

HKICPA issued the new Revenue Standard



- How would the new Revenue Standard affect you?

The Hong Kong Institute of Certified Public Accountants (HKICPA) has just issued HKFRS 15 *Revenue from Contracts with Customers*, which is identical to IFRS 15 issued by the International Accounting Standards Board about a month ago.

The new Standard (i.e. HKFRS 15 or IFRS 15) together with the application guidance, illustrative examples and basis for conclusion have more than 300 pages.

Immediately after the IASB issued IFRS 15, we have published a newsletter that gives you an overview of the new Standard. Please click [here](#) for the newsletter.

Summary of the new Standard

In summary, the key features of the new Standard are as follows:

- As suggested by the title of the new Revenue Standard, HKFRS 15 will only cover revenue arising from contracts with customers. Under HKFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of HKAS 18, interest income and dividend income from debt and equity investments are no longer within the scope of HKFRS 15. Instead, they are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* (or HKFRS 9 *Financial Instruments*, if HKFRS 9 is early adopted).

- HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and related Interpretations will be superseded upon the effective date of HKFRS 15. The new Standard has only one single model to deal with revenue from contracts with customers.
- The core principle in HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised 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. In particular, the new Standard has introduced a 5-step approach regarding when and how revenue should be recognised. The 5 steps are shown in the diagram below:



- The new Standard includes specific guidance on:
 - Whether or not a contract (or a combination of contracts) contain more than one separate elements, and if so, when and how each separate element should be unbundled;
 - When the consideration allocated to each element should be recognised as revenue. Unlike HKAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess (based on the same criteria set out in the new Standard) whether revenue should be recognised over time or at a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services';
 - When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for a variable consideration to be recognised as revenue – that is, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.
- Far more prescriptive guidance has been introduced by the new Standard (e.g. when costs incurred to obtain a control and costs to fulfil a contract can be recognised as an asset).
- Extensive disclosures are required by the new Standard.









The new Standard is effective for reporting periods beginning on or after 1 January 2017 with early application permitted. Entities can choose to apply the Standard retrospectively or to use a modified transition approach.







Many entities will be affected by the new Revenue Standard!

With far more prescriptive guidance, the majority of entities are likely to be affected by the new Standard, at least to some extent. Furthermore, the application of the new Standard may result in substantial changes to the timing of revenue recognition for some entities. Entities will need to assess the impact of the new Standard and determine the extent of the change. In some cases, the change could be substantial that may require changes to the existing processes, IT systems and internal controls as a result both of the new model and of the increased disclosure requirements.

Specifically, how the new Standard will affect you

Depending on the industry type, the effect of the application of the new Standard may vary. Deloitte has issued a number of Industry Insights that aim to give you a high-level summary of how the new Standard might affect you.

Industry	Link to Industry Insight
Real estate	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-real-estate
Telecommunications	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-telecoms
Travel, hospitality and leisure	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-travel-hospitality-and-leisure
Health care products	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-healthcare-provider
Investment manager	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-investment-management
Life science	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-life-sciences
Retail, wholesale and distribution	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-wholesale-and-distribution
Consumer products	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-consumer-products-sector

Aerospace and Defense	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-aerospace
Automotive	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-automotive
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Chemicals	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-ifs-15-chemicals
Industrial Products	 http://www.iasplus.com/en-gb/publications/uk/point-of-view/2014/point-of-view-industrial-products-sector
Power	 http://www.iasplus.com/en-gb/news/publications/uk/point-of-view/2014/point-of-view-ifs-15-power-sector

As usual, if you have any questions on the subject matter, please contact us.

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