



**Adopt, Implement & Comply
with
US GAAP(ASC 606) & IFRS 15**

The Oracle logo, consisting of the word "ORACLE" in white, uppercase, sans-serif font on a red rectangular background.

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Cloud Standard

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What is ASC 606 and IFRS 15?

- ❑ Accounting Standards Codification (ASC) 606 issued by FASB
- ❑ International Financial Reporting Standards (IFRS) 15 issued by IASB (equivalent standard applicable at present- IAS 18)
- ❑ Both titled '*Revenue from Contracts with Customers*' outline a single model for revenue recognition and it supersedes current industry-specific guidance, improving comparability across industries and across global markets.

Major Implications



Earlier → Recognize revenue based on certain accounting events/rules.

Now → Recognize revenue when *performance obligations are met*.

Business Challenges

- ❑ A single model for revenue recognition from contracts with customers
- ❑ Mandatory for specified entities from annual periods beginning on or after 1 January 2018

Transition timeline- IFRS

IAS 18 disclosures apply

Early adoption permitted under IFRS

Effective

2014

2015

2016

2017

2018

2019

New revenue
standard issued

Retrospective
restatement*

IFRS applicable
(specified entities)

**Assume only one year comparative period presented*

- ❑ All specified entities will be required to adopt the standard retrospectively.
- ❑ Either “full retrospective” or “modified retrospective” approach.

	PY (2017)		CY (2018)	
Full retrospective	Cumulative catch-up	Contracts under the new standard Contracts restated		IFRS 15 and IAS 18 disclosure apply.
Modified retrospective		Contracts not restated	Cumulative catch-up	Existing and new contracts compared using current IFRS (e.g., IAS 18) in CY

Both these standards are similar in their processes stand point, except for the few differences which are highlighted below.

ASC 606	IFRS 15
Collectability criterion	
It is probable that it will collect all of the consideration to which it is entitled for the transferred goods or services.	Here, it is probable that it will collect all of the stated consideration.
Shipping and handling activities	
Either be treated as fulfillment costs or be recognized them as separate performance obligations.	It should be treated as a separate performance obligations.
Licensing	
ASC 606 recognizes as “functional IP” and “symbolic IP”.	IFRS 15 recognizes as a right to access license versus a right to use license.

Revenue Recognition Process

Step 1

- Identify the contract with the Customer

Step 2

- Identify the performance obligations

Step 3

- Determine the transaction price

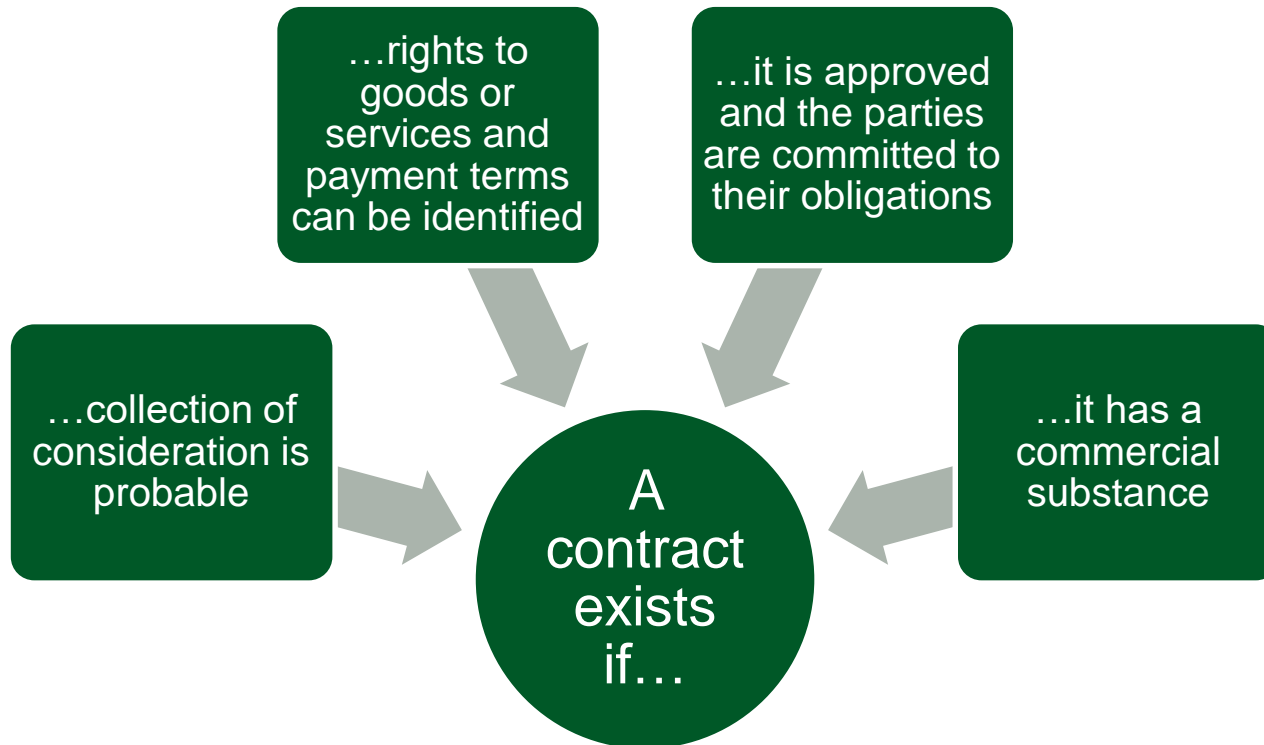
Step 4

- Allocate the transaction price

Step 5

- Recognize revenue when or as the entity satisfies the performance obligations

Step 1: Identify the Contract with a Customer



Step 2: Identify the performance obligations

The key determinant for identifying a separate performance obligation is

- whether a good or service, or a bundle of goods or services, is distinct.
- a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Note: Each distinct good or service will be a separate performance obligation.

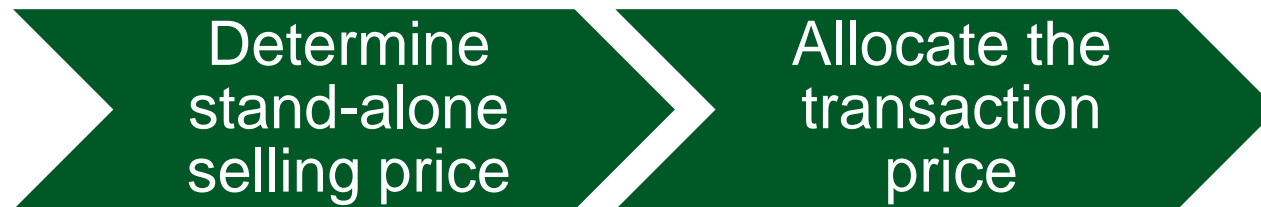
Step 3: Determine the transaction price

Transaction price

- Non-Cash consideration
- Variable consideration
- Significant financing component
- Consideration payable to a customer

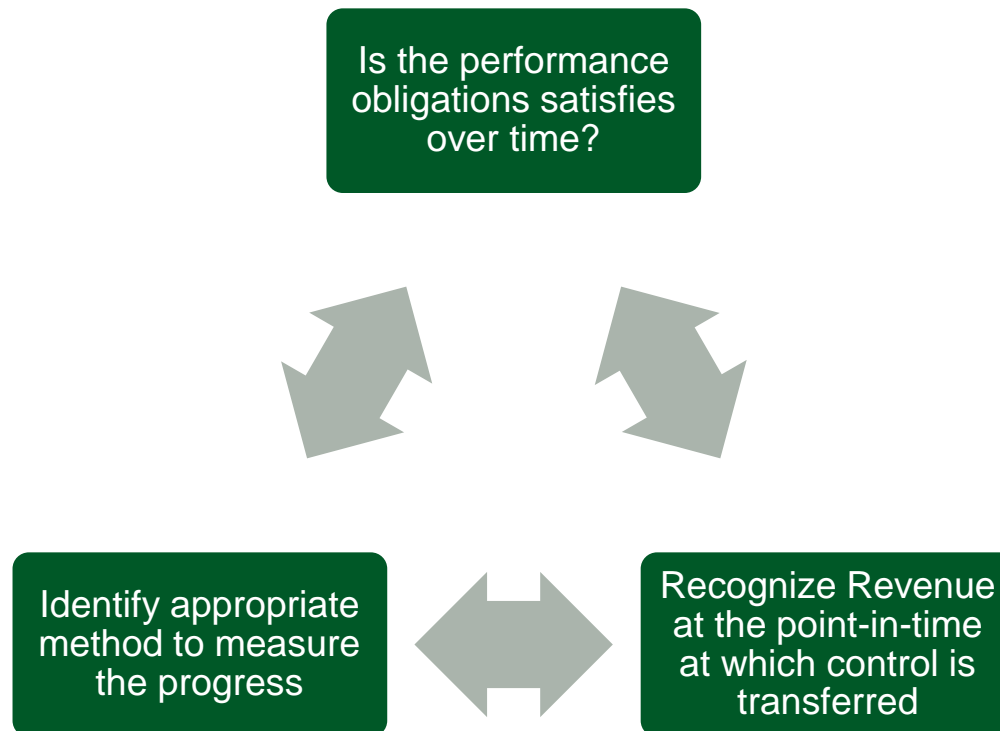
Step 4: Allocate the transaction price

- The transaction price is allocated to each performance obligation – or distinct good or service – to depict the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods or services to the customer.
- An entity generally allocates the transaction price to each performance obligation in proportion to its stand-alone selling price.
- However, when specified criteria are met, a discount or variable consideration is allocated to one or more, but not all, performance obligations.
- This step of the revenue model comprises two sub-steps:



Step 5: Recognize revenue when entity satisfies performance obligations

At contract inception, an entity first evaluates whether it transfers control of the good or service over time – if not, then it transfers control at a point in time.



Example

Mr. John enters into a 12 month telecom plan with local mobile operator TELE PLC. The terms and conditions of the plan are as follows:

- John's Monthly fixed fee- \$100
- John receives a free handset at the inception of the plan.

TELE PLC sells the same handsets for \$300 and same monthly prepayment plans without handsets for \$80 per month.

How TELE PLC recognize revenue as per IAS 18 and IFRS 15??

Revenue Recognition

As per IAS 18 (presently followed)

Dr Receivable	\$100	(Each month)
Cr Revenue	\$100	

(Being fixed charges due for the month and revenue recognised).

Dr Cash	\$100	(Each month)
Cr Receivable	\$100	

(Being monthly fixed charges collected).

As per IFRS 15

Step 1 Identify the Contract

John:

1. Receive the handset
2. Monthly Payment \$100

Step 2 Identify the Performance Obligations

TELE PLC:

1. Deliver the handset
2. Provide network service

Step 3 Determine the Transaction Price

Transaction Price=====➔ \$1200 (\$0 + \$100 p.m * 12m)

Step 4 Allocate the transaction price

<i>Description</i>	<i>Stand-alone price</i>	<i>%</i>	<i>Actual price</i>
Handset	\$300	23.80	\$286 (23.80*1200)
Service	\$960	76.20	\$914 (76.20*1200)
Total	\$1260	100.00	\$1200 (Contract)

Step 5 Recognise Revenue

1. When Handset is delivered

Dr Contract Asset	\$286
Cr Revenue	\$286
(Being contract asset created in the books)	

2. Service Income

Dr Receivable	\$100
Cr Contract Asset	\$24 (\$286/12M)
Cr Revenue	\$76 (\$914/12M)

3. When receive cash

Dr Cash	\$100
Cr Receivable	\$100

AS 606 & IFRS- Case Study 2

AutoMaker Inc receives order for X1 series model from a customer. As per the contract terms, AutoMaker Inc delivers the product at Ex-showroom and arranges for the shipping. And the Ex-showroom price is 30K. And the shipping cost is 3K. How will AutoMakerInc recognize revenue as per ASC 606 and IFRS 15?

As per ASC 606	As per IFRS 15
Step 1 Identify the Contract	
<ul style="list-style-type: none">• Manufacture and deliver the product• Make arrangements for shipping	Same
Step 2 Identify the PO	
<ul style="list-style-type: none">• Deliver the product	<ul style="list-style-type: none">• Billing the Product• Shipping arrangement
Step 3 Determine the TP	
<ul style="list-style-type: none">• Price= 33K including shipping costs (30K+3K)	Same
Step 4 Allocate the TP	
<ul style="list-style-type: none">• There is no need of allocation as the transaction price and stand alone price are same.	Same

Case Study 2 Contd..

Step 5 Recognize Revenue

As per ASC 606		As per IFRS 15	
On Billing			
Dr Receivable	30K	Dr Receivable	33K
Cr Revenue	30K	Cr Revenue	33K
On Shipping			
Dr Recoverable	3K	No entry	
Cr Freight	3K		
When Cash is received			
Dr Cash	33K	Dr Cash	33K
Cr Recoverable	3K	Cr Receivable	33K
Cr Receivable	30K		

Case Study 3- Expected Behavior

Example:

Bravo Inc received two different Orders from Mr. Thomas

1. LED TV
2. Installation and Demo

Bravo Inc, creates a Sales Orders

Order No 101, was created for the Dispatching of the below items (different Lines)

Line Item	Transaction Price	Standalone selling Price (estimated)
LED TV, Remote and Wall mount and Fittings	10,000	9,000
Installation and Demo	1,000	1,000

Step 1: Based on our setup in the Revenue Management (RM) cloud, it brings the details from source and creates a contract Sale of LED TV and Installation and demo with the Transaction Price of 11,000.

Step 2: There are 2 different Performance Obligation

- a. Dispatching of the LED TV (includes Fittings)
- b. Installation and Demo

Step 3: The total Transaction Price is 11,000

Step 4: Allocation

PO	SSP	Ratio	Revenue	Amount to Bill	Difference
Dispatching of LED TV and Fittings	9,000	90%	9,900	10,000	(100)
Installation and Demo	1,000	10%	1,100	1,000	100

Case Study 3 Contd..

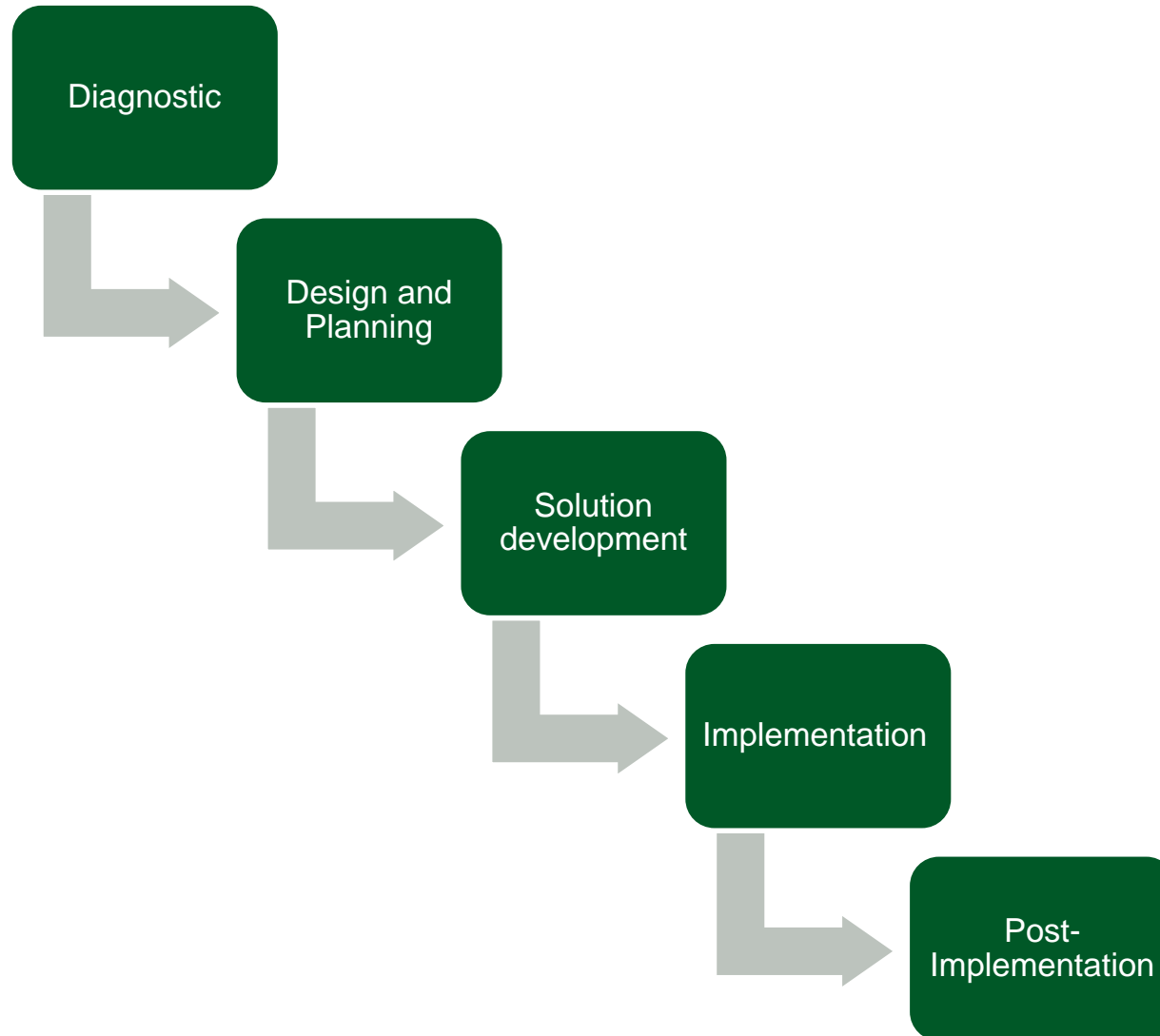
Step 5 Recognize Revenue

Particulars	Debit	Credit
Dispatching of LED TV and Fittings		
Contract Asset A/c	9,900	
To Revenue		9,900
On Billing of LED TV and Fittings		
Receivables A/c	10,000	
To Revenue Clearing A/c		10,000
Revenue Recognition		
Revenue Clearing A/c	10,000	
To Contract Asset		9,900
To Contract Liability		100
Dispatching of LED TV and Fittings		
Contract Asset A/c	1,100	
To Revenue		1,100
Invoicing of Installation and Demo		
Receivables A/c	1,000	
To Revenue Clearing A/c		1,000
Revenue Recognition		
Revenue Clearing A/c	1,000	
Contract Liability	100	
To Contract Asset		1,100

Why OneGlobe ?

- ❑ OneGlobe has expert professionals who have thorough understanding and knowledge of IFRS and US GAAP.
- ❑ OneGlobe principals grew up in the Oracle PBCS implementation business and have implemented Oracle PBCS in a number of organizations across various verticals, geographies, sizes and levels of complexity.
- ❑ We have grown our understanding of Oracle EPM solutions over this time frame and Oracle EPM Cloud Applications are just the next logical step in that journey.
- ❑ We understand the underlying financial principles that drive organizations in their use of certain business processes.
- ❑ Companies do not have the luxury of neglecting or ignoring critical business processes as they move mission critical applications to the cloud.

What can we do for you ?





- Understand the requirements of the new standard
- Determine the preliminary impact on the entity
- Identify significant revenue streams and analyze representative contracts under the new standard to understand the impact on all workstreams
 - Accounting and reporting
 - Revenue – measurement and timing
 - Disclosures
 - Tax
 - Business processes and systems
 - Change management
- Outputs of the diagnostic phase
 - Training materials
 - Summary of revenue streams
 - Accounting position papers for representative contracts
- All workstreams
 - Report summarizing preliminary assessment of affected areas and areas of focus to be built into the project plan



- Analyze outputs from the diagnostic phase
- Develop a detailed project plan based on the transition method selected to address the issues identified in the diagnostic for each workstream
- Monitor the project plan on an ongoing basis and continually update based on new feedback
- Outputs of the design and planning phase
- All workstreams
 - Project management and budget
 - Detailed project plan
 - Communication and training strategy



- Develop solutions for the action items identified in the project plan
 - Examples of outputs from each workstream:
 - Accounting and reporting: draft accounting policies in line with the new standard, accounting position papers analyzing additional contracts to determine the impact, an approach for calculating the cumulative catch-up adjustments (if any), draft disclosures to comply with new requirements
 - Tax: new and updated tax basis, changes in tax policies, redesigned tax reporting package, approach for calculating tax impact difference
 - Business processes and systems: systems requirements to comply with new standard, processes for implementing new standard, internal controls for newly developed processes
 - Change management: training materials for new processes, communication plan changes in compensation policies



- Rolling out solutions developed in the prior phase to the organization
- Examples of outputs from each workstream:
 - Accounting and reporting: 2017 F/S (including cumulative catch-up adjustment and new disclosures), updated accounting policy manual (distributed to accounting professionals)
- Tax: updated tax accounting policies
- Business processes and systems: updated business process and policy manuals, fully implemented accounting system



Monitor organizational implementation efforts

- Identify necessary updates and changes to processes, systems and policies to support continuous improvement
- Monitor peer efforts
- Conduct status meetings

Oracle Revenue Management Cloud- An Introduction

- A centralized, automated revenue management solution that enables you to address the ASC 606 and IFRS 15 accounting standard *Revenue from Contracts with Customers*.
- An application that enables you to manage customer contracts and performance obligations easily to help you address the mandates of the new accounting guidance.
- Is part of Oracle Enterprise Resource Planning Cloud and has the capability to co-exist with any source application, say Oracle EBS.
- Robust integration is available with third party applications, say Oracle EBS.



Standard Business Practice

- ❑ Early preparation will be the key to a successful implementation of the new standard.
- ❑ Start preparing now to figure out how the standard affects your financial statements, your investors, and the way you do business.
- ❑ Develop an approach that effectively leverages the transition period-measured approach.
- ❑ Establish robust governance structure

Oracle Revenue Management Cloud

- ✓ Supports IFRS 15 and ASC 606.
- ✓ Cloud co-existence with Oracle E-Business Suite with pre-built integration.
- ✓ Automatic contract identification, revenue allocation across performance obligations within each contract.
- ✓ Support for “point in time”(immediate) and “over time” (deferred) revenue recognition.
- ✓ Separation of revenue from billing with the ability to recognize revenue independently of billing.

Continuing the discussion

*To have a deeper conversation on
the new revenue recognition
standards reach out to the
following contacts.*

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