



Axcelasia is an integrated professional services group providing tax advisory, business consulting, enterprise management system applications and business process outsourcing services to public listed companies, private companies, multinational corporations and government-linked entities. We are pleased to provide our insights on the implementation of MFRS 15 Revenue from Contracts with Customers.

Malaysian Financial Reporting Standard 15 Revenue from Contracts with Customers

- Are you ready for the Transformation?

As many of us may be aware, on September 2014, the Malaysian Accounting Standards Board issued a new revenue standard, MFRS 15 Revenue from Contracts with Customers which is effective for financial periods beginning on or after 1 January 2018 with early adoption being permitted.

It supersedes all existing MFRS revenue recognition guidance with a single framework to improve comparability within industries, across industries and across capital markets.

The framework emphasises on the performance obligations in the contract and allocating a transaction price to those obligations. The requirements for the new revenue standard is based on a core principle and by applying the five step model as follows:

- **Step 1: Identify the contract with customer.**

A contract creates enforceable rights and obligations. It could be written, oral, or implied by customary business practice. Combined contracts when they are entered into at or near the same time and are transferred as a package such as payment of one depends on the other are seen as a single performance obligation.

- **Step 2: Identify separate performance obligations in the contract.**

Performance obligations are promises in a contract to transfer goods or services, including those a customer can resell or provide to its customers. The model's indicators can be used to separate the performance obligations if they are capable of being distinct and if they are distinct based on the context of the contract (separately identifiable from other promises in the contract).

- **Step 3: Determine transaction price.**

Transaction price is the amount of consideration a company is entitled to receive in exchange for transferring goods or services to the customer. Determining the transaction price is least complex when the contract price is fixed. It becomes more complex when the consideration amount has variable considerations.

- **Step 4: Allocate the transaction price.**

Transaction price should be allocated to distinct performance obligations based on relative standalone selling price. This may be the standalone selling price of goods or services when sold separately to a customer in similar circumstances and to similar customers. If a standalone selling price is not directly observable, estimate it by considering all information that is reasonably available.

- **Step 5: Recognise revenue when the performance obligation is satisfied.**

Revenue is recognised when the promised goods or services are transferred to the customer and the customer obtains control. This may be over time or at a point in time. The new standard provides indicators when control is transferred. Additionally, the new standard presents a new concept and revenue is required to be recognised over time when:

- i. The asset being created has no alternative use to the company; and
- ii. The company has an enforceable right to payment for performance completed to date.

What does this mean to you?

MFRS 15 will affect companies in a wide range of industries. The scale of impact will be determined by each company's commercial relationship with its customers.

The impact could be to key financial measures and ratios and could lead to reconsideration of bonuses and incentive plans. It would also require companies to revisit tax accounting and planning as well as the current system and processes in place.

Companies should start with reviewing existing revenue arrangements, contract terms and business practices to identify where changes might occur.

What are the reactions from our clients?

- Implementing MFRS 15 requires a cautiously thought-out and structured approach as its impact is extensive, especially in the areas of application of judgment and estimates.
- Getting ready for the change and implementation management could be a significant effort.
- Businesses have to reassess their business strategies and update their processes and systems as well as communicate the potential impact to investors.
- More extensive and transparent disclosure requirements in their financial reporting are anticipated.

It is essential that operational risks and practical challenges are considered prior to the implementation phase.

Food for thought

Below are some questions to think about:

- What proportion of your customer offerings are bundled products and services?
- Do you offer different pricing to customers based on the timing of their payment? Are payment terms significantly different from timing of when goods or services are transferred?
- Do you have significant license arrangements? Do those license arrangements include other services?
- What is the volume of customer contracts you enter into, and how diverse are their terms and conditions?
- Do you construct or manufacture assets that are unique to your customers? Have you considered when you transfer control of the goods and services to your customers?
- How integrated and how complex is your system for sales, billing, customer management and accounting?

How can Axcelasia help you?

Our dedicated professional executives at Axcelasia will be able to assist you in the following areas by providing the services below:

- Conduct an in-house training on the new revenue standard to enable management to be more well versed moving forward;
- A comprehensive study focusing on issues of recognition, measurement, presentation and disclosures required by the new standard;
- Diagnostics and impact analysis inclusive of proposed restatement of opening balance adjustments where applicable;
- To assist in tax planning;
- To assist in system enhancement; and
- To assist in drafting the relevant applicable disclosures in the financial statements.

Should you have any queries with regards to the above, kindly contact Sivaruban at sr@axcelasia.com

Disclaimer: This newsletter contains general information only, all of which may be subject to change. Independent professional advice should be obtained where necessary.

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