

# IFRS 15 Compliance



## In the Driver's Seat with Sirion

In order to streamline and standardize the reporting of financial information by organizations, accounting standards and their enforcement has taken prominence. For instance, the International Accounting Standards Board (IASB) published the International Financial Reporting Standards (IFRS) while the Financial Accounting Standards Board (FASB) prescribes the Generally Accepted Accounting Practices (GAAP). Historically, GAAP has been the dominant reporting standard in the US, although IFRS has seen wider global adoption. While the two standards are similar in several aspects, there are areas where the two are significantly different from each other. With increasingly global businesses and commercial engagements, the need for a single set of global accounting standards has been growing over the past couple of decades. In response, IASB and FASB have worked closely since 2002 towards aligning and converging the IFRS and GAAP standards.

In May 2014, the IASB and FASB issued a converged standard on revenue recognition from contracts with customers – called IFRS 15. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. The core principle of IFRS 15 is that an entity should recognize 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. The following illustration summarizes the 5-step model framework for revenue recognition prescribed under IFRS 15.

The standard comes into force from 1st January 2018, with provision for early adoption. It applies to all contracts with customers (with limited exceptions).

# The IFRS 15 Five Step Model Framework for Revenue Recognition

## STEP 1

### IDENTIFY THE CONTRACT(S) WITH A CUSTOMER

This requires review and analysis of contracts to identify the ones that fall within the scope of IFRS 15. The standard also provides detailed guidance on how to account for approved contract modifications.

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## STEP 2

### IDENTIFY THE PERFORMANCE OBLIGATIONS IN THE CONTRACT

This involves the identification of distinct goods or services (or a bundle of goods or services) which have been promised to the customer in the contract.

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## STEP 3

### DETERMINE THE TRANSACTION PRICE

The amount to which an entity expects to be entitled in exchange for the transfer of goods and services needs to be determined. This needs to take into account whether any variable considerations (discounts, rebates, refunds, credits, penalties, etc.) apply.

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## STEP 4

### ALLOCATE THE TRANSACTION PRICE TO THE PERFORMANCE OBLIGATIONS IN THE CONTRACT

The transaction price needs to be allocated to the performance obligations in the contract by reference to their relative standalone selling prices.

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## STEP 5

### RECOGNIZE REVENUE WHEN (OR AS) THE ENTITY SATISFIES A PERFORMANCE OBLIGATION

Revenue should be recognized in line with the pattern of transfer of control of a promised good or service (completion of the obligation) to the customer. This could happen over time or at a point in time.

# Build a Robust Foundation for IFRS 15 Compliance With Sirion

In order to fully prepare for IFRS 15 when it becomes applicable on 1<sup>st</sup> January 2018, a robust contract management infrastructure is *sine qua non*. Additionally, organizations will need to move away from their traditional, siloed approach to managing customer engagements and ensure seamless collaboration between the contract, delivery, and finance functions.

While this generally applies to both goods and services contracts, the complexity is significantly higher in the case of services contracts, especially for complex services. Such contracts contain multiple layers of interconnected performance obligations, complex financial terms with intricate variable considerations, service delivery distributed over multiple years, frequent contract changes, etc.

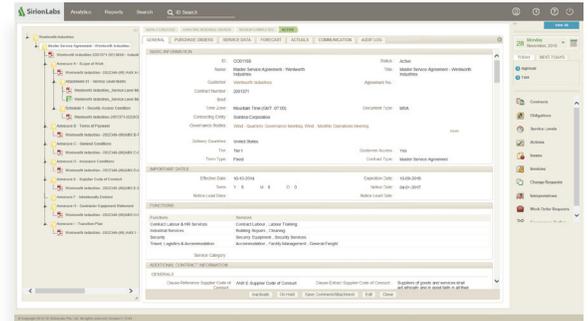
Sirion's Revenue Assurance product has been designed to enable enhanced transparency and control for complex services suppliers in their customer contracts. By aligning the delivery, finance and contract functions tightly, Sirion enables enhanced visibility into customer contracts, greater control over fulfilment of performance obligations and improved accuracy of invoices. In addition to ensuring a successful relationship with the customer, these capabilities significantly reduce the effort involved in IFRS 15 compliance. Let's take a closer look at how Sirion can help at each of the 5 steps prescribed in the IFRS 15 framework.



## IDENTIFY THE CONTRACT(S) WITH A CUSTOMER

Sirion provides a hierarchical, access-controlled, fully searchable contract repository to store all customer contracts and related documents in a single, secure location.

- Store all contracts and related documents, contract summary, and detailed customer and contract metadata
- Powerful search capability to quickly find contracts by customer/key terms/other criteria
- Contract interpretation workflows to ensure clarity on 'what needs to be delivered'
- Contract change management to manage and track all amendments and updated obligations

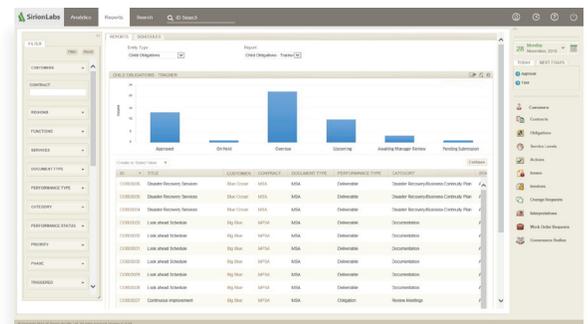


STORE CUSTOMER CONTRACTS IN A HIERARCHICAL CONTRACT REPOSITORY

## IDENTIFY THE PERFORMANCE OBLIGATIONS IN THE CONTRACT

Sirion granulates contracts into actionable deliverables, obligations, milestones and service levels.

- Capture performance obligations and classify them in various categories (criticality, financial impact etc.)
- Capture stakeholder information along with legal entities who own and are responsible for obligations
- Notifications triggered based on schedules and frequencies defined in contracts
- Capture correlations and automatically update all dependent obligations when a linked obligation changes

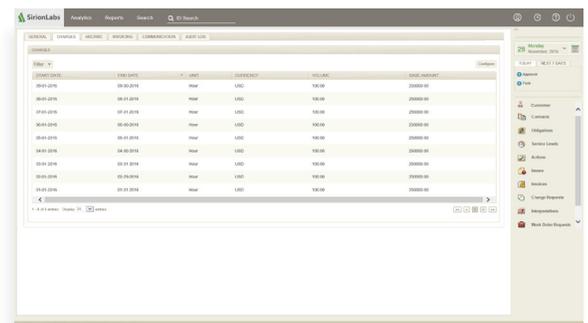


KEEP TRACK OF PERFORMANCE OBLIGATIONS

## DETERMINE THE TRANSACTION PRICE

Sirion is built to capture price books, rates, charges from the contract (both one-time & recurring) in a structured format.

- Capture of key financial information including:
  - Price Books / Rate Cards
  - Purchase Orders
  - Fines, Penalties and Bonuses
- Ability to link and track performance of obligations, deliverables, SLAs to financial obligations

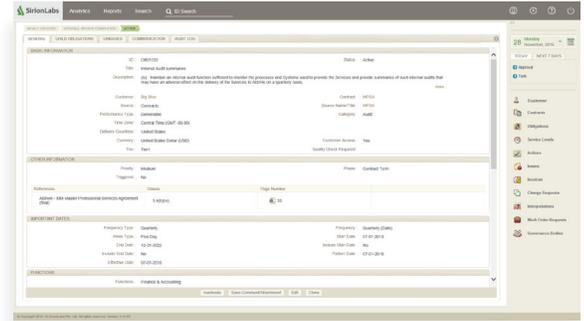


DETERMINE TRANSACTION PRICE

## ALLOCATE THE TRANSACTION PRICE TO THE PERFORMANCE OBLIGATIONS IN THE CONTRACT

Sirion has the ability to fractionally allocate a transaction price to each performance obligation through standard and custom fields.

- Metadata fields to capture performance obligations with attributable financial value & impact and link them to Invoices, Purchase Orders, Work Orders, Fees and Penalties
- Ability to link and track performance to financial obligations
- Capture all pricing adjustments (including ARCs/ RRCs, tiered discounts, etc.) and suggest billing based on volume variations (actual vs committed)

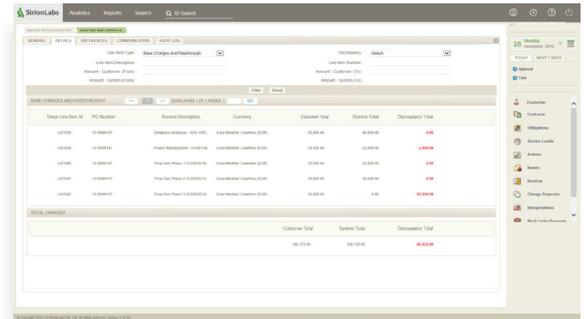


ALLOCATE TRANSACTION PRICE TO CORRESPONDING PERFORMANCE OBLIGATIONS

## RECOGNIZE REVENUE WHEN (OR AS) THE ENTITY SATISFIES A PERFORMANCE OBLIGATION

Sirion helps in streamlining revenue recognition through automated invoice validation against contracted rates and obligation performance.

- Ensure obligation compliance by mapping responsibilities to relevant stakeholders and tracking obligation performance through configurable workflows, system alerts, scheduled reports and status tracking
- Ability to link performance obligation and invoice management, thus ensuring the realization of the financial obligation where applicable



PERFORM AUTO INVOICE VALIDATIONS TO SUPPORT REVENUE RECOGNITION

## ABOUT SIRIONLABS

SirionLabs is transforming the contracting engagement between enterprises by bringing contracting parties closer together across the full lifecycle of the contract – from authoring to performance to closure. Sirion’s award winning platform serves as a single source of truth for both parties across all key disciplines – contracts, performance, financial, and collaboration management.

This collaborative and holistic approach materially reduces the friction between both parties, improving transparency and trust, driving tangible value while reducing the cost of governance by 60%.

Visit us at [www.sirionlabs.com](http://www.sirionlabs.com), and follow us on [LinkedIn](#) and [Twitter](#).