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All correspondence should be addressed to: The Editor, ICANTechnical Bulletin.

Address: ICAN Annexe office, 82 Murtala Muhammed Way, Ebute Meta, Lagos.

Tel: 09053847534, 08065303399
Email: researchandtechnical@ican.org.ng
mcabiahu@ican.org.ng
Website: www.icanig.org

EDITORIAL NOTE

Many advocates have intensified efforts towards the adoption of an integrated approach to corporate reporting as the traditional financial reporting do not provide investors with a clear representation of the value of their investments. Recent developments in business has shown that the value of business organisations goes beyond the traditional tangible assets in the financial statements to include such other factors as relationship, intellectual and human capital make up an increasing proportion of a company's value, as explained in the write up.
IFRS 15: Revenue from Contracts with Customers became effective from 1st January 2018 for all 2018 interim and annual financial statements. The new standard has effectively replaced the old revenue standards- IAS 18 Revenue and IAS 11 Construction contracts. We, therefore, examine the key changes introduced by the new standard as well as highlighting the compliance requirement for Chartered Accountants.

IFRS 15:
Revenue from Contracts with Customers - Compliance requirements for 2018 Interim and year-end Financial Statements

Introduction

Effective 1 January 2018, all 2018 interim and annual financial statements are required to comply with the provisions of the new Revenue Standard. IFRS 15 replaced the old revenue standards, IAS 18 Revenue and IAS 11 Construction contracts. Some of the key changes observed between the old and new revenue standards include the following:

- shift from sales of goods and rendering of services to focus on customer contracts and nature of promise(s) made to a customer
- Timing and extent of revenue recognition is based on transfer of control of the promised goods or services while transfer of significant risks and rewards is now one of the indicators (amongst others) assessed by an entity to demonstrate transfer
- Revenue recognition is now measured at the estimated transaction price instead of fair value

High-level Summary of the 5-Step Model

IFRS 15 requires an entity to apply the '5-Step model' in accounting for its contracts with customers and by implication affects revenue recognition. The 5-Step Model is summarized as follows:

Step 1: Identify the contract(s) with a customer	• Demonstrate that a customer has intention and ability to pay for the promised goods or services. A customer contract is not recognised under IFRS 15 if customer collection is doubtful. • Both parties to the contract must approve the terms of the contract. • Payment terms of the goods or services can be identified. • Contract must have commercial substance.

Step 2: Identify the performance obligation	• The performance obligation is the unit of account for revenue recognition and the following two conditions are required to be met: • Customer can benefit from good or service either on its own or together with other resources that are readily available to it; and • Promise to transfer the good or services is separately identifiable from other promises in the contract
Step 3: Determine the transaction price	• Transaction price is adjusted for: • discounts, rebates,refunds,credits , incentives, perfomance bonus, loyalty program and price consessions • time value of money • non-cash considerations • payments to customers
Step 4: Allocate the transaction price	• Performance obligation is allocated based on relative stand alone price. The best evidence of a stand alone price is the observable price however if there is no observable price, an entity can estimate using alternative methods.
Step 5: Recognise Revenue	Revenue is recognised when an entity has transferred the control of the goods or services (i.e satisfies the promise made to the customer) either over time or at a point in time.

Capitalisation of contract cost

IFRS 15 provides detailed guidance on capitalisation of contract costs that meet certain criteria. Two major types of cost can be capitalised:

Type of cost	Nature of cost
Cost to obtain a contract	This represents incremental cost incurred in obtaining a contract and recovery of such cost is expected
Cost incurred to fulfill a contract	This represents cost directly attributable to the contract and recovery of such cost is expected.

Capitalised costs are amortised on a systematic basis that depicts the transfer of the promised goods or services to the customer. An entity is required to perform an impairment assessment for capitalised cost in accordance with the principles of IFRS 15.

Transition Options

Incremental cost in this context implies avoidable cost

Transition option	2017	2018	Date of equity adjustment
Cost to obtain a contract	Restate all contracts within the scope of IFR 15 in accordance with the requirem-ents of IAS 8: Accounting Policies, changes in accounting estimates and errors	Full application of IFRS 15 for both Interim and year-end financial statements	1 January 2017
Full retrospective – practical expedients	Restate but apply practical expedients available such as scoping out completed contracts that begin and end within the same annual reporting period	Full application of IFRS 15 for both Interim and year-end financial statements	1 January 2017
Cumulative effect	2017 comparative numbers are not restated. IFRS 15 is applied prospectively.	Full application of IFRS 15 for both Interim and year-end financial statements	1 January 2018

Readiness Assessment for IFRS 15

The Board of Directors and Audit Committee must ensure that the following key action items are completed before the December 2018 year-end financial statements are issued:

S/N	Activity steps
1.	Review of all contracts with customers to evaluate the nature of performance obligations/ other contract terms
2.	Develop new solutions and controls
3.	Perform training on new processes and controls
4.	Determine how to capture new and potentially sensitive information that may require disclosure
5.	Determine broader impact of IFRS 15 on financial results and KPIs
6.	Communicate expected impacts to investors and analysts
7.	Document your analyses performed and conclusions drawn that will stand up to regulatory scrutiny
8.	Determine the transition disclosures and other presentation and disclosure requirements

Integrated Reporting

Introduction

The need for an integrated approach to corporate reporting comes from the fact that traditional financial reporting no longer provides investors with a clear representation of the value of their investments. In the past, a significant part of a company's market value could be traced to tangible assets in the financial statements. However, in recent times, other factors such as relationship, intellectual and human capital make up an increasing proportion of a company's value.

In order to address this information gap, Accounting for Sustainability (A4S) in December 2009 worked with the Global Reporting Initiative (GRI) and other organisations to establish an international body to oversee the creation of the International Integrated Reporting Council (IIRC).

What is Integrated Reporting?

Integrated reporting (IR) is a process that results in communication about value creation over time, which is best reported through a combination of quantitative and qualitative information. It combines the different strands of reporting (financial, management commentary, governance, remuneration, and sustainability) to produce a single report that the IIRC anticipates will become an organisation's primary report. IR is more than just reporting or producing an additional report as it requires a new way of thinking about what a business actually is.

Integrated thinking

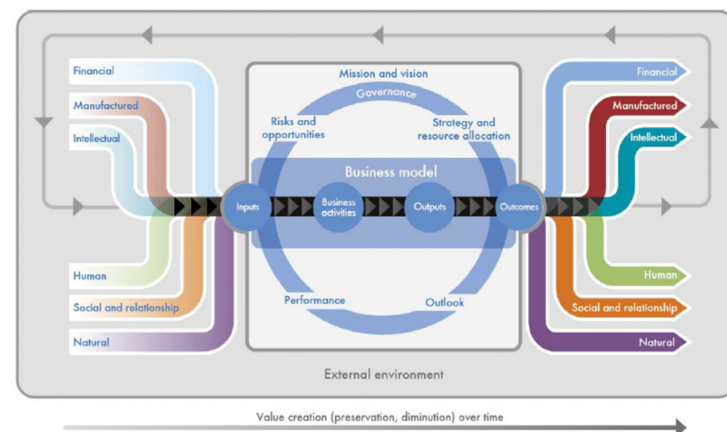
This is the active consideration by an organisation about connections of resources and relationships, how they connect to the different functions, departments and operations in the organisation, and getting the organisation as a whole working together in achieving its strategic objectives. It leads to integrated decision making and actions that consider the creation of value across all the six capitals (Financial, Manufactured, Intellectual, Social, Human and Natural Capital) over the short, medium, and long term.

Integrated report

An integrated report is a concise communication \about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. An integrated report must be prepared in accordance with the IIRC Framework, which consists of the eight content elements and the seven guiding principles shown below.

Value creating process

Value is created through an organisation's business model, which takes inputs from the six capitals and transforms them through business activities and interactions to produce outputs and outcomes that, over the short, medium and long term, create or destroy value for the organisation, its stakeholders, society and the environment.
The six capitals mentioned above are the bases of an organisation's value creation.



Business case for integrated reporting

Integrated reporting helps organisations to achieve the following:

- Ensure greater clarity, consistency and reliability of information.
- Ensure better internal resource allocation decisions, greater engagement with shareholders and other stakeholders, and lower reputational risk
- Helps to meet the needs of mainstream investors who want Environmental, Social and Governance information
- Promotes transparency by ensuring that data vendors report accurate nonfinancial information on the company to stakeholders

Way forward for implementing IR framework

In the World Economic Forum meetings in Davos (January 2011), it was clear that the current corporate reporting system has to change if the growing trust deficit is to be reversed. The IFAC released a paper stating that "integrated reporting is the way to achieve a more coherent corporate reporting system."
Many countries around the world are taking concrete steps to make this a reality. For example, over 1,600 organisations in over 60 countries have advanced their journey towards IR. The Securities and Exchange Board of India has called on the top 500 Indian companies to adopt IR. In Japan, IR is becoming mainstream while in Malaysia and the Philippines, companies are now required to adopt IR in line with their corporate governance codes. In May 2018, the New Zealand's code of corporate governance was updated to include a reference to integrated reporting, as a number of businesses began to adopt IR. The UK Task Force on Climate-related Financial Disclosure upheld the principles of IR, recommending that organisations should adopt an integrated approach to reporting.

Within Africa, an Africa Integrated Reporting Committee was launched by the Pan-African Federation of Accountants in May 2017 (with representatives from Nigeria, Botswana, Namibia, Mauritius, South Africa, Morocco and Kenya) to promote and support the implementation of IR in Africa. The Johannesburg Stock Exchange has mandated South African companies to adopt IR as contained in the Kings III code.

Conclusion

Clearly, integrated reporting is the way to go. Presently, only a handful of organisations in Nigeria (particularly foreign owned) have commenced their journey towards integrated reporting. Some leading organisations, particularly in financial services and the manufacturing sector, have been preparing their sustainability reports in line with the Global Reporting Initiative. With the growing adoption of integrated reporting, leading organisations in Nigeria are now making investments in training their board members and staff as part of efforts to ensure a successful transition to integrated reporting. Professional bodies such as ICAN have been and will continue to play a critical role in building capacity and guiding organisations towards the implementation of full integrated reporting.