



Changes to UK GAAP: Don't forget revenue

15 July 2024

Since Financial Reporting Exposure Draft 82 'FRED' 82 was released in December 2022 and following the finalised amendments being published in March 2024 most conversations have quickly focussed on the impact on leases. However, although the leasing changes are most obvious, the changes to revenue are also complex and may require significant effort to implement.

What are the changes to revenue accounting?

The changes align UK GAAP with *IFRS 15*. Revenue is expected to follow the five-step model approach:

- Step 1 - Identify the contract(s) with a customer
- Step 2 - Identify the performance obligations in the contract
- Step 3 - Determine the transaction price
- Step 4 - Allocate the transaction price to the performance obligations in the contract
- Step 5 - Recognise revenue when (or as) the entity satisfies a performance obligation

Have you thought about how the 5-step model will impact your contracts?

- How similar are your customer contracts? – you will need to put contracts into 'buckets', make judgements and prepare accounting papers on each of these
- Identifying whether the performance obligations in each contract need unbundling is likely the most difficult judgement, impacting the timing of revenue recognition
- Do your contracts contain variable consideration? – determining an appropriate estimation approach, and how if it will impact the future timing of revenue recognition can be challenging
- Will any KPI's be impacted? – who are the stakeholders to manage and what is the plan
- Do I need to update systems, chart of accounts, or implement a model/system solution?
- How am I going to train my commercial, sales and finance teams on the impacts to their roles?
- Can I make contracts clearer now, to manage future accounting impacts?

Applying the changes to revenue to contracts can be complex, especially for businesses with long-term contracts, technology businesses, and those in the construction sector. Investing the time early is key to a successful, low-stress adoption of the new standard and establishing efficient processes – and KPMG is here to support.

What are the changes and when will they take effect?

The FRC issued the amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024 on 27 March 2024. The effective date for most amendments is periods beginning on or after 1 January 2026, with early adoption permitted.

At face value, this seems quite far away, but you will need to collect data, make accounting judgements and implement systems/tools ahead of this date.

Where do I start?

If you haven't already, we recommend that you perform an initial impact assessment to better understand how the proposed changes will affect your business. To do this, you should ask yourself the following questions:

- Do I understand the five-step model and which revenue streams might be impacted?
- How confidently can I apply the proposed five-step model to each type of revenue contract?
- Do I have contracts containing multiple goods/services that might need unbundling?
- Do I have variable consideration, contract modifications, discounts/rebates, and other complexities which may need detailed accounting judgements?
- Do I need to update processes, systems, and controls?

How can KPMG's Accounting Advisory Services team help?

Our team can help support your business through the transition, including through:

- Training/workshops – in-person or virtual classroom training/workshops tailored for finance teams to bring you up to speed on the new requirements and how they apply to your business
- Impact assessment – We can support with evaluating the potential impacts of the five-step model on your current revenue streams
- Accounting policies and papers – We can prepare/review your revenue accounting papers/policies and support with the key accounting judgements. Revenue contract reviews may be required
- Preparation of models to apply the new accounting to your contracts
- Assessing the impact on your systems, processes and controls
- Disclosure requirements – We can identify the disclosure impacts for your business and assist with updating the existing disclosures to comply with the proposed changes

If you would like to know more, please don't hesitate to reach out to a member of our team.