



TRANSPORT

Logistics Insights

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Introduction

We are pleased to present KPMG's first survey of the global logistics sector. Global comparability of financial statements has always been a challenge in the sector given the diversity of activities and the different requirements of various accounting bodies. In this survey, we review the accounting, presentation and disclosure in financial statements of a number of areas that could be especially interesting and challenging for the logistics sector and where comparability has historically been difficult to achieve. For each of these topics we also consider where improvements can be made to help readers of the financial statements.

We hope this survey helps you and your entity understand the challenges involved and the steps necessary for improvement. We would welcome a wider discussion on how comparability can be improved in the logistics sector. Whatever your view, we would be delighted to hear from you.

About this Publication

The International Accounting Standards Board (IASB), and the US Financial Accounting Standards Board (FASB), have in recent years issued many new and revised standards and interpretations – and more is to come. The issuance of new and revised standards and interpretations is impacted by, among other things, the financial crisis but also the joint work of the IASB and the FASB to significantly improve current accounting and achieve convergence. This will continue to present new accounting challenges across all industries, including the logistics sector.

One effect of the introduction of new standards and interpretations is that the average annual report has become more informative, but also increased in complexity and volume. Some users of financial statements may struggle to understand all the information presented. Preparers of financial statements may find it cumbersome to collect all the necessary information to meet the required disclosure requirements as well as describing the key impacts on their financial statements in an informative manner. Judgement must be applied in many cases.

This survey discusses a number of accounting, presentation and disclosure

issues relevant to the logistics sector, and provides an overview of how these key issues are accounted for and reported in the financial statements of logistics companies. The survey focuses on issues that could be especially challenging or interesting to the logistics sector including segment reporting, accounting for lease contracts, revenue recognition, useful lives of property, plant and equipment and intangible assets. It is based on a review of publicly available financial statements of 30 companies across 13 countries. Slightly more than half of the 30 companies surveyed follow an accounting framework based on IFRS. The other companies surveyed apply US GAAP, with one exception where Japanese GAAP is applied. The majority of the financial statements cover the financial period ending on or close to 31 December 2009.

We hope that logistics companies already applying IFRS or US GAAP, as well as companies considering converting to IFRS or US GAAP, will find the survey useful when preparing their own financial statements. Hopefully, the result of the survey can help to improve the reporting and disclosure within the logistics sector in respect of the identified key issues and, where possible, increase comparability.



Executive Summary

The trend for companies in the logistics sector to become more or less full service providers (i.e. providing services in airfreight, seafreight, contract logistics, rail and road) also impacts the information needed in the financial statements.

It becomes more and more important for investors to get information about the activities and results of different segments. Even if segment reporting is based on a management approach, the survey concludes that it would be beneficial if companies in the logistics sector could provide even more sector as well as entity specific details.

The survey shows that leasing – under both operating and finance lease contracts – is widely used in the logistics sector. It seems that it is not just finance lease contracts that are entered into to meet financing needs, but that operating lease contracts also, to a certain extent, have a financing character. The proposed new lease accounting model for lessees, removing the distinction between operating and finance leases, will bring some significant changes to the logistics sector if finalised as proposed.

Regarding revenue recognition, the readers of financial statements would benefit from more detailed accounting policies for each type of service being provided. Likewise, information about the significance of estimates and judgement involved in recognising and measuring revenue would be beneficial to stakeholders. This type of information will become even more crucial when the new proposed revenue recognition model will have to be applied.

In respect of property, plant and equipment disclosure, the estimated useful lives of assets that appear to be similar in nature are often different between the companies surveyed. Readers of financial statements could benefit from better high level information about companies' asset management strategies and differentiation between similar types of vehicles currently grouped into one asset class in order to get a better understanding of a company's asset base.

Regarding intangible assets, the same type of intangible assets (e.g. customer relationships, customer lists and brands) are recognised among the logistics companies surveyed as are found in other sectors.

As indicated above, the logistics sector is expected to be impacted by a number of new and revised accounting standards that will have to be adopted in the near future. The impacts are in some cases expected to be significant and will result in changes to the balance sheets and reported results as well as requiring significant effort to implement the new guidance. Stakeholders must be informed about consequential changes to key performance measures and ratios as soon as possible. An assessment of the potential impacts of the upcoming accounting changes on the logistics sector is not the focus of this survey. However, a brief overview of the most significant impacts of the current proposals on lease accounting and revenue recognition (only for companies applying IFRS) is provided in the respective sections. Notably, lessees with significant operating leases (such as the logistics companies surveyed) will be especially impacted by the upcoming guidance on lease accounting.



Selection of Companies

The survey is based on a review of publicly available financial statements of 30 companies across 13 countries. The market is highly fragmented. A significant number of logistics companies are in private or governmental ownership and do not produce publicly available financial statements. The lack of publicly available financial statements in many regions such as Asia Pacific and Eastern Europe resulted in an inclusion of companies in the survey mainly domiciled in Western Europe and in the US.

Of the 30 companies surveyed, 16 follow an accounting framework based on IFRS, 13 companies apply US

GAAP and 1 company applies Japanese GAAP. The majority of the financial statements cover financial periods ending on or close to 31 December 2009.

Our definition of 'publicly available financial information' was whether or not such information was available on the company's website or from a public registry. We did not contact any company directly as part of this survey. No comment is made by KPMG in regard to the adequacy or otherwise of the information available. The information is used to demonstrate the current accounting and disclosure practice and to facilitate a discussion on key logistics accounting and disclosure issues.

Table 1: Selected companies

Companies applying IFRS (16)		Companies applying US GAAP (13)	
Aramex PJSC	UAE	Burlington Northern Santa Fe Corporation	USA
Bolloré Group	France	C. H. Robinson Worldwide, Inc.	USA
CEVA	UK	Canadian National Railway Company	Canada
DB Mobility Logistics	Germany	Con-way Inc.	USA
Deutsche Post DHL	Germany	CSX Corporation	USA
DSV A/S	Denmark	Expeditors International of Washington Inc.	USA
Kuehne + Nagel	Switzerland	Fedex Corporation	USA
Norbert Dentressangle	France	J.B. Hunt Transport Services, Inc.	USA
Panalpina	Switzerland	Landstar System, Inc.	USA
Schweizer Post	Switzerland	Ryder System, Inc. (Ryder)	USA
Sinotrans Limited	China	Union Pacific Corporation	USA
SNCF Group (Geodis)	France	United Parcel Service, Inc.	USA
The Public Warehousing Company KSC (Agility)	Kuwait	UTi Worldwide Inc	USA / BVI
TNT N.V.	Netherlands	Company applying Japanese GAAP (1)	
TOLL	Australia	Nippon Express Co.Ltd	Japan
Wincanton	UK		

The Logistics Sector

The logistics sector is highly fragmented. Similar to other sectors, there has been a considerable amount of merger and acquisition activity in recent years and further consolidation is expected. The number of listed global logistic companies is limited. In many national markets, logistics

companies are mainly family or government owned. The market for logistics services is undergoing radical change. Emerging markets for buying and selling, mainly in Asia, require a sharper focus on a more efficient and flexible service offerings.



Critical Accounting, Presentation and Disclosure Issues

Segment Reporting

Introduction

Many logistics companies are large, with diversified, often multinational operations, resulting in a wide range of different set-ups. Structures and business operations vary widely between companies. Stakeholders therefore value information on the nature of an entity's operations.

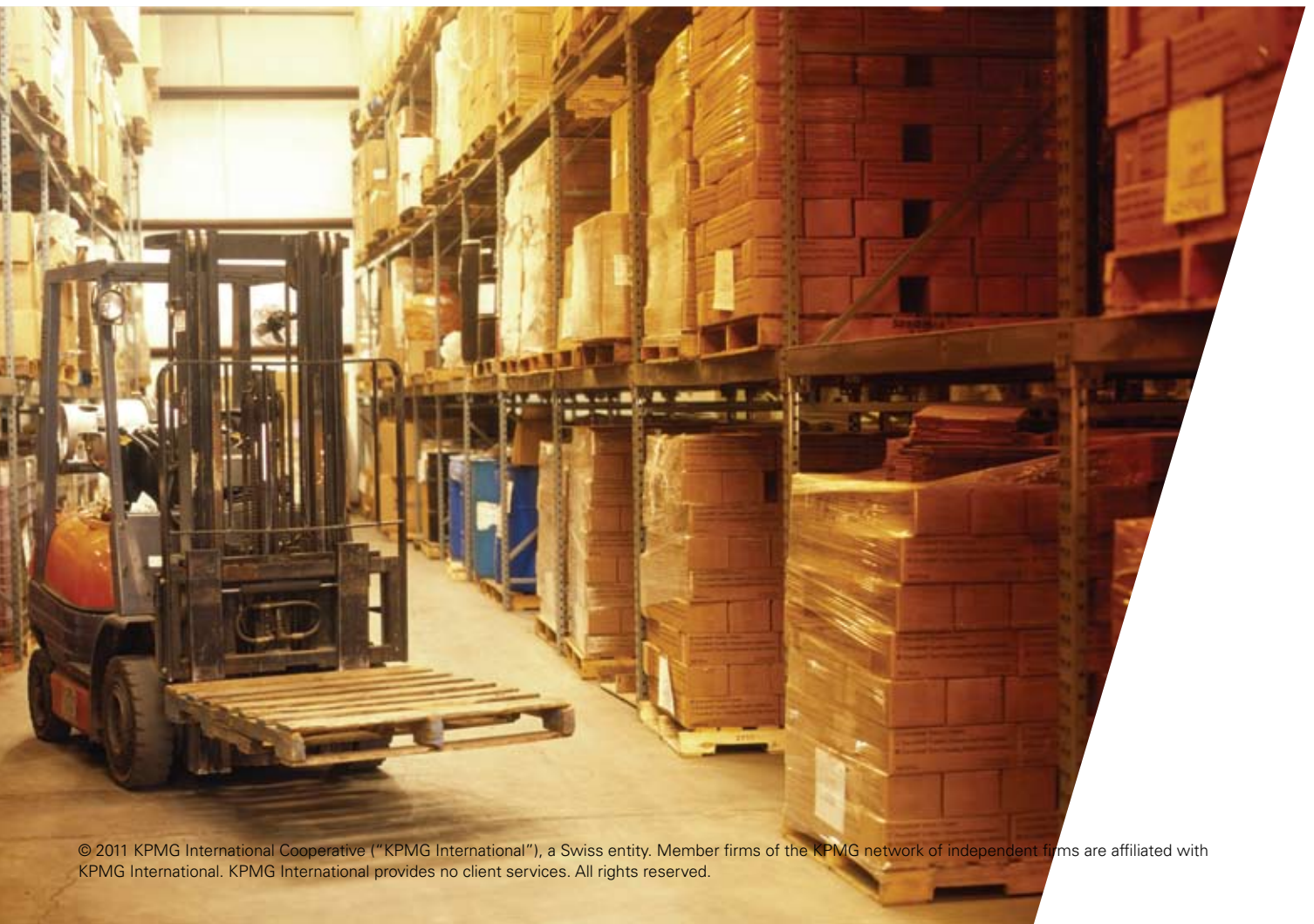
Companies must provide certain information about their segments in their annual reports, based on a management approach. This gives companies the opportunity to communicate with their stakeholders based on information they use internally to manage their companies.

Accounting guidance – an overview

There are no major differences between the applicable standards on segment reporting under IFRS and US GAAP. IFRS 8 *Operating Segments* sets out the

requirements for segment disclosures for entities applying IFRS, and it became effective for periods beginning on or after 1 January 2009. Previously, IAS 14 *Segment Reporting* was applied. IFRS 8 adopted the requirements (with some minor exceptions, including some terminology) of the equivalent US GAAP standard: ASC 280 *Segment Reporting*.

Segment reporting under IFRS 8 and ASC 280 is based on a management approach. Segment disclosures are provided based on the components of the entity that management monitors in making decisions about operating matters. Such components (operating segments) are identified on the basis of internal reports that the entity's Chief Operating Decision Maker (CODM) regularly uses when making decisions about resources to be allocated to a segment and in assessing the performance of a segment. The same



amount(s) reported to the CODM for these purposes will be the amount(s) required to be reported in the financial statements.

Identifying operating segments and determining reportable segments in multinational companies with activities in many countries and a range of different products and services may require significant judgement. First, operating segments must be identified. This is done based on the way in which information is organised and reported to the CODM. Identifying the appropriate segments is not always obvious as many entities - particularly multinational entities with diverse operations - might organise and report financial information to the CODM in more

than one way. The standard provides guidance on how to do this.

After having identified the operating segments, management will have to determine if it is permitted to aggregate the operating segments. Operating segments can only be aggregated if they have similar economic characteristics and comply with specific aggregating tests. Finally, the reportable segments are determined using quantitative thresholds. Operating segments not meeting the thresholds set up by IFRS 8 could be aggregated and reported as one segment if they have similar economic characteristics and comply with the majority of the specific aggregating tests. If those segments do not meet these criteria,

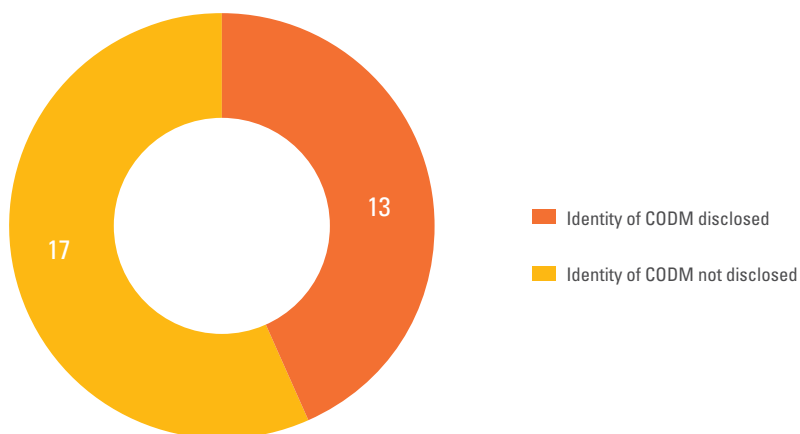
information about other business activities and operating segments that are not reportable are combined and presented in an "all other segments" category separately from other reconciling items.

For the companies surveyed applying IFRS, they all applied IFRS 8 and the management approach for the first time in their 2009 financial statements.

Survey findings

The management approach allows entities certain flexibility, based on how information is reported internally, to choose the most appropriate way to describe their operations. Hence disclosures in the segment reporting note vary and we have focused our survey on the following issues:

Figure 1: Disclosure of identity of CODM



Who is the Chief Operating Decision Maker (CODM)?

Disclosure of the identity of the CODM is not required under IFRS and US GAAP. However, as illustrated in Figure 1 below, just over 40% of the companies surveyed voluntarily disclosed the identity, notably in connection with the description of how reportable segments are determined.

The 13 companies that voluntarily disclosed the identity of the CODM, all applied IFRS with the exception of one company applying US GAAP. Looking only at the companies surveyed applying IFRS 8 (16 companies), two thirds of these companies voluntarily disclosed the identity of the CODM. In another KPMG survey across all sectors of companies applying IFRS, only a third of the companies voluntarily disclosed the identity of the CODM.

As illustrated in Figure 2, around 60% of the 13 companies that disclosed the identity of the CODM identified the CODM as being a group of executive directors or similar governing body such as the Board of Directors. Only 7% identified the CEO as being the CODM, while 30% referenced the CODM to management without any further specification (other).

The relatively high percentage of companies not disclosing the CODM

could be explained by the fact that such a disclosure is not required, but it could also be that many companies believe that the identification of the CODM is sufficiently straightforward not to warrant additional disclosure. The fact that only IFRS companies, with one exception, voluntarily disclosed the CODM could also be related to the fact that these companies, applying IFRS 8 for the first time, may not have been exactly sure what information would be required under IFRS 8 when describing how reportable segments are determined.

Figure 2: Who are the CODMs?

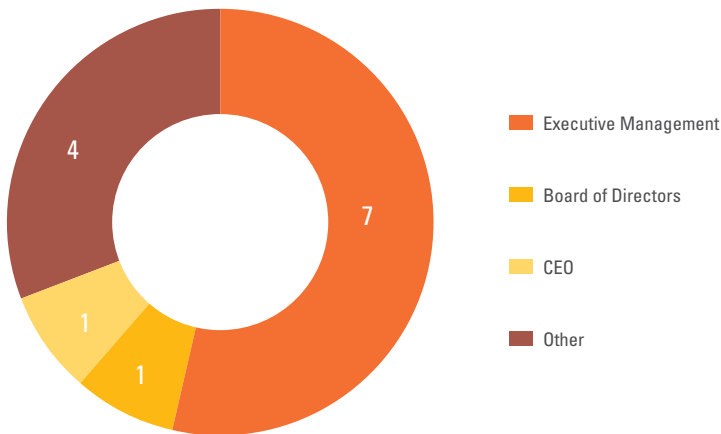
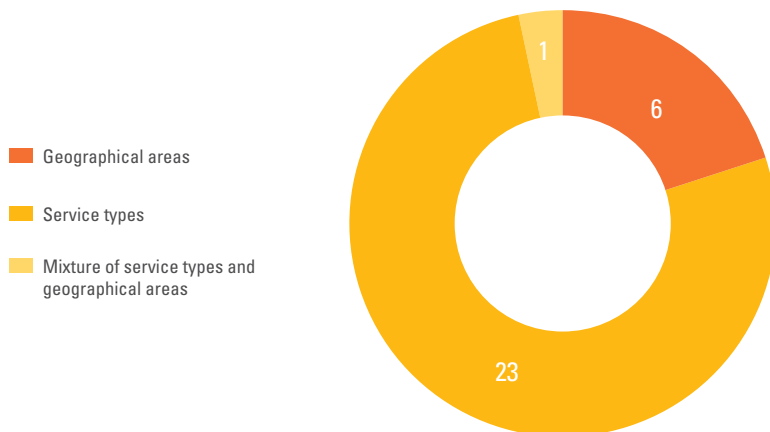


Figure 3: Basis on which reportable segments were identified



Basis on which reportable segments were identified

Almost 80% of the companies surveyed use service types as the basis for their segment reporting. Geographical areas were used as a basis by 20% of the companies surveyed. Only one company, applying US GAAP, used a combination of service types and geographical areas as its basis for segment reporting. The basis on which the reportable segments were identified is illustrated in Figure 3.

Aggregation of operating segments

Relatively few companies disclosed whether their segments reported consisted of several operating segments that had been aggregated. The apparently low occurrence of aggregation of operating segments may reflect the relatively high hurdle imposed by IFRS 8 to allow aggregation. It could partly also be a result of the fact that the companies surveyed did not describe in enough detail the factors used to identify the reportable segments.

Presentation of reportable segments

The survey showed that freight forwarding, trucking and rail as well as contract logistics are the most common reportable segments presented. Other reportable segments reported included express, mail and infrastructure and these segments indicate the historical origin of the company's businesses.

The companies surveyed used significantly different terms to describe reportable segments appearing to relate to similar services, showing that the logistics sector is not that standardised. For instance, "contract logistics" was also referred to as "supply chain solutions", "integrated logistics services" or only "solutions".

For railway companies having diversified into the logistics business, only one reportable segment in relation to Logistics was presented (thus including information about several types of logistics services in one reportable segment).

Basis disclosed as being used for segment reporting

All companies surveyed used information based on IFRS or US GAAP to disclose the performance of their reportable segments. This indicates that IFRS and US GAAP accounting standards are now used for internal management reporting purposes. This is somewhat surprising given the concerns occasionally raised about the complexity of IFRS and US GAAP.

Measure of profit or loss used by the CODM

The companies surveyed show a relatively high level of consistency regarding the profit or loss measure used by the CODM.

As illustrated in Figure 4, slightly more than half of the companies (60%) had identified EBIT (Earnings Before Interest and Tax) as the segment result. Three companies referred to EBT (Earning Before Tax) as the segment result while one company referred to net profit as the segment result.

The remaining seven companies presented different segment results, for example EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), gross profit and adjusted segment profit or loss numbers such as EBIT before non-recurring items.

We also observed that no typical non-financial key figures such as revenue, gross profit or EBIT per TEU (Twenty-foot Equivalent Unit) or per kilogram were disclosed in the notes on segment reporting, but such non-financial ratios would not be required by IFRS or US GAAP.

Conclusions

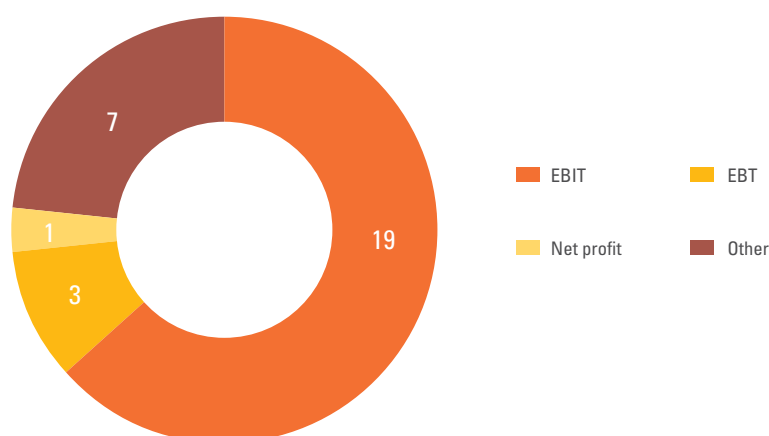
Overall, our survey indicates that segment information provided by the logistics companies surveyed is not necessarily comparable. This is not surprising considering that segment

reporting under both IFRS and US GAAP is based on a management approach under which full comparability between companies cannot be achieved, and the fact that the logistics sector is highly diversified.

Our impression is that logistics companies applying IFRS provide more detailed information about their segments compared to companies applying US GAAP, at least in the segment note in which information required by IFRS 8 and ASC 280 is reported.

The segment reporting among the companies surveyed reveals somewhat limited sector and entity specific information. Even if segment reporting today is based on a management approach, we feel that it would be beneficial to the readers of financial statements if companies in the logistics sector could provide more sector as well as entity specific details in addition to the current requirements under IFRS and US GAAP. Areas that we noted could be improved in respect of current requirements under IFRS and US GAAP include the description of how the reportable segments have been identified.

Figure 4: Measure of profit or loss used by the CODM



Leases

Introduction

Lease accounting has been under discussion for quite some time. Critics have, for example, raised concerns about the off-balance sheet accounting by lessees and would prefer an approach which brings all lease assets and liabilities on-balance sheet.

The logistics sector's underlying business is the management of capacity (volume and tonnage), using ships, planes, trucks, rail wagons, warehouses and infrastructure as

well as combining individual services (supply chain management).

Companies with many different business models, ranging from asset-heavy railway companies to asset-light forwarding companies, can be seen in the logistics sector. Leasing is, however, the predominant financing model in the management of the infrastructure/assets used.

This survey only looks at issues which are of interest from a lessee's perspective.

Accounting guidance – an overview

Both IFRS and US GAAP differentiate between two kinds of leasing arrangements: finance leases (capital leases under US GAAP) and operating leases. The classification depends on whether substantially all of the risks and rewards incidental to ownership of the leased asset have been transferred from the lessor to the lessee (finance/capital lease) or not (operating lease). Lease contracts qualifying as finance leases are recognised in the balance sheet, whereas operating lease contracts are treated as executory contracts (off-balance sheet). An expense for the lease payments is recognised, generally on a straight line basis, over the lease term under an operating lease. When determining the classification of a lease, US GAAP includes more prescriptive guidance than IFRS.

In August 2010, the IASB and the FASB published an exposure draft on lease accounting, suggesting changes to the existing lease accounting model with significant impacts on the balance sheets and reported profits of many lessees. The objective is to apply one single accounting model for all lessees by removing the distinction between operating and finance leases. The new suggested leasing model will





result in the recognition of all leases on the balance sheet, subject to only a few scope exemptions including an exemption for short term leases (with a maximum term of 12 months). A lessee would apply a right of use model under which it would recognise an asset for its right to use the underlying asset and a liability for its obligation to make lease payments.

The proposals would undoubtedly have an impact on entities with significant operating lease contracts, leading to an increase in assets as well as liabilities on the balance sheet and to a front-loading of expenses in the income statement due to the combined effect of recognising amortisation of the right of use asset and interest expense on the lease liability.

This survey focuses on issues relevant under the current accounting guidance. The proposals referred to above were planned to result in a final standard by the first half of 2012. However, the boards have taken a number of

tentative decisions which change their original proposals. They therefore decided in July 2011 to re-expose their revised proposals for a common lease accounting standard. This will result in delays. The revised exposure draft is planned for the last quarter of 2011 while a final standard is planned to be issued in 2012. The effective date of the standard has not yet been determined, but it is not expected to be before 2015. However, although the proposals are subject to change until a final standard is issued, we comment shortly in the summary section on the expected impact for companies in the logistics sector of having to apply a new lease accounting model. Tentative decisions taken by the IASB and the FASB up to July 2011 have been considered when commenting on the expected impact.

Survey findings

Finance versus operating leases

All companies surveyed are party to contracts classified as operating leases for accounting purposes. A

large proportion, but not all companies (77% of all companies), lease assets under finance lease contracts.

Unsurprisingly, the survey indicates that all asset-heavy logistics companies lease assets under finance leases. The asset-heavy logistics companies make up 70% of all companies with finance leases. There is no clear pattern for companies with no finance leases, neither in respect of the intensity of assets, nor in the applied accounting standards.

Finance leases

Interestingly, for the companies surveyed with finance leases, the amount of finance lease liabilities compared to total debt does not significantly differ between asset-heavy and asset-light companies. The ratio of finance lease liabilities to total debt was a maximum of 9%, indicating that finance leases are a less significant source of financing than operating leases (see next section).



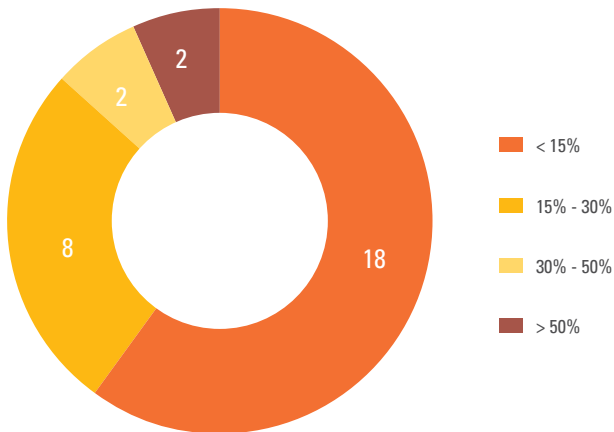
Operating leases

As stated above, all companies surveyed have operating lease contracts. The volume, however, varies significantly between the companies. Companies are required to disclose the amount of non-cancellable future operating lease payments. In this survey, we looked

at this amount (sometimes referred to as “off-balance lease liabilities” in this survey) in comparison to total assets. It should be noted that companies may have additional future lease payments that they expect to incur relating to operating lease contracts that are cancellable.

As illustrated in Figure 5, in more than half of the companies surveyed the off-balance operating lease contracts represent less than 15% of total assets. Two companies disclose non-cancellable operating lease payments of over 50% compared to the total assets. The remaining companies had a ratio between 15% and 50%. This result emphasises the significance of operating leases in the logistics sector.

Figure 5: Non-cancellable future operating lease payments in relation to total assets



The two companies with non-cancellable future operating lease payments of over 50% in comparison to the total assets are asset-heavy companies. Off-balance lease liabilities for asset-light companies in the survey reached a maximum of 23% of total assets.

Companies are also required to present a maturity analysis of the non-cancellable future operating lease payments. The time bands are specified; under IFRS for example, time bands of up to one year, one to five years and over five years are defined. Most of the companies surveyed (62%) used these time bands,

without further specification of what is “more than five years”. However, the remaining 38% of the companies surveyed provided additional details about the payments due after more than five years, mostly by indicating the expiry date of the longest lasting operating lease contract across all types of assets (which varied between 8 and around 30 years and in one case up to 45 years). We estimate that the most common expiry date of the longest lasting operating lease contracts is between 5 to 10 years.

The relatively long lease periods of operating leases indicates that operating leases in the logistics sector to a certain extent have a long-term financing character. In practice, it could be argued that all but the shortest operating leases provide a form of financing. However, at present, accounting standards require only those leases that are quasi-purchases to be classified as finance leases.

Many lease contracts that include a degree of financing are classified as operating leases under current requirements. In some cases, entities may seek to structure their lease contracts to achieve operating lease classification. However, in practice analysts routinely add back operating lease liabilities when analysing entities.

Sale and leaseback transactions

We noticed that sale and leaseback transactions seem to be of some relevance to the logistics sectors – 23% of companies surveyed had such transactions.

Debt covenants

Although not explicitly linked to lease contracts, we found that half of the logistics companies surveyed are subject to meeting certain debt covenants. Out of the 15 companies that disclosed that they have to meet

certain covenants, twelve (80%) disclosed more specific details about the covenants that they have to meet.

Conclusions and impact of new lease accounting model

Leasing – under operating and, to a somewhat lesser extent, finance lease contracts – is widely used in the logistics sector. It is not solely finance lease contracts that are entered into to meet financing needs. Many lease contracts are classified as operating leases under current requirements, but have to a certain extent also a financing character.

As long as finance and operating leases are accounted for differently, comparability between different companies in the logistics sector (as well as with other sectors) is limited. The goal of the IASB and the FASB to bring all leases on balance sheet





(excluding leases with a maximum term of 12 months) by introducing a new model to account for leases will help to achieve such comparability.

However, the proposed new accounting model, removing the distinction between operating and finance leases, will bring some significant changes to the logistics sector. In the logistics sector, the use of specific assets to transport and to handle capacity is central and it is to be expected that leasing will remain common in this sector. As concluded above, leasing of assets under operating lease contracts is indeed important in the logistics sector.

All leases within the scope of the coming standard would be “on-balance sheet” for lessees. There would no longer be “off-balance sheet” financings, with an exemption for short term leases (with a maximum term of 12 months). Such an exemption has been subject to

deliberations during the process of finalising the standard. Lessees with significant operating leases, such as the logistics companies surveyed, will see an increase in both assets and liabilities. The calculation of the lease liability will have to be done somewhat differently in the future and will involve an increased degree of judgement and estimates. It seems like companies applying US GAAP will be less affected by this change than companies applying IFRS. The recognition of additional assets and liabilities would also result in a front-loading of expenses in the income statement.

This will impact key performance ratios such as tangible asset ratios, debt to equity ratios, interest cover, debt to cash flow ratios and return on capital. EBITDA will be impacted positively as the lease expense in the future would be composed of amortisation and interest expense.

The change in key performance ratios resulting from the requirement of recognising more lease contracts on the balance sheet might also have an impact on the ability to satisfy debt covenants. This will be important for companies to bear in mind when forecasting covenant compliance and trying to negotiate new debt agreements.

There will be changes required to internal processes and systems to collect new information. Stakeholders should be informed about the potential impacts on the bottom line. The implementation of a new accounting standard on leases will be more than an accounting exercise.

Companies should now be considering doing a first assessment of how the proposals would affect their financial statements, the structuring of lease contracts, processes and internal controls, key performance ratios, debt covenants, accounting policies and information systems.



Revenue Recognition

Introduction

The underlying business of logistics companies is the management of capacity. Customers generally pay for transportation of cargo between two or more points or for using warehousing services and infrastructure. Operating margins in these businesses are generally low; increasing when different services are combined with outsourcing of supply chain management. In view of further pressure on margins and as services provided in the logistics sector have to be regarded as relatively complex, revenue recognition is indeed critical.

Accounting guidance – an overview

In IFRS the key tests for recognition of revenue are that:

- the amount of revenue can be measured reliably;
- it is probable that future economic benefits of the transaction will flow to the entity; and

- the costs (both incurred and costs to complete the transaction) are identified and can be measured reliably.

For services, the stage of completion of the transaction must also be measured reliably to recognise revenue.

Under US GAAP the four general revenue recognition requirements, when specialised industry or other standards are not applicable are that:

- persuasive evidence of an arrangement exists, generally in writing (unlike IFRSs);
- delivery has occurred or services have been provided (like IFRSs);
- the price is fixed or determinable (like IFRSs); and
- collectability is reasonably assured (like IFRSs).

Under US GAAP, there is no criterion related to the costs of completing performance.

Under IFRS, revenue from services provided is recognised in the period that the service is provided, generally using the percentage-of-completion method. Under US GAAP, revenue from services provided is also recognised in the period that the service is provided, but possible revenue recognition methods include the proportionate performance method, the straight-line-method, or recognition upon completion of all related services (completed contract method) rather than the percentage-of-completion method. The completed contract method is not allowed under IFRS.

Under both IFRS and US GAAP (at least SEC registrants), companies are required to disclose significant judgements made in applying accounting policies and significant estimates made. However, under US GAAP, such disclosures are required as part of management's discussion and analysis, which is outside the financial statements.

There are other minor differences between IFRS and US GAAP, not specified in this publication, which may give rise to differences in practice.

In June 2010, the IASB and the FASB published an exposure draft on revenue recognition, proposing a new model for revenue recognition. Under the proposals, entities would apply a common approach across transactions and industries. The logistics sector may be significantly impacted by the proposed new guidance.

The IASB and FASB received comprehensive feedback on their proposals and had by June 2011 taken several tentative decisions changing the original proposals included in the exposure draft issued in June 2010. In June 2011, they agreed to re-expose their revised proposals for a common revenue recognition standard.

The proposals included in the exposure draft issued in June 2010 were planned to result in a final standard by the fourth quarter of 2011. The re-exposure of the revised proposals will result in delays. The revised exposure draft is planned in the third quarter of 2011. A final standard

is expected in 2012, according to the latest IASB workplan. The effective date of the standard has not yet been determined, but it would not be earlier than 2015.

This survey focuses on issues relevant under the current accounting guidance. Nevertheless, we give a brief overview of the more significant impacts imposed by the new revenue recognition model on companies applying IFRS.

Survey findings

Methods of recognising revenue

Reading the accounting policy sections of the financial statements of the companies surveyed, it can be concluded that the methods of recognising revenue are not always entirely clear. The descriptions of the methods applied are rather generic. In 20% of the financial statements surveyed, such disclosures are missing. Consequently, readers of financial statements could benefit from further – and more detailed – explanations in regard of the methods and assumptions applied in recognising revenue.

However, generic descriptions of revenue recognition can be seen throughout most, if not all, industry sectors. Revenue accounting policies disclosed in the financial statements of the logistics companies surveyed seem to contain at least as much disclosure as those in other industry sectors. Although still on a generic level, companies in the logistics sector often differentiate in their respective revenue accounting policy between different kind of services provided, pointing out the variety of services and hence the variety of approaches to reflect this fact.

The survey indicates that, in practice, a diverse set of approaches to revenue recognition can be found in the logistics sector. Based on the generic wording in the accounting policies footnote, it appears difficult to categorise the revenue recognition policies disclosed. However, it can be noted that more than one third of the companies surveyed describe that they recognise revenue when the services are completed.

This may be the result of the structure of the services provided, e.g. less complex services are provided over a shorter period of time. There may also be instances where one part of the service is much more significant than the rest – e.g. a particular voyage is short-term and therefore the impact would be immaterial or the value related to the transport or logistics service is rather small – and therefore recognition of revenue is postponed until the significant element has been performed.

It is not unusual for companies to use more than one method to recognise revenue, based on their underlying business model. Such differentiation seems appropriate considering different business models. For 20% of the logistics companies surveyed, more than one method is used.



When services are performed over a longer period of time, revenue may have to be allocated to different accounting periods.

The methods of doing this vary and are the result of different factors, depending not only on an entity's business model, but also on the means of transportation. However, under IFRS it is common to do this with the help of the percentage-of-completion method, whereas under US GAAP the proportionate performance method is often used which may yield similar results. Some companies have sophisticated systems in place to monitor the progress of the services and use milestones in the process of revenue recognition. Other companies recognise revenue on a straight line basis as a percentage of completion of time or costs, often for practical purposes. We found that for more than 30% of the companies surveyed, the percentage of completion method is disclosed as the basis for revenue recognition. We also noted that around 15% of the companies surveyed that disclosed the method used to recognise revenue did not disclose how the specific method was applied.

Finally, in the logistics sector the outcome of a transaction cannot always be estimated reliably and this may affect the timing of revenue recognition.

Judgement and estimation uncertainties

Over one third of the companies surveyed describe revenue recognition involving the use of estimates and judgement in its accounting policies on revenue recognition. However, only a quarter of these companies describe judgement and estimates in this area as critical. It may be interesting to note that the companies surveyed that



referred to revenue recognition as an area of judgement are mostly domiciled in the US and apply US GAAP.

Based on our experience of the logistics sector, we would expect judgements and estimates to have a significant impact on revenue recognition for most logistics companies. Consequently, we had expected more detailed information in this area. Areas that we would have expected to be commented on and/or described in more detail in respect of estimates and judgement involved include:

- In forwarding, for instance, judgement is necessary to estimate the cost accrual for the related ancillary services at the time the service is provided. Such accruals are often based on forecasts and consequently can differ from historical estimates.

- The application of the percentage of completion and proportionate performance methods involve judgements regarding when and how much revenue to recognise. Only three companies described the application of these methods as a significant issue involving judgement.
- Determination of whether a company acts as an agent or as a principal is another area of judgement in the logistics sector on which we would have expected more commentary.

We further believe that this is an area of potential improvement for logistics companies, from which readers of the financial statements could benefit from more detailed disclosures. This is a topic that will gain further importance as the new proposed revenue recognition model will require significant use of judgement.



A new revenue recognition model to come

Under the proposals by the IASB and the FASB, a single model for revenue recognition would apply to sales of goods, services and construction contracts. The IASB and the FASB propose a control transfer model for recognising revenue (with risk and rewards of ownership being an indicator of control) that will require careful consideration to determine when revenue can be recognised. While the impact for many contracts may be minimal, for some sales transactions it could have a significant effect on amount and timing of revenue being recognised, for example if the percentage of completion method has previously been applied.

A brief overview of the more significant impacts proposed by the new revenue recognition model for companies applying IFRS

is given below. The impacts on companies applying US GAAP are not commented on in this publication. The overview reflects the content in the exposure draft issued in June 2010, adjusted for tentative decisions taken by the IASB and the FASB up until July 2011. It should be noted that the proposals are subject to change until a final standard is issued.

The process of recognising revenue is divided into the following five steps:

1. Identify the contract with the customer.
2. Identify the separate performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the separate performance obligations.
5. Recognise revenue when each performance obligation is satisfied.

Identification of contracts and performance obligations may accelerate or defer reported revenue compared to existing practice to the extent that the separate performance obligations identified under this approach differ from the components accounted for separately under current IFRSs. For example, many transportation entities provide multiple services as part of a single contract (multi-element arrangements). Identification of performance obligations to be accounted for separately is a key area that will involve significant judgement.

The transaction price is the amount of consideration that an entity receives or expects to receive from the customer. Variable consideration that the vendor is reasonably assured of being entitled to receive is taken into account. The proposals give examples of when this threshold would not be met. Entities should estimate either

the probability-weighted amount or the most likely amount, whichever is the most predictive of the amount of consideration to which an entity will be entitled.

A performance obligation is satisfied when the customer obtains control of a good or service. Transfer of risks and rewards of ownership is one indicator to determine when control has been transferred. Currently, in the logistics sector, the incoterms are often used as a basis to determine when risks and rewards have been transferred and revenue can be recognised under the current standards.

Entities must assess whether control is transferred at a point in time or continuously over a period of time. In line with the new continuous control transfer model, the exposure draft proposes the withdrawal of the percentage-of-completion method. However, entities that today are using the percentage-of-completion method could also in the future recognise revenue over time (on a continuous basis) if certain criteria are met. If these criteria are not

met, the result is deferral of revenue recognition compared to current percentage-of-completion accounting. For transportation services provided, judgement will be required to determine when control is transferred (and revenue recognised). If the service is transportation of goods, it might be that the service is provided and control transfers continuously. If the service is transporting goods to a specific destination, it may be that control transfers and revenue is recognised upon delivery.

Other proposals that could be worthwhile noting include guidance on collectibility of revenue, costs of obtaining a contract, onerous contracts and disclosures. These are shortly commented on below.

Regarding collectibility, an allowance should be recognised for expected impairment losses from contracts with customers and presented in profit or loss as a separate line item adjacent to revenue line item (i.e. contra revenue). This means that revenue would be recognised at the promised amount of the consideration.

Costs of obtaining a contract are recognised as an asset if they are incremental and expected to be recovered. For contracts with a duration of less than one year, entities are permitted to expense contract acquisition costs as incurred. This may result in accelerated recognition of costs of obtaining a contract with a duration of less than one year, if currently capitalised under IFRS, and an entity now would choose to expense such costs as incurred.

An entity should recognise a liability and a corresponding expense if the performance obligations in a contract are onerous. The performance obligations are onerous if the costs that relate directly to satisfying the performance obligations exceed the amount of the transaction price allocated to those performance obligations. This onerous test is limited to performance obligations satisfied over time (e.g. service contracts).

Finally, significantly more extensive disclosures are required. This will increase the volume of information provided in financial statements.





Conclusions

Our survey indicates that, generally, a wide range of methods and approaches to revenue recognition are applied in the logistics sector. Bearing in mind the fact that it is not unusual to differentiate between accounting policies for different services provided, we assume that the companies surveyed generally seek to adopt the most appropriate revenue recognition policies, given the specific nature of the operations performed.

However, readers of financial statements would benefit further from more comprehensive accounting policies for the different services provided and more details about the significance of estimates and judgements made in applying the accounting policies. This will be equally, if not more, important when the new proposed revenue recognition model will have to be applied in the future.

Property, Plant and Equipment

Introduction

The logistics sector includes companies providing different types of transportation and logistics services, using different types of transportation modes. There are forwarders with almost no assets (asset-light forwarding companies) and asset-heavy railway companies transporting goods from point A to point B. Various types of assets are used to provide the services.

The trend towards global logistics, i.e. providing services using several types of transportation modes, appears to be on the agenda for many of the international market players. For example, Deutsche Bahn originally was a railway business but has developed into a freight forwarder including trucking and forwarding. Kuehne+Nagel is coming from an asset-light business model but has moved towards contract logistics and trucking.

Companies in the logistics sector have to determine the useful life of different types of assets such as different types of vehicles, planes, trains, vessels and warehouses including estimates of the residual value.

Accounting guidance – an overview

Under both IFRS and US GAAP, property, plant and equipment is

initially recognised at cost and depreciated on a systematic basis over its useful life. The depreciable amount is its costs less its residual value (e.g. salvage value). Component accounting is required under IFRS and permitted, but not required, under US GAAP.

The method of depreciation should reflect the pattern in which benefits associated with the assets are consumed. No specific method of depreciation is prescribed but suitable methods under both IFRS and US GAAP include the straight-line method, the diminishing (or reducing or declining balance) method or the units of production (sum-of-the units) method.

Survey findings

Recognised assets

The companies surveyed used different terms, or titles, to describe similar types of assets. A clearer description of what assets are included in different line items presented on the face of the balance sheet or in the notes would be helpful.

Useful lives

The disclosed estimates of useful life vary greatly across the companies surveyed. Depending on the origin of

the companies' business (for example former national postal operators, versus national railway operators or international forwarders), the type of assets held varies as well.

Table 2 below presents an overview of the range of useful lives disclosed by the companies surveyed for different types of assets (representing the more typical assets in logistics companies). It is challenging to classify the assets of the companies surveyed into appropriate asset categories as different terms, or titles, were used to describe similar types of assets. We therefore used our judgement in grouping similar types of assets in the below asset categories.

We also considered the assessment of an average useful life to be of interest but noted that the wide range of useful lives disclosed would not result in any meaningful information.

The wide spread of useful life may indicate that the logistics companies surveyed have different strategies as to whether investing in new or older vessels, planes and trucks etc. and how long to keep the assets. However, having read the annual reports of the companies surveyed, the broad asset classes reported makes it difficult for a reader to understand why, for instance, aircraft are depreciated over a range of 4 to 30 years.

Table 2: Range of useful lives by asset type

Asset type	Range of useful life
Buildings (office buildings and warehouses)	5 to 60 years
Leasehold improvements	2 to 40 years
Trucks and trailers (vehicles)	2 to 15 years
Vessels	10 to 25 years
Aircrafts	4 to 30 years
IT hardware	3 to 10 years

Some of the companies surveyed did distinguish between different types of aircraft when disclosing their useful life. A similar differentiation between, for example, different types of vehicles and buildings could be helpful for readers of financial statements.

The straight line method is applied consistently with the exception of one company applying the declining balance method.

Assets are depreciated on a component by component basis, with the exception of three railway companies applying US GAAP. These companies applied the group method (i.e. applied the depreciation method to a group of assets that are similar in nature).

Conclusions

There may be good technical or economic reasons why useful lives of assets appearing to be similar are so different (for example, the characteristics of a warehouse building can be very different to a typical office building while a specialised container ship can be very different from a more typical container ship). Readers of financial statements could therefore benefit from companies providing better high level information about their asset management strategies. A differentiation between different types of vehicles, for example, being presented in one asset class when disclosing the useful lives would also increase the transparency.



Intangible Assets

Introduction

The logistics sector is highly fragmented and the number of public companies is limited. Larger players do exist but few of them have a global set up. These larger companies want to further increase their market share and network presence. The trend to becoming a full service provider in the market also leads to acquisitions in the sector. Not only tangible assets are acquired in the acquisitions, but also intangible assets.

Accounting guidance – an overview

The accounting guidance for many common intangible assets is broadly similar under IFRS and US GAAP. An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is identifiable if it is separable or arises from contractual or legal rights.

An intangible asset is recognised initially at cost if acquired separately, at fair value if acquired as part of a business combination or at cost if generated

internally and meeting the capitalisation criteria. Goodwill is recognised only in a business combination and is measured as a residual. An intangible asset acquired in a business combination is recognised separately from goodwill when it arises from contractual or legal rights, or is separable.

Acquired goodwill and other intangible assets with indefinite useful lives are not amortised, but subject to impairment testing at least annually. Intangible assets with finite useful lives are amortised over their useful lives.

Survey findings

Acquisitions

The survey indicated that no significant acquisitions took place in 2009 but 56% of the companies surveyed acquired smaller companies to expand their network or businesses.

Recognised intangible assets

Figure 6 provides an overview of the intangible assets presented in the

balance sheets of the companies surveyed. All companies had intangible assets.

The majority of the companies surveyed had goodwill in their books. Customer relationships, customer lists and brands were often also recognised. 7% of the companies surveyed had both customer relationships and customers lists. With respect to IT software, around half of the software was self-developed while the rest was acquired.

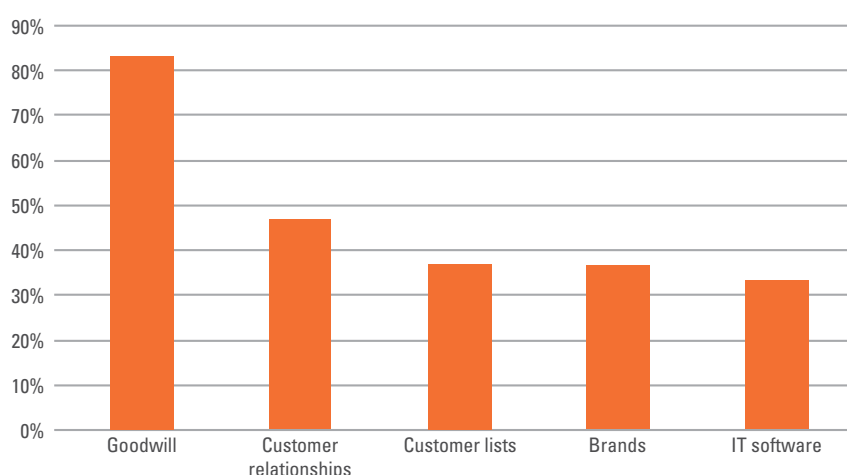
Many companies reported an item of "other intangible assets" and it was not always clear what kind of intangible assets this item represented. In most cases "other intangible assets" were mainly represented by patents, non-competition agreements or software rights.

It may be noted that companies reporting under IFRS present all their intangible assets in one line item on the face of the balance sheet (or in several lines, but with a summary line). Intangible assets that are not individually material are often grouped together as "Other intangibles". Under US GAAP, intangible assets that are not individually material seem to be presented as "Other assets" rather than together with the more material intangible assets.

Useful lives

With respect to the amortisation of intangible assets, all companies disclosed that their intangible assets, with the exception of goodwill and intangible assets with indefinite useful lives, are amortised over their useful lives. The majority of companies also specified the actual useful lives.

Figure 6: Recognised intangible assets (% of companies with intangible assets)



The disclosures showed that a wide range of useful lives are used. The range, if disclosed, varied between 1 and 20 years. The shorter useful lives mainly related to software.

10% of the companies surveyed had brands with an indefinite useful life whereas the other companies with brands reported that their brands had finite useful lives. Without having the detailed knowledge about the specific brands and the expectation of their development, it appears that there are different expectations in regards to brand development with a lower number of companies assessing that

a brand in the logistics sector can be maintained indefinitely.

Regarding the useful lives of customer relationships and customer lists we noted that the useful lives were similar in a range between 1 and 20 years with one company disclosing a useful life of up to 50 years.

The relatively long useful lives of customer relationships and customer lists may indicate that customer relationships in the logistics sector are considered strong in nature. This is somehow surprising given the highly fragmented market and pressure on margins in this market.

Conclusions

It appears that the logistics companies surveyed acquire and recognise separately the same type of intangible assets as companies in other sectors, e.g. customer relationships, customer lists and brands. Some more logistics specific “assets” acquired such as access to networks and access to certain markets seem to be included in goodwill as most likely not meeting the criteria to be recognised as separate intangible assets.



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