standard and the materiality of those effects will vary by industry and entity. Like many other telecommunications companies, we are materially affected by its application, as set out in (c) following, primarily in respect of the timing of revenue recognition, the classification of revenues, and the capitalization of costs of obtaining a contract with a customer (as defined by the new standard).

Revenue – timing of recognition; classification

The timing of revenue recognition and the classification of revenues as either service revenues or equipment revenues will be affected, since the allocation of consideration in multiple element arrangements (solutions for our customers that may involve deliveries of multiple services and products that occur at different points in time and/or over different periods of time) will no longer be affected by the current limitation cap methodology.

The effects of the timing of revenue recognition and the classification of revenue are expected to be most pronounced in our wireless results. Although the measurement of the total revenue recognized over the life of a contract will be largely unaffected by the new standard, the prohibition of the use of the limitation cap methodology will accelerate the recognition of total contract revenue, relative to both the associated cash inflows from customers and our current practice (using the limitation cap methodology). The acceleration of the recognition of contract revenue relative to the associated cash inflows will also result in the recognition of an amount reflecting the resulting difference as a contract asset. Although the underlying transaction economics would not differ, during periods of sustained growth in the number of wireless subscriber connection additions, assuming comparable contract-lifetime per unit cash inflows, revenues would appear to be greater than under the current practice (using the limitation cap methodology). Wireline results arising from transactions that include the initial provision of subsidized equipment or promotional pricing plans will be similarly affected.





IFRS 15 OVERVIEW

WHAT IF I WAIT?

Companies that have started IFRS 15 implementations late have identified these common issues and obstacles:

- System limitations for data collection
- Significant extent of estimates and judgments
- Communication and transparency
- Change management practices
- Lacking detailed analysis on other business impacts
- The implementation process taking more time than expected
- Unexpected consequences and communicating them to stakeholders

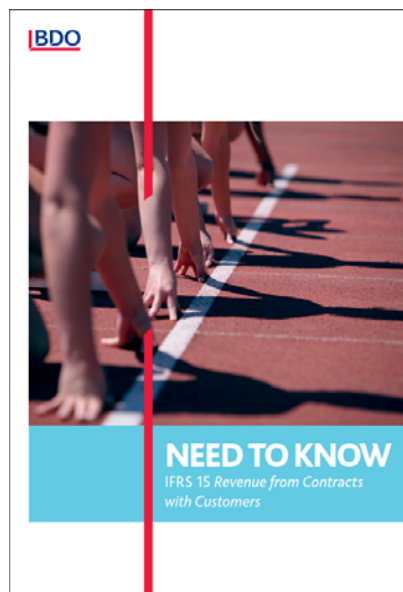
Engage with your auditors or consultants in Q1,
not at the end of the year!

IFRS 15 RESOURCES

TECHNICAL PUBLICATIONS

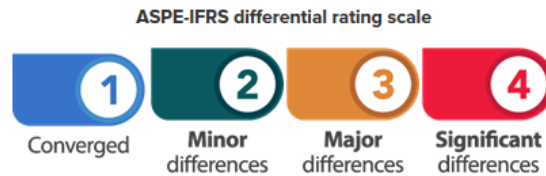
BDO Global has many resources to help entities keep up to date and to understand IFRS:

- IFRS at a Glance: short summaries, high level
- IFRS Need to Know: detailed publications
- IFRS in Practice: detailed publications focusing on “in practice” issues and examples
- IFRS Bulletins: up to date modifications on changes and activities of the IASB



IFRS 15 RESOURCES

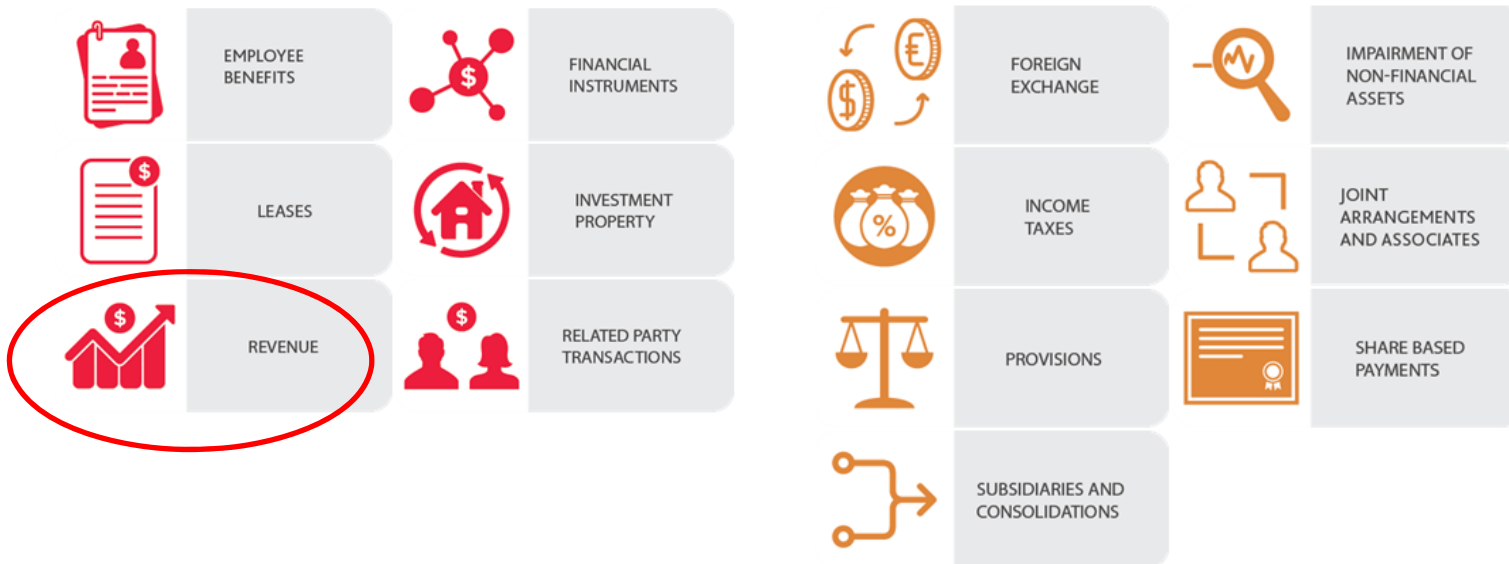
ASPE-IFRS COMPARISON SERIES



Rating scale and publication for every major standard. Visit www.bdo.ca.

Significant Differences

Major Differences



<https://www.bdo.ca/en-ca/insights/assurance-accounting/aspe-publications/aspe-ifs-a-comparison>

BDO RESOURCES

ACCOUNTING ADVISORY SERVICES

Accounting Advisory Services

Our services are tailored to help businesses of all sizes grow.



OVERVIEW

From principle to practice

In today's environment, experienced advisors are more important than ever to correctly interpret and apply accounting standards.

BDO's Integrated Accounting Advisory team is comprised of a diverse group of accounting, tax and IT professionals who help CFOs, audit committees, finance professionals and other leaders in the business community understand and apply pending accounting changes and assess the full impact to their organization. We support our clients with an integrated approach that aligns accounting analysis, risks and controls, and software processes to ensure organizations implement the necessary changes to their finance and IT systems and internal controls.

By tapping into deep industry knowledge, our professionals help our clients achieve the following:

- Understand how upcoming financial reporting changes will impact reporting to investors and other key stakeholders
- Confidently advise boards and audit committees on complex accounting issues, including impacts on existing systems and processes
- Refine efficiencies through streamlined financial processes and controls, including finance function reviews and ERP implementations
- Reduce risk by understanding potential material weaknesses and implementing key controls
- Improved financial reporting to stakeholders following mergers and acquisitions

We have extensive knowledge of the accounting standards that are applicable to businesses in Canada, including:

- International Financial Reporting Standards (IFRS)
- Accounting Standards for Private Enterprises (ASPE)
- Accounting Standards for Not-for-Profit Organizations (ASNPO)
- Public Sector Accounting Standards (PSAS) and Accounting Standards for Pension Plans
- US GAAP

Our thought leadership provides guidance and keeps clients informed of industry developments. For those who require international resources, our expansive global network offers access to the issues most relevant to them, no matter where in the world they do business.

KEY CONTACTS



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Service Line Leader, Assurance & Accounting,
CPA, CA



BRION HENDRY ▶
Partner
CPA, CA

Thank you





APPENDIX - EXAMPLES



IFRS 15 OVERVIEW

EXAMPLE ONE

A vendor (a music record label) licenses a specified recording of a Beethoven symphony to a customer from March 1, 2018 to February 28, 2019. The customer has the right to use the recording in all types of advertising campaigns (including television, radio and online media) in a specified country. The contract is non-cancellable and the customer is required to pay \$1,000 per month. The nature of the vendor's promise to its customer is to provide access to the recording in its condition as at the start of the license period.



IFRS 15 OVERVIEW

EXAMPLE ONE

Accounting Treatment:

IAS 18	IFRS 15
Straight line over 12 months	Point in time



IFRS 15 OVERVIEW

EXAMPLE TWO

A vendor enters into an 18 month contract with a customer to provide call center services for a retail customer on November 1, 2017. The consideration includes a fixed amount of \$180,000 plus an additional amount of up to an additional \$100,000 if certain service levels are attained regarding customer wait times. The additional amount is earned as follows:

- \$100,000 if service levels achieved by April 30, 2018
- \$50,000 if service levels achieved by December 31, 2018

The vendor attained the service level on December 1, 2018 and became entitled to \$50,000.



IFRS 15 OVERVIEW

EXAMPLE TWO

Accounting Treatment:

IAS 18	IFRS 15
<p data-bbox="170 695 781 743">Straight line over 18 months</p> <p data-bbox="170 812 942 911">Additional consideration recognized once service levels are met</p>	<p data-bbox="1037 695 1648 743">Straight line over 18 months</p> <p data-bbox="1037 812 1776 1024">Includes most likely amount of variable consideration that will be earned at inception of contract of \$50,000</p>



IFRS 15 OVERVIEW

EXAMPLE THREE

A vendor enters into a 2 year contract with a customer to supply a licence for a standard 'off the shelf' software package, install the software, and to provide upgrades and technical support for a period of two years on June 1, 2018 for \$480,000. The vendor sells the licence, and upgrade and technical support, separately and the installation service is routinely provided by a number of other unrelated vendors. The software is functional without the upgrades and technical support.



IFRS 15 OVERVIEW

EXAMPLE THREE

Accounting Treatment:

IAS 18	IFRS 15
Straight line over 24 months at \$ 20,000 per month	<p>The following distinct goods or services are identified along with their relative fair values:</p> <ul style="list-style-type: none">Software licence \$ 260,000Installation service \$ 100,000Technical support - \$ 120,000 <p>The revenue for the licence and installation service is recognised at the delivery date of 1 June 2018.</p> <p>The technical support is satisfied over time in relation to expected direct labour hours as follows:</p> <ul style="list-style-type: none">2018 - 1002019 - 3002020 - 200 <p>The total expected labour hours at inception of the contract were 600.</p>