OVERVIEW OF DEVELOPMENT OF THE NEW STANDARD IFRS 15

REVENUE FROM CONTRACTS WITH CUSTOMER

By

Birol Guven

100145824

DISSERTATION - NBS-MD11X(001)

Norwich Business School

University of East Anglia

Norwich Research Park

Norwich

NR4 7TJ

August, 2016

ABSTRACT

It is widely known that revenue is one of the most substantial items in financial statements, and, undoubtedly, revenue recognition is also one of the most problematic issues needing to be addressed. In 2014, after over a 10-year joint project undertaken by the IASB and FASB, the new revenue recognition standard was established in order to address all revenue issues. However, numerous experts have raised concerns about it. The purpose of this study is to examine whether IFRS 15 *Revenue from Contracts with Customers* makes revenue recognition reporting more or less understandable. Firstly, I review relevant academic literature and professional literature on revenue recognition in order to investigate which issues related to revenue recognition and its standards have been highlighted. Secondly, I rationally sample 27 comment letters written by the standard-setting bodies and analyse them by using the content analysis research method. The findings indicate that the new revenue standard includes some new concepts, principles and criteria which require judgement and need to be clarified to make proposed standards more understandable. This study concludes that there is no evidence that IFRS 15 has significantly changed the understandability of revenue recognition reporting, either favourably or unfavourably.

ACKNOWLEDGEMENT

I owe my deepest and unreserved gratitude to my parents (Mrs Hava and Mr Hursit Guven), brothers (Erol and Ekrem) and sister (Birgul) who support and encourage me at every moment of my life. Your unending love, invaluable support and encouragement were major a motivator for me in completing my Master's Degree.

My sincere appreciation goes to my supervisor, Amanda Williams, for all of her priceless guidance and supervision. It has been a great privilege working with you.

Special thanks to the Ministry of National Education of Turkey for sponsoring my MSc course.

Finally, I would like to thank all of my friends who supported and motivated me to get through my MSc programme.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

AASB: Australian Accounting Standards Board

AcSB: Canadian Accounting Standards Board

AFRAC: Austrian Financial Reporting and Auditing Committee

ANC: Accounting Standards Authority

AOSSG: Asian-Oceanian Standard-Setters Group

ARDF: Accounting Research and Development Foundation

ASB: Accounting Standards Board

ASBJ: Accounting Standards Board of Japan

ASC: Singapore Accounting Standards Council

BASB: Belgian Accounting Standards Board

CASC: China Accounting Standards Committee

CF: Conceptual Framework

CINIF: Mexican Financial Reporting Standards Board

CPC: Brazilian Accounting Pronouncements Committee

DASB: The Dutch Accounting Standards Board

DP: Discussion Paper

DRSC: Accounting Standards Committee of Germany

DSAK: Indonesian Accounting Standards Board

ED: Exposure Draft

FAP: Federation of Accounting Professions of Thailand

FASB: Financial Accounting Standards Board

GLASS: Group of Latin American Accounting Standard Setters

IAASB: International Auditing and Assurance Standards Board

IAS: International Accounting Standards

IASB: International Accounting Standards Board

IASC: International Accounting Standards Committee

ICPAR: Institute of Certified Public Accountant of Rwanda

IFRS: International Financial Reporting Standards

IsASB: Israel Accounting Standards Board

KASB: Korea Accounting Standards Board

MASB: Malaysian Accounting Standards Board

NASB: Norwegian Accounting Standards Board

NOFA: Russian National Organization for Financial Accounting and Reporting Standards

SFRB: Swedish Financial Reporting Board

U.S. GAAP: Generally Accepted Accounting Principles

WB: World Bank

CHAPTER ONE

1. Introduction

It is widely recognized that revenue is a vital indicator in forming an estimate of an entity's financial position and performance that consists of income arising from a firm's economic activities. Revenue recognition, which is one of the most important matters in the field of accounting is "one of the most difficult issues that standard-setters and accountants have to deal with" (Wustemann and Kierzek, 2005, p.69). The major problem for revenue is that it very difficult to determine "when revenue should be recognized" and additionally it is difficult to measure the "amount of revenue which should be recognized" (Melville, 2015, p.201).

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) worked together and jointly issued a new revenue recognition standard called the IFRS (International Financial Reporting Standards) 15 *Revenue from Contracts with Customers*, in May 2014, after many meetings, deliberations and drafts. The aim of the new revenue recognition standard is to provide a more comprehensive and robust framework for tackling revenue recognition issues and converge the revenue recognition principles under US GAAP (Generally Accepted Accounting Principles) and IFRSs. Furthermore, it targets to develop comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets in order to provide users of financial statements with more useful information (IFRS 15, 2015). The interesting point is that the effective date of IFRS 15 was deferred by one year from 1 January 2017 to 2018 based upon responses coming from comment letters regarding the effective date proposal, yet, early application is still permitted (IFRS: Effective date of IFRS 15; comment letter summary, due process and permission to ballot, 2015). Subsequently, there are a number of questions which need to be answered. To begin with, why was a new revenue recognition standard needed in

the first place; are existing revenue recognition standards not sufficient? Why would people not implement the new revenue recognition standard today? Why will it be applied in the future? What are the problems with the implementation of this standard? Why do people continue to defer implementation of the new revenue recognition standard?

According to public feedback, it can be said that there are some concerns related to the new revenue standard. For instance, some respondents found proposals complex and not easily understood (IFRS: Feedback summary from comment letters and outreach, 2012). Furthermore, there are many studies in academic and professional literature that raise preoccupations over the proposed standard. Therefore, the aim of this study is to investigate the fundamental issues around IFRS 15 in order to answer the research question "Does IFRS 15 *Revenue from Contracts with Customers* make revenue recognition reported more or less understandable?"

In this study, the comment letters received by the standard-setting bodies in response to the Revised ED (Exposure Draft) of IFRS 15 are analysed by using the content analysis research method. The findings mostly address the understandability of the new revenue standard that includes some new concepts requiring judgement and excessive disclosure requirements. Additionally, the understandability of reporting coming out the standard will be investigated.

1.1. Background

1.1.1. Definition of Revenue

The CF (Conceptual Framework) of standards describes revenue that arises throughout the course of an entity's ordinary activities and is referred to by a variety of different names that contain sales, fees, interest, dividends, royalties and rent (IFRS; Conceptual Framework, 2010 and 2016). In the previous revenue standard, revenue is defined as the gross inflow of economic benefits during the period that arise during the course of an entity's ordinary

activities when those inflows lead to increases in equity, other than increases regarding contributions from equity participants (IFRS; IAS 18, 2012). Consequently, revenue can be briefly defined as "income arising in the course of an entity's ordinary activities" (IFRS 15, 2015; Melville, 2015, p.202). Sales of goods, sales of services, interest, royalties and dividends can all be given as examples of revenue.

1.1.2. History of Revenue Recognition Standards

In April 2001, the IASB adopted IAS (International Accounting Standards) 11 *Construction Contracts* and IAS 18 *Revenue*, both of which had originally been issued by the International Accounting Standards Committee (IASC) in December 1993. IAS 18 replaced a previous version: *Revenue Recognition*, which was issued in December 1982. IAS 11 replaced parts of IAS 11 *Accounting for Construction Contracts*, which was issued in March 1979 (IFRS, 2015).

In 2014, IASB and FASB introduced a single revenue recognition model for entities to be applied in accounting for revenue arising from contracts with customers. This new revenue recognition standard replaced IAS 18 *Revenue* and IAS 11 *Construction contracts* (IFRS, 2015). Table 1 below demonstrates the development of IFRS 15 *Revenue from Contracts with Customer*:

Table 1: Project milestones

Date	Development	Comments
June 2002	Added to the IASB's agenda	
19 December 2008	Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers published	Comment deadline 19 June 2009
24 June 2010	Exposure Draft Revenue from Contracts with Customers published	Comment deadline 22 October 2010
14 November 2011	Exposure Draft Revenue from Contracts with Customers published (re-exposure)	Comment deadline 13 March 2012
28 May 2014	IFRS 15 *Revenue from Contracts with Customers* issued	Effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2017
11 September 2015	IASB defers effective date of IFRS 15 to 1 January 2018	New effective date of IFRS 15 is 1 January 2018
12 April 2016	Clarifications to IFRS 15 *'Revenue from Contracts with Customers'* issued	Effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2018 The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief.

Source: http://www.iasplus.com/en/standards/ifrs/ifrs15.

The Boards have been working on developing a joint revenue recognition standard for over 10 years. They issued a DP (Discussion Papers), an ED and a Revised ED, in 2008, 2010 and 2011, respectively, for improving appropriate standard for revenue recognition. Table 2 below illustrates the timeliness of these proposals:

Table 2: Outline of various Boards' proposals for revenue recognition

Boards' proposal	**DP**	**ED**	**Revised and reissued ED**
Issuance Date	2008	2010	2011
Claimed approach	Asset-liability	Asset-liability	Asset-liability
Allowed recognition and measurement models/options	Net Position Model	Customer Consideration Model	Customer Consideration Model
Measurement target	Net Position = Rights − Obligation	Liabilities	Liabilities
Measurement Amount	Rights: Customer Consideration Obligations: Customer Consideration Fair value (*)	Customer Consideration	Customer Consideration
Recognition	・Satisfaction of Performance Obligation	・Satisfaction of Performance Obligation	・Satisfaction of Performance Obligation
When Performance Obligation is Satisfied?	When a promised asset under the contract is transferred =When the customer obtains control of it.	When a promised asset under the contract is transferred =When the customer obtains control of it	Revenue can be recognised whether over time or at a point of time. In either cases, customer can obtain control of a promised asset under the contract.
Notion of transfer of control	Rigorous	Expanded exceptionally.	Ambiguous (unable to function)
Treatment of continuous transfer over time	The percentage of completion method is prohibited	Continuous transfer over time is treated as an exception (The percentage of completion method is permitted exceptionally.)	The percentage of completion method is permitted. Critical options left on: - customer consideration (expected value, or most likely payment).

Source: Biondi et al. (2014, p.16).

1.1.3. The New Revenue Standard (IFRS 15)

The Boards worked together and jointly issued a new revenue recognition standard in order to address all revenue recognition issues. They aimed to establish a single and comprehensive accounting model for revenue recognition for whole entities, industries and sectors. IFRS *15 Revenue from Contracts with Customers* was issued on 28 May 2014 and it supersedes:

- IAS 18 *Revenue*;
- IAS 11 *Construction contracts*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC-31 *Revenue – Barter Transactions Involving Advertising Services*.

The objective of this standard that "an entity should apply to report useful information in the financial statements concerning the nature, amount, timing and uncertainty of revenue and cash flows" that arise from a contract with a customer (IFRS 15, 2016; Melville, 2015, p.202). The scope of IFRS 15 applies to all contracts with customers in all industries, with the exception of the following:

- lease contracts (within scope of IAS 17 *Leases*);
- insurance contracts (within the scope of IFRS 4 *Insurance Contracts*);
- financial instruments and other contractual rights or obligations (within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*); and
- non-monetary exchanges between firms in the same line of business for facilitating sales to customers or potential customers. (CPA and Deloitte, 2015)

There are five main goals, which have been aimed by Boards, of the proposed new standard that are as follows:

1) To eliminate weaknesses and inconsistencies in previous revenue requirements;
2) To provide a more robust framework in order to address revenue issues;
3) To improve the comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets;

4) To provide more useful information to financial statements' users by improved disclosure requirements; and
5) To simplify the preparation of financial statements through reducing the number of requirements to which an entity must refer. (IFRS 15, 2016)

The New Principles-Based Five Step Model

According to IFRS 15, the new model requires a five-step approach when applying the core principle. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract with a customer.

Step 2: Identify separate performance obligations in the contract.

Step 3: Determine the transaction price (this is the amount the entity expects to be entitled to under the contract).

Step 4: Allocate the transaction price determined to separate performance obligations.

Step 5: Recognize revenue when (or as) the performance obligations are satisfied (i.e. when (or as) control of good or service is transferred to customer). (IFRS 15, 2015)

Table 3: Five-step revenue recognition model

EXHIBIT
Five-Step Revenue Recognition Model

Steps Outlined in the Standard	Examples of Potential Estimates or Judgments Required by the Standard
Step 1: Identify contracts with a customer	Evaluating customary business practices to determine whether oral or implied contracts exist. Determining whether collectability is probable.
Step 2: Identify the performance obligations in the contract.	This is an area that will require a great deal of judgment and may present significant implementation challenges.
Step 3: Determine the transaction price.	For many companies, the determination of the transaction price will be significantly different from current practice. Variable consideration, if not directly observable, will need to be estimated.
Step 4: Allocate the transaction price to the performance obligations in the contract.	The stand-alone selling price of each distinct good or service promised in a contract will need to be estimated if not readily observable.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.	The determination of whether a performance obligation is transferred over time or at a point in time.

Source: Yeaton, K. (2015, p.53).

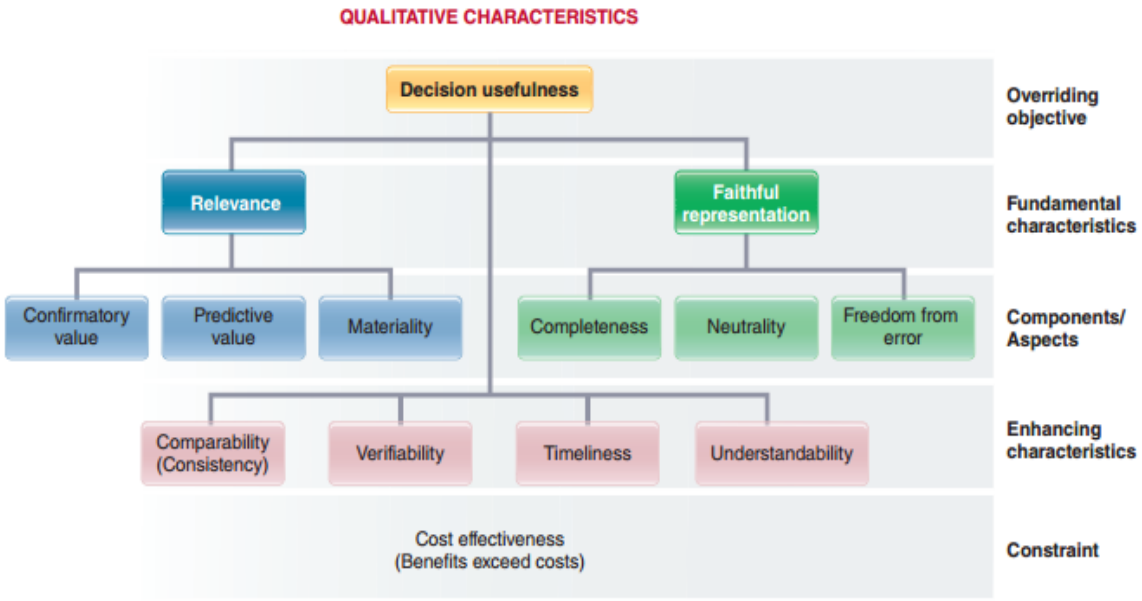
1.1.4. Qualitative Characteristics of Useful Financial Information

In order to improve the clarity of this study, a brief overview of the qualitative characteristics of useful information will be provided. There are six qualitative characteristics that are defined in the CF. Two of them are the fundamental qualitative characteristics called ***relevance*** and ***faithful representation***, and the rest of these attributes are ***comparability***, ***verifiability***, ***timeliness*** and ***understandability*** that are described as the enhancing qualitative characteristics (IFRS: Conceptual Framework, 2010 and 2015; Melville, 2015).

It is stated by the CF that the useful financial information must be relevant and faithfully represent in order to give accurate information to users of financial statements. The first fundamental characteristic is ***relevance***. Useful information must be relevant to meet "decision-making needs" of users; in other words, "irrelevant information is not obviously useful" (Melville, 2015, p.22). The second fundamental qualitative characteristic of useful financial information is ***faithful representation.*** This should be complete, neutral and free from error in order to be a perfectly faithful representation (IFRS; Conceptual Framework, 2010).

The enhancing qualitative characteristics are directed to "enhance both relevant and faithfully represented financial information" (Ernst & Young, 2010, p.2). The first enhancing qualitative characteristic is ***comparability*** which enables users to identify and understand similarities in, and differences among, items. The second qualitative characteristic is ***verifiability*** which helps assure users that information faithfully represents what it purports to represent. Verifiability means that different knowledgeable and independent observers would reach consensus, even though not necessarily complete agreement, that a particular depiction is a faithful representation (IFRS: CF, 2010). The third qualitative attribute is ***timeliness*** which essentially means that "information should be provided to the user in time for use to be made of it" (Alexander, Britton, and Jorissen, 2014, p.8). ***Understandability*** is the fourth qualitative characteristic and describes that the information which is provided in financial reports should be understandable for all users (Melville, 2015). The qualitative characteristic of useful financial information is illustrated in Figure 1 below:

Figure 1: **Qualitative characteristics of useful financial information**



Source: Spiceland, Thomas, and Herrmann (2013, p.28).

1.2. Study Outline

Figure 2 gives a visual overview of the dissertation, and a brief summary of the study follows below:

Figure 2: A visual overview of the dissertation

Chapter One Introduction and Background Information	**Chapter Two** Literature Review	**Chapter Three** Methodology
Chapter Four Analysis and Results	**Chapter Five** Discussion Of Results	**Chapter Six** Conclusions and Recommendation

This study is organized around six chapters. The first chapter gives an introduction, including a detailed background section that consists of the definition of revenue, the history of revenue

standards, the new revenue standard and the qualitative characteristics of financial information as a whole. Chapter two provides a comprehensive literature review on revenue recognition in addressing the main issues related to the proposed standard. Chapter three sets out the methodology which is used in achieving the purpose of the study, as outlined with research design, content analysis and data collection. Chapter four introduces the analysis and results section; an overview of the use of content analysis research methodology in this study is discussed and supportive tables are provided. A discussion of findings is presented in Chapter five along with the limitations of the study. The final chapter concludes the dissertation by summarizing the findings based upon the knowledge that has been advanced and terminates with recommendations for future studies.

CHAPTER TWO

2. Literature Review

Revenue is a key performance creation that is used by investors and other shareholders in order to assess performance and future prospects of a company. Revenue recognition is one of the most difficult issues that needs to be addressed by standard-setters and accountants. In this section, the literature on revenue recognition will be comprehensively reviewed.

2.1. Prior Research on Revenue Recognition

2.1.1. Theoretical, Analytical and Empirical Research

The revenue recognition model is based upon the assets-liability approach (balance sheet approach) that is supported by IASB and FASB to regulate revenue recognition. Based upon the assets-liability approach, revenue is recognized "when the contract asset increases" (such as with accounts receivable), or "the contract liability decreases" (such as when the entity performs its obligations to the customer), or "some combination of the two" (Schipper et al., 2009, p.56; Colson et al., 2010; IFRS CF, 2010). However, there are some doubts about the asset–liability model. Some studies claim that this method, as the consistent concept, is not the best way for regulating revenue recognition (Marton and Wagenhofer, 2010). Biondi et al. (2014, p.28) examines the assets and liabilities approach of revenue recognition of the Boards and emphasises that "this actual failure seems to be a logical consequence of a hasty effort to develop a new model without fully understanding the socio-economic functions of control and accountability".

A recent empirical analysis conducted by Dichev and Tang (2008) included a sample of the 1,000 largest US firms over the last 40 years and found that the increased use of the asset–liability model adversely affected the quality of accounting earnings in the US. In the study conducted by Dichev (2008), the most important outcome of the accounting system was found

to be revenue. He asserts that determining assets and liabilities is conceptually less useful and less clear than income determination. Based upon his study, it can be concluded that revenue – expense model (income statement approach) reflects the current business reality.

These two alternative and competing approaches have been repeatedly discussed in terms of their effectiveness or appropriateness for financial reporting. The balance sheet approach examines the valuation of assets and liabilities as "the principal focus of financial reporting", while the income statement approach examines the determination of revenues, expenses and "most importantly, earnings as the primary goal of financial reporting" (Dichev 2008; Demerjian, 2011, p.180). Some researches claim that a good revenue recognition model should be based upon the balance sheet approach, but some others claim the opposite. According to the Conceptual Framework for reporting, useful financial information must be relevant and faithfully presented in order to give accurate information to investors and users of financial statements about performance and the affairs of a company. Based upon qualitative characteristics concepts in the CF, standard setters should take into consideration combining these two approaches for creating or improving the revenue recognition model as it provides more accurate financial information, instead of insisting on the stricter asset-liability approach.

Despite arguments against the principles-based revenue recognition model, some studies have supported this model. For instance, Marton and Wagenhofer (2010) examined the IASB and FASB Discussion Paper 'Preliminary Views on Revenue Recognition in Contract with Customer' by means of presenting theoretical, analytical and empirical research. They found that the DP contains a selection of rules and principles requiring judgment (for instance, "the identification of performance obligations and their measurement"). They concluded that the proposed revenue recognition approach in the DP attempts to attain conceptual consistency and it clearly enhances consistency regarding the existing set of standards.

Additionally, McCarthy and McCarthy (2014) aimed to investigate the revenue decisions of financial managers under a principles-based accounting standard with a comparison with a rules-based accounting standard. The researcher used a case experiment including 127 experienced financial managers. The average experience level of these managers was 20 years, with 82% having over 20 years' experience. The outcomes of the research illustrate that a principles-based standard enables experienced financial statement preparers to make more accurate revenue decisions than a rules-based scenario. Furthermore, there is no a statistically considerable difference of judgment required in applying both approaches.

Moreover, Bohusova and Nerudova (2009) aimed to investigate the fundamental differences in the field of revenue recognition and measurement by using a comparative analysis and analysing their effect on the balance and recorded income arising from the activities. They recommended principles for initial measurement of revenue that might be consistently applicable to entire industries. Finally, Eccles, Holt, and Fell-Smith (2005) explored whether revenue recognition is generally an issue in the UK, especially for property companies. By means of a pilot study, interviews and a survey, the authors obtained data from accounting practitioners to explain the behaviour of firms and accounting standards setters in the UK. Their research showed qualified affirmative results.

There are several studies that have referred to whether the new comprehensive revenue recognition standard is really necessary or not. Specifically, Wustemann and Kierzek (2005), proposed an alternative transaction approach, examined the inconsistencies of existing IFRS revenue recognition and also compared three dissimilar revenue recognition models that were discussed on an international scale at that time. Each of these conceptual models is based upon the asset and liability view. The existing revenue recognition standards (IAS 11 and IAS 18 are among the oldest standards among others) may not reflect the latest trends in international accounting, therefore, it was intended to jointly develop a consistent and

principles-based accounting standard. However, the authors conclude that it is not necessary to make a major revision to the current IFRS revenue recognition as recommended by FASB and IASB. Furthermore, the writers state that by considering the basis of existing transaction-based IFRS revenue criteria, perceived imperfections would be overcome.

In another study, Wagenhofer (2014) examined revenue and profit or loss recognition and how financial information about performance of entities is obtained by considering these three factors. The author reviewed relevant literature to analyse the importance of revenue in performance evaluation and discussed the results on revenue management. Furthermore, the new revenue recognition standard (IFRS 15) which was aimed to provide a single consistent model was evaluated by researcher. Wagenhofer claimed that the effort for creating a comprehensive standard was not desirable, due to the fact that the usefulness of information and the economic characteristic attributes of earning cycle generating revenue and customer payments vary from company to company. Furthermore, the earnings cycle involves many risks, for instance, technical, product, input price, sales quantity and price, credit risks, and risks of obligations arising after delivery. According to the writer, one of the key aspects is to determine the critical event trigging recognition. Wagenhofer (2014, p.372) states that "the selection among different critical events depends on the information that the resolution of risks in each stage of the earnings cycle provides in a particular decision environment". The research illustrates that it is unnecessarily the event at which "the greatest risk is resolved", but that "one which allows users to learn most" about the firm's performance (Wagenhofer, 2014, p.372). This insight recommends that "striving for a single revenue recognition principle is unlikely to be successful" (Wagenhofer, 2014, p.372).

2.1.2. Earning Management and Revenue Recognition

Revenue is one of the most important earnings factors and a strong indicator of company performance. It is also important part of earning management. In 2013, Rasmussen investigated the implications of revenue recognition methods for earnings management and earnings informativeness in semiconductor companies. The results indicated that earnings are more informative for companies deferring revenue recognition until resolving products and earnings management is more likely when entities recognize revenues before resolving all uncertainties. The findings suggest that manufacturers should defer revenue recognition until resolving product return and pricing adjustment uncertainties. Additionally, Stubben (2010) found that for earnings management, unexpected accruals are a worse proxy than unexpected revenues. As, based upon the consequences of study, commonly used accrual models are more biased, less specified, and less powerful than revenue models. He also found that accrual models are less likely than revenue models to "detect a combination of revenue and expense manipulation" (Stubben, 2010, p.695)

Peterson (2012, p.92) examined the impact of accounting complexity on "misreporting using a setting of revenue recognition complexity and revenue restatements". He found that revenue recognition complexity substantially enhanced the probability of restatements. The results recommended that in the event of revenue recognition, accounting complexity plays a key role on the occurrence of misreporting. Davis (2002) found that companies that report grossed-up or barter revenue displayed lower value relevance of revenue in the software industry.

Bowen, Davis and Rajgopal (2002) found evidence that aggressive revenue reporting practises is more likely to be used by Internet companies and for these firms, earning management is stronger with a higher need for external funding. Results of the study suggest

that utilizing flexibility in revenue recognition rules by companies is sometimes to better display financial performance of firms rather than to mislead investors.

Moreover, Liang and Zhang (2006) indicate that flexible revenue recognition rules might be preferred instead of strict rules as their option can provide additional quality information about the earnings process. Yet, stringent rules may become more desirable when the incentives for earnings management are powerful.

The study by Kasztelnik (2015) aimed to summarise the effect of the value relevance of revenue recognition under IFRSs in the US. The writer presented how changes occurred in the value relevance of revenue recognition after the IFRS adoption through a statistical analysis. Based upon the study, revenue recognition plays "a reinforcing role that complements the more complex IFRS account" (Kasztelnik, 2015, p.88). The results demonstrate that since the adoption of IFRS, the value relevance of revenue has raised and revenue recognition disclosures have also increased for the public sector under IFRS. The writer also indicated that the federal taxes from collected contracts will be affected by the increment in value revenue and the firms will "pay more tax from the accelerated revenue recognition under the new standard IFRS 15" (Kasztelnik, 2015, p.97).

The studies described in this section lay emphasis on a key accounting principle called prudence (conservatism concept). In the IASB's original framework, prudence was defined as "a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty" (Deegan and Unerman, 2011, p.224; Wagenhofer 2014, p.369). Caution and prudence is necessary when making a judgment. Under this principle, the amount of revenues recognized is not overstated and the amount of liabilities and expenses is not underestimated. In the updated Conceptual Framework of the Boards, prudence is eliminated and it focuses on neutrality and representational faithfulness (Deegan

and Unerman, 2011). Numerous researches have explored issues related to the prudence principle, even if its requirement has been softened by recently developed financial accounting standards. On the other hand, a number of investors and stakeholders in response to the Discussion Paper on the CF, which was published in 2013, state that "accounting standards should be founded explicitly on the concept of prudence" (Cooper, 2015, p.1). Consequently, the IASB have taken this into consideration and offered to reintroduce the prudence concept as one aspect of the characteristics which makes financial statements useful to users and investors (Cooper, 2015).

2.2. Issues of Revenue Recognition

2.2.1. Proposed Revenue Recognition Model

The Boards attempted to create a single, comprehensive and strict revenue recognition model in order to address all revenue issues. To improve the new model and reduce shortfalls, the Boards issued the DP, the ED and the Revised EP in 2008, 2010 and 2011, respectively. A significant number of studies have identified deficiencies related to the proposed new revenue recognition model, although the new model is supported by many others in respect to solving revenue matters. For example, Ohlson et al. (2011, p.590) point out in their study that the FASB-IASB's ED does not take into consideration "what should be the basic transactions and events on which the accounting must rest", and "how the input maps into recognition and measurement rules". The writers suggest that revenue recognition should directly link payments received by customers and income recognition should be completely separate from revenue recognition. Revenue, as defined in the previous section, is the amount that is earned from a firm's main activities, for example, selling goods or providing services, whereas income is the difference between revenue and expenses. Tsujiyama (2009) reviewed the DP proposed by the IASB and FASB and found that with regard to reconstructing the revenue

recognition model based upon amendments in net position, the DP involves serious self-contradictions.

Similarly, Colson et al. (2010) reviewed the proposed new revenue recognition standard in the DP (*Preliminary Views on Revenue Recognition in Contracts with Customers*). The writers highlight some problematical aspects of the proposed model, although they mostly support the comprehensive revenue recognition standard issued by the Boards. They urge the IASB and FASB to carefully consider a number of clarifications. For instance, a contract should be an enforceable agreement obligating the seller and the "measurement of a performance obligation must be verifiable" (Colson et al., 2010, p.689). The writers point out that stringent requirements are imposed by proposed standard on firms entering into long-term construction contracts. Therefore, under the proposed revenue recognition standard, some companies will have serious difficulties about recognizing revenue prior to the completion of construction projects (in mining and construction industries, in some situations, "revenue recognition came earlier than title passing"). Colson et al. (2010, p.698) indicate that "consistency in revenue and expense recognition becomes the key" if the boards would simplistically give full attention income measurement rather than a strict asset and liability view.

Schulzke, Berger-Walliser and Marchini (2013) challenge the supremacy of the economic substance over legal form, which is a well-established accounting concept and a principle of financial reporting, by attracting attention to the legal aspects of new contract-based revenue recognition. They assert that the proposed contract-based revenue recognition model causes new legal risks and opportunities for clients, accountants, lawyers and users of financial statements. The writers claim that the proposed standard was designed without information from the legal community, even though it focuses upon legally enforceable contracts. The contract-law ambiguity present in the ED recommends that regulatory authorities (IASB and FASB) should develop methods for improving the interaction between laws and accounting

standards. Schulzke, Berger-Walliser and Marchini (2013, p.578) suggest that accounting-standard setters should re-examine "whether the benefits of requiring legal enforceability for revenue recognition outweigh the associated measurement costs and uncertainty". Additionally, the writers indicate that the legal enforceability criterion of the ED creates "unnecessary, costly, and risk-inflating complexity that the accounting and auditing professions appear ill-prepared to address" (Schulzke, Berger-Walliser and Marchini, 2013, p.578). However, they ignore the economic substance over legal form concept. According to this concept, economic substance should take precedence over legal form. This term means that an entity's transactions and events must be recorded and recognized according to their economic substance rather than only their legal form in order to present a true and fair view of the affair, performance and position of the entity (Melville, 2015).

Schipper et al. (2009) in the commentary study titled 'Reconsidering Revenue Recognition' examined two new revenue recognition models discussed during the Financial Reporting Issues Conference in November 2007. These two proposed models, which were considered by IASB/FASB to supersede the existing guidance, are the customer consideration model and measurement model. Both models are based upon identification of performance obligations and rights arising in a contract with a customer for recognizing revenue when performance obligations are satisfied (IFRS DP, 2008). Yet, the authors point out that "the definitions of rights and performance obligations and the determination of when performance obligations are satisfied are unresolved issues common to both models" (Schipper et al., 2009, p.67). In order to record performance obligations at each reporting date, the customer consideration model uses purchase price, while the measurement model is based upon exit prices for measuring and remeasuring remaining obligations. The writers posit that the remeasurement of the remaining obligations pose a problem regarding how the impacts of remeasurement are reported and displayed. Furthermore, it requires considerable effort and professional judgment

to forecast exit prices and resulting estimates can be tough to verify. Moreover, they indicate that differences in the revenue recognition implementations often lead to difficulties for users of financial statements for comparing revenue and earnings among firms and industries.

Horton, Macve, and Serafeim (2011) found that using fair value as a measurement basis leads to exacerbating conceptual conflicts between revenue and liability recognition and measurement. The authors highlight that a comprehensive and robust revenue recognition standard should require addressing the recognition of internally-generated intangibles. Owing to the fact that the current accounting principles for these intangibles does not succeed for properly matching investment and return, while firms might have made an investment building up the necessary intangibles providing opportunity for achieving apparent super-profits.

2.2.2. Deferred Revenue

The majority of the comment letters were written by the implementers of standards (such as Dell, Nokia and Intel) (IFRS, 2016) and they reflected their concerns about mismatched revenues and expenses in long-term contracts.

In fact, Prakash and Sinha (2012) examined deferred revenue and mismatch of revenue and expenses on proposed revenue recognition guidance. The writers found that reported margins in present and in future periods are affected by the results of a mismatch of revenue and expenses if the recognition of revenue is deferred by companies without deferring the recognition of relevant expenses. This situation leads to the rising complexity of predicting future performance and in turn, profitability prediction, which makes it challenging to estimate and assess future performance and profit margins of a company for investors and analysts. Consequently, the outcomes of the study concluded that revenue deferrals results in increasing complexity and a reduction in the transparency of financial statements of

companies. Furthermore, the authors point out that the proposed revenue recognition model jointly issued by the IASB and FASB in the DP does directly not tackle the problem of matching revenues and expense. Therefore, negative consequences of mismatch of revenue and costs that stem from the lack of capitalization of general indirect expenses will likely continue to exist under the proposed revenue recognition guidance.

The results of Prakash and Sinha (2012) highlight the importance of the matching concept of accounting. Based upon this concept, when recording revenue, all related expenses should be recorded at the same time. This is the foundation of the accrual basis of accounting.

Prior studies on deferred revenues have also investigated the effects of revenue deferrals on the discretion of managers. In particular, Altamuro, Beatty and Weber (2005) examined how financial reporting is influenced by accounting methods accelerating revenue recognition and the implications of revenue recognition in case uncertainties exist regarding product delivery. They found that deferred revenue in earnings enables value-relevant information about future performance. The writers suggest that if companies recognize revenue before resolving uncertainties, earnings are more informative.

In another study on deferred revenue, Caylor (2010) found proof that managers use discretional power in both accrued and deferred revenue in order to avoid surprises in adverse earnings. Yet, the writer found little evidence that discretion is used for avoiding losses or earnings decreases. His results suggest that the revenue recognition project committed by the IASB and FASB for reducing managerial estimation in revenue recognition might have the unplanned impacts of resulting in greater real costs that affect shareholders because entities are likely to use even greater discretion, especially in accounts receivable.

Further, Srivastava (2014) examined how selling-price estimates in revenue recognition affect the informational roles in contracting and financial statements. The writer finds that deferred

revenue accounts now include more value-relevant information compared with before; hence, a company's high ceiling performance is better determined through examining both revenue and deferred revenue accounts. Dobler (2008) evaluated the impact of proposed revenue recognition project by the IASB/FASB on financial reporting for construction contracts under IFRSs. He found evidence that the completed-contract method encourages more reliable information, whereas the percentage-of-completion method provides more relevant information.

Zhang (2005) investigated influences of revenue recognition timing on qualifications of reported revenue and companies' flexibility in adopting the Statement of Position 91-1. The author used an initial sample of 240 firms in the software industry in order to understand how early revenue recognition impacts attributes of reported revenue. From the results of the study, the author determined that early revenue recognition enables reported revenue to be more timely and relevant in spite of making it less reliable and predictable.

The study of Zhang (2005) compares the relevance and the reliability and it purports that changes in reporting may increase relevancy, but decrease reliability. A majority of experts have judged IFRS 15 in reference to relevance, they have mostly used the reliability as a test as to whether people favour reliability or favour relevance for IFRS 15. These two important concepts for financial reporting generally conflict with each other. Based upon the financial reporting's revised Conceptual Framework which replaced the existing FASB and IASB Frameworks, financial reporting must include the fundamental qualitative characteristics (relevance and faithful representation) for providing useful financial information to users of financial statements. "Faithful representation replaced the previously used term reliability, as the Boards determined there is a lack of common understanding of reliability" (Ernst & Young 2010, p.2). Actually, reliability was arguably replaced by faithful representation, and not straightforwardly. For instance, as a result, many respondents to the CF's Discussion

Paper expressed the point of view that "the label reliability should be reinstated in the CF" (IFRS CF Basis for Conclusions ED, 2015), since, one of main reasons is that, "the term reliability is clearer and better understood than the term faithful representation" (IFRS CF Basis for Conclusions ED, 2015).

2.3. What professional literature says about changing the revenue recognition standard?

It is generally believed that the new principles-based standard provides a single and comprehensive model applying to all contracts in order to address revenue recognition issues; however, it will have significant varying impacts on entities. Some companies and industries will be affected more than others. For example, "financial institutions generate most of their earnings from financial instruments and may therefore, seem little affected by the new standard" (Ciesielski and Weirich, 2015, p.31).

In particular, Jones and Pagach (2013) analysed the new principles-based revenue recognition model. They found that this new model enables greater formality and discipline in recognizing revenue than the earnings-process approach provided currently. Furthermore, the new standard would require firms to disclose more information related to contracts with its customers than required in existing standards. This might result in significant changes in data collecting processes and the information technology of entities. The writer highlights that the implementation of the new standard influences all levels of an organization (including accounting, legal, tax and information systems).

Crowley et al. (2013) assert that the amendments in book revenue recognition methods will need to be assessed by tax departments in order to get ready for the tax impact of the proposed new model. Tax payments might be influenced as a consequence of the timing changes of revenue recognition, thus tax payments need to be made earlier or later, which depending upon when revenue is recognised.

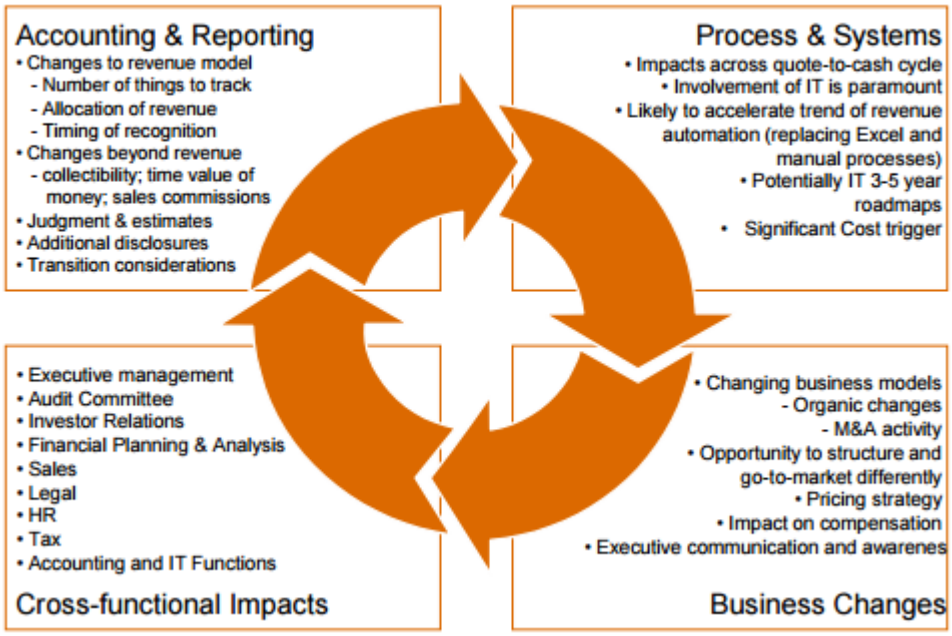
McKee (2015) states that the new standard might lead to differences that arise from its implementation between financial-accounting and tax-accounting. He notes that for corporate taxpayers, it can be very costly and take substantial time for adjusting their accounting processes and systems so as to account for these differences.

Yeaton (2015) indicates that most entities may have to make considerable changes to existing policies and processes for capturing and justifying decision that is made relating to revenue recognition and measurement. There might be a variety of key impacts and changes for companies based upon the new standard, which are summarized as follows:

- Revenue can be recognized at a point in time or over time;
- Revenue recognition can be accelerated or deferred;
- Revisions might be needed to "tax planning, covenant compliance, and sales incentive plans";
- Contracting processes and sales may be reconsidered;
- IT systems might need to be updated;
- New judgments and estimates will be required;
- Comprehensive new disclosures will be required;
- "Accounting processes and internal controls" will need to be revised; and
- Communicating with stakeholders will be needed by entities. (KPMG[1], 2014, p.2)

[1] KPMG is a global network of professional firms providing Audit, Tax and Advisory services.

Figure 3: Impacts of new revenue standard to entire organisation



Source: https://www.pwc.ru/ru/events/2014/assets/2-gruss-eng.pdf

CHAPTER THREE

3. Methodology

This section will present the research methodology used in this study to investigate how the new revenue recognition standard currently issued by the Boards impacts revenue recognition reported**.** Firstly, the research design of the study will be formed. This will be followed by a description of content analysis as the chosen research method. Finally, information about data collected for use in this study will be given.

3.1. Research Design

According to the scholarly literature of financial accounting that was reviewed in the previous section, experts have highlighted a number of issues about revenue recognition. First of all, some have explored the issue related to the balance sheet approach (asset-liability concept) versus profit or loss-statement approach (revenue-expenses concept). Some studies have supported the asset-liability approach as the basis of revenue recognition standard, whereas others have supported the revenue-expenses approach and others have proposed alternative models, such as the transaction approach. Secondly, issues such as how changing the reporting revenue recognition makes the information more or less relevant and more or less reliable have been explored. Many studies have explored issues of relevance and reliability. Furthermore, some have challenged the concept of the economic substance over legal form and highlighted that the legal form of the proposed standard is inappropriate. Moreover, many have explored issues related to the concept of prudence. However, none of these have explored the issue of understandability. Therefore, this study will consider IFRS 15 *Revenue from Contracts with Customers* and whether it makes revenue recognition reported more or less understandable.

In order to find answers to the research question, comment letters written for the revised ED will be examined, since comment letters could provide insight to the research question. The reason data was obtained from comment letters is that most of these letters were written by standard-setting bodies, auditors/accounting firms, business and finance experts and executives of large and multinational organisations and companies, e.g., KPMG, BDO[2], Apple and Samsung etc. In other words, they are users and implementers of financial reporting standards, so concerns and information given by them within the comment letters would highlight problems of implementation. Therefore, analysing comment letters might provide more accurate results than other resources.

Yet, this study will not examine the comment letters in their entirety. By sampling rationally, it is going to focus upon the comment letters of the standard-setting bodies. As shown by Figure 4 in data collection section, there are 27 comment letters written by these bodies and these comment letters constitutes 8% of all comment letters received. This means that this is a reasonable group of people and a reasonable sample size for this research. The main reason of for choosing standard-setting bodies is that they are representative of a number of stakeholders in their specific jurisdictions. They also have great experiences and important local and regional knowledge. These bodies are from different countries of the world and they understand their countries' financial reporting problems. For instance, ANC (Accounting Standards Authority) would represent preparers, auditors and professional bodies in France. They could be listening to the views of a number of different stakeholders within their country. This means that perspectives of revenue recognition issues from a broad and different sample can be achieved. Indeed, these individuals experience different issues about

[2] BDO is one of the UK's largest accountancy and business advisory firms providing services to ambitious businesses within the UK and worldwide.

financial reporting due to having different accounting and financial systems. Consequently, these bodies' interpretations are more influential than individual preparers.

In this study, the comment letters of the Boards' revised ED *Revenue from Contracts with Customers* will be reviewed and qualitative and quantitative content analysis will be used in order to analyse the data. Moreover, an attempt will be made to include the latest information regarding revenue recognition criteria. Secondary data will be used, which will be collected from websites and published materials, such as articles, books, academic journals and other theses.

3.2. Content Analysis

The content analysis research method has been used in this study involving the analysis of the standard-setting bodies' comment letters. Sonnier, Carson and Phillips Carson (2008, p.72) defines content analysis as a standard methodology allowing researchers or analysts to examine "key words from large amounts of text". Furthermore, content analysis is described as a research technique "for making replicable and valid inferences from data to their context (or other meaningful matter) to the contexts of their use" (Krippendorff, 2004, p.18). Correspondingly, content analysis is a research technique that might be used when researchers are faced with large amounts of data. This research technique makes reference to the definition and analysis of data through the researcher for drawing inferences based upon the research subject. Cronje and Gouws (2008) describe content analysis as studies analysing and recording the content of documents or other forms of texts (for example; letters, speeches and annual reports). Content analysis ought to be able to give answers to certain questions notwithstanding the fact that, at the same time, it could raise new questions which can stimulate new or further research on the subject with which it is concerned. In this study, content analysis will be able to determine whether the new proposed standard makes revenue

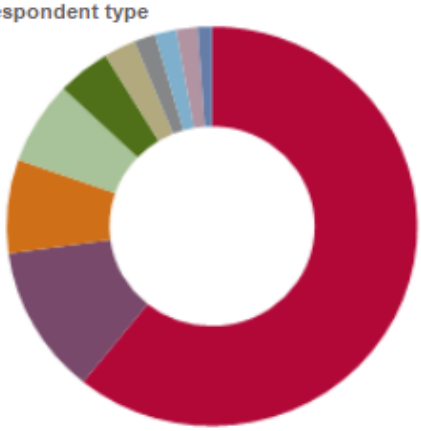
recognition reported more or less understandable based upon interpretations of the standard-setting bodies.

3.3. Data Collection

Data will be obtained from comment letters of the Boards' revised exposure draft *Revenue from Contracts with Customers*. There are 357 comment letters received by Boards (FASB and IASB), yet this study is going to analyse the comment letters of the standard-setting bodies and these letters will be accessed through official websites of IASB and FASB (www.ifrs.org and www.fasb.org). As illustrated by Figure 4 below, numerous comment letters were received from different types of respondents from around the world:

Figure 4: The summary of comment letters

Respondent type



Respondent Type	Number	Percentage
Preparer	217	61%
Accountancy body	43	12%
Standard-setting body	27	8%
Auditors / accounting firms	24	7%
Individuals	15	4%
Users	9	3%
Other	6	2%
Government	6	2%
Regulators	6	2%
Academics	4	1%
Total	357	100%

Geographic region

Geographic Region	Number	Percentage
North America	176	49%
Europe	96	27%
Asia	42	12%
Global	22	6%
Oceania	9	3%
Latin America	6	2%
Africa	6	2%
Total	357	100%

Source: http://www.ifrs.org/Current-Projects/IASB-Projects/Revenue-Recognition/Pages/Revised-Exposure-Draft-comment-letters.aspx

CHAPTER FOUR

4. Analysis and Results

Analysis

In this chapter, the comment letters of the standard-setting bodies will be analysed by means of supporting a table, following which the results will be presented.

On the whole, the commentators discuss and answer some specific questions (you can see in Appendix 1) presented by Boards on the revised ED. The main issues which might affect the framework for the recognition and measurement of revenue have attracted notice in reference to being mostly-spoken matters. These core issues are outlined as follows: (i) Performance obligations satisfied over time criteria; (ii) Scope of onerous test; (iii) Presentation of customer's credit risk; and (iv) Interim and annual disclosures.

27 comment letters written by standard-setting bodies are reviewed in a detailed manner. It has been shown and categorised in Table 4 how many standard-setting bodies have raised main issues and preoccupations around the qualitative characteristics of useful financial information.

Table 4: Classification of given preoccupations regarding concepts

Standard-setting Bodies	Qalitative Characteristics /Concepts					
	Relevance	Reliability (faithful representation)	Understandability	Comparability	Prudence (Conservatism Concept)	Materiality
AASB		✓			✓	
AcSB		✓	✓			
AFRAC		✓	✓			
ANC	✓	✓	✓			✓
AOSSG		✓			✓	
ARDF	✓		✓			
ASB	✓	✓	✓	✓		
ASBJ		✓		✓		
ASC	✓	✓				
BASB						
CASC						
CINIF						
CPC	✓	✓				
DASB	✓			✓		✓
DRSC	✓	✓	✓			
DSAK	✓		✓			
FAP						
GLASS						
ICPAR					✓	
IAASB		✓		✓		✓
IsASB			✓			
KASB			✓			
MASB				✓		
NASB						
NOFA						
SFRB	✓	✓				
WB	✓					

Findings

Table 5 below demonstrates the summary of research results.

Table 5: The number and percentage of comment letters related to concepts

Concepts	**Relevance**	**Reliability (faithful representation)**	**Understandability**	**Comparability**	**Prudence (Conservatism Concept)**	**Materiality**
Number of issued comments letters	10	12	9	5	3	3
Percentage of issued comments letters	37%	44%	33%	19%	11%	11%

The findings illustrate that 9 standard-setting bodies have raised issues around understandability, while 18 of them have not. 12 out of 27 bodies have raised preoccupations with regard to the concept of reliability and 10 out of 27 bodies raised the issue of relevance. 5 comment letters have raised concerns related to comparability, whereas only 3 out of 27 have raised concerns around the concept of prudence and materiality. Based upon the results, the majority of concerns are related to reliability, and the attribute of relevance, accounting for 44% and 34% of the letters, respectively. Another considerable amount of issues raised focused upon understandability, accounting for 33% of the responses.

CHAPTER FIVE

5. Discussion

In general, even though it is strongly believed that the new proposed revenue standard, which is robust and very comprehensive, will most likely provide solutions to revenue recognition issues, many comment letters written by standard-setting bodies found some paragraphs, criteria and principles of the proposed standard complex and not easily understandable. They also point out that some complicated terms, such as 'reasonably assured', should be clarified for making proposed standards more understandable. In this section, issues in regard to qualitative characteristics of useful financial information based upon people's preoccupations in the comment letters will be discussed.

5.1. Understandability Issues

Understandability as an enhancing qualitative characteristic makes financial information more useful and it has great importance for financial reporting. For instance, some respondents to the CF's Discussion Paper recommended that understandability should be elevated to become "a fundamental qualitative characteristic or even to become an objective of financial reporting" (IFRS CF Basis for Conclusions ED, 2015). Yet, the Boards propose not to make such a change. Although a minority of studies in the literature on revenue recognition have partly referred to some points related to understandability, it has not been especially researched regarding the new proposed standard that makes revenue recognition reported more or less understandable. When considered from this point of view, this study will be the first to explore this issue.

As analysed in the previous section, nine comment letters raised a variety of concerns over understandability with respect to the proposed standard. Many have pointed out that the understandability of the proposed new revenue recognition standard and others have drawn attention to the understandability of reporting coming out of the standard. These particular

aspects underlined in the comment letters will be explained and discussed in the following section.

5.1.1. New Concepts, Principles and Criteria

By attracting notice of the understandability of the proposed revenue standard, some comment letters have raised the issue of new concepts in the proposed standard. Firstly, the ANC (Accounting Standards Authority), which is the standard-setting body in France, has highlighted that the proposed draft standard is not comprehensive and is very difficult to read and understand, even for accountants. According to the basis for conclusions of the ANC, the ED is not based upon understandable principles. Furthermore, the ANC concludes that the proposed requirements are not understandable and do not also represent a meaningful level of information and improvement to the existing revenue recognition requirements in IFRS, "all the more in view of the significant costs to be incurred".

In the same manner, the AFRAC (Austrian Financial Reporting and Auditing Committee) has indicated that some concepts of the proposed standard are too complex; hence, those that lead to diverse interpretation and practice, such as paragraph 35, should be rephrased and more illustrative examples should also be added.

CF's concept of understandability is about financial statements and most of the issues that have been raised about understandability in comment letters have been in reference to the understandability of the standard. In other words, comments are mainly about the understandability of the standard; however, having a difficult to understand standard is bad for understandability of final financial reporting as well. It can be said that having a difficult to understand standard is troublesome for subsequent understandability of the resulting financial statements, because if people misinterpret and misunderstand the standard, they are not going to be consistent in how they apply the standard when they actually report. As a

result, having a too complex and standard that is not understandable could adversely affect financial reporting.

Moreover, the KASB (Korea Accounting Standards Board) worries over the same issues about the understandability of proposed standard. They have emphasized that in order to improve the understandability of the proposed standard, it would be more appropriate to refine some concepts, such as 'reasonably assured' and add detailed explanations and examples.

The term of 'reasonably assured' is closely associated to the term 'reasonable assurance' in auditing literature. If collectability, which is a revenue issue and refers to the credit risk of customer and the ability to pay a company the amount of promised consideration, is not reasonably assured, then no revenue may be recognized on the transaction (IFRS, 2013).

Lastly, the DSAK's **(**Indonesian Accounting Standards Board) comment letter states that in order to "set up good base of understanding from the beginning, and to avoid possible misunderstanding and misinterpretation", some terms, such as practical expedient and reasonably assured should be taken into consideration by means of further explanation and clarification.

The practical expedient allows companies to estimate the fair value of certain investments through using the net asset value (NAV) per share as of their measurement date (PWC, 2015). If an entity elects to use the practical expedient in reference to either the existence of a significant financing component (paragraph 63) or the incremental costs of obtaining a contract (paragraph 94), the entity shall disclose that fact (IFRS 15, 2015).

Consequently, people have commented mainly in regards to the understandability of the standard itself rather the subsequent reporting; indicating that in order to have understandable reporting, an understandable standard is needed. In essence, an understandable standard is one

that is not too complex and based upon sound and understandable principles which are properly defined and ‘not weak’. Examples of weak principles have been given as the concepts of ‘reasonably assured’ and ‘practical expedient’.

A selection of studies (e.g., Schipper et al. 2009; Colson et al. 2010; Marton and Wagenhofer 2010) have pointed out these issues. They state that some principles of the new revenue standard requires judgment and needs clarifications. There is no doubt that IFRS 15 is a lengthy standard and provides “extensive application guidance” (Melville, 2015, p.201). The standard introduces new concepts, principles and criteria, such as performance obligations, that have not been seen before, therefore, it would appear that these might negatively influence the understandability of the new revenue recognition standard for implementers, and this means that it may make the proposed standard less understandable based upon the results of the research.

On the other hand, it must not be forgotten and must be recognized that business transactions and activities have become more complicated; therefore, in parallel with related standards, regulating these affairs might also need to be complex. Establishing a comprehensive and robust revenue recognition model regardless of sector, industry and entities or geographic region, may lead to these kinds of complexities.

5.1.2. Proposed Disclosure Requirements

In the matter of the understandability of the proposed revenue standard, several comment letters have highlighted the issue of disclosure requirements in the proposed standard. Disclosure can be defined as additional information that is attached to financial statements of an entity, generally as explanation for activities which have considerably influenced the financial results of the entity (Collins, McKeith and Collins, 2009). The DSAK has additionally pointed out that the proposed disclosure requirements are excessive and would

cause “potential cost benefit issue not just for the preparers but also the users of financial statements, who could have difficulties in locating information that are relevant and useful for them”.

In addition, the ARDF (Accounting Research and Development Foundation), an endorsement body regarding standard-setting in Taiwan, has highlighted that the information produced by the proposed standard is difficult to understand due to the volume of information. They have raised concerns, especially about the required disclosures in interim financial statements that might provide too much information for users of financial statements: “In capturing the useful financial information in decision-making”, users could experience difficulties.

I do not completely agree with these interpretations regarding the proposed disclosure requirements. Contrarily, these requirements could help users of financial statements through a better understanding of past performance and future prospects of a company rather than what the DASK and ARDF assert. According to IFRS 15, proposed disclosure requirements aim to disclose sufficient information in order to provide users of financial statements with better understanding about “the nature, amount, timing and uncertainty” of revenue and cash flows that arise from contracts with customers (IFRS 15, 2016; Melville, 2015). Besides, these requirements are relevant and suitable for the purpose of the accounting’s full disclosure principle (adequate disclosure) which means that “presented information includes everything that an informed reader should know to come to appropriate conclusions” (Weil, 1983, p.18). These requirements could enable preparers to properly apply this principle and investors to better understand financial reports. Additionally, it might be said that these requirements could help reported revenue recognition be more understandable.

Undoubtedly, the disclosures of the new standard are considerably more detailed and extensive than the previous requirements under IAS 18 and IAS 11 (KPMG, 2014). This may

cause some confusion for investors. Furthermore, "entities may need to expend additional effort when initially preparing the required disclosures" for their annual and interim financial statements (Ernst & Young, 2014, p.146). Professional judgment will be also required because of the level of detail required when applying these disclosures. Notwithstanding, disclosure requirements under IFRS 15 might provide for "clearer accounting of reported revenue" (McKee, 2015, p.77), and in parallel with better understand than previous disclosure requirements. Since the previous disclosure requirements under IAS 18 and IAS 11 often lead to information which was inadequate for investors for understanding an entity's revenue, and the judgements and estimates that are made by the firm in recognising that revenue (IFRS 15; Project summary and feedback statement, 2014). Consequently, information related to revenue should be used for assessing financial performance and position of an entity, yet, these previous requirements would make it difficult for analysts, investors and users to compare and understand an entity's revenue.

5.1.3. Misleading Information and Inconsistencies

AcSB (Canadian Accounting Standards Board) has highlighted issues around understandability in regard to giving misleading information. The proposed standard is not understandable, since it has not reflected underlying truths of transactions. For example, its comment letter asserts that: "Applying the onerous test to individual performance obligations, whether satisfied over time or at a point in time, will give misleading information about the profitability of unperformed contracts".

Another issue related to understandability is inconsistencies that result in adverse effects regarding the understanding of financial statements. ASB (Accounting Standard Board) is concerned that some criteria might not necessarily enable users to obtain useful financial information and could introduce inconsistencies into financial statements, for instance, "the

ED's proposal of limiting the onerous test to contracts over a period of time greater than one year".

An onerous contract is a contract "in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it" (Melville, 2015, p.191). The Boards decided that an onerous contracts test should be applied to contracts accounted for under the premium allocation approach (Ernst & Young, 2011) which provides "a simplified way of measuring the insurer's obligation to pay for future insured events covered by existing contracts" (IFRS; Feedback on the premium-allocation approach decisions, 2012, p.3). If the liability's carrying amount for remaining coverage is less than the expected present value of the future cash outflows (and the risk adjustment for the IASB), these contracts are onerous. The Boards also decided that "an insurer should perform an onerous contract test when facts and circumstances indicate that contracts could be onerous" (Ernst & Young, 2011, p.2).

Based upon the understandability attribute of the CF, it is essential that the users of financial statements should be able to "understand them, if they are to be useful" (Hussey, 2011, p.13). It appears that this requirement (onerous test) would cancel out the qualitative characteristic attribute of understandability. Many respondents took issue with the application of the onerous test and recommended that the new revenue recognition standard should not include this requirement (IFRS 15; Project summary and feedback statement, 2014). As a result, the Boards made a decision that IFRS 15 should not contain an onerous test. This is due to the fact that the Boards agreed that existing requirements under US GAAP and IFRS are sufficient for accounting for contracts which are onerous. Consequently, the new standard does not involve specific guidance on the accounting for onerous contracts that will be now required by under a single standard called IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (KPMG, 2016).

5.1.4. Impairment and Credit Losses

In the matter of the understandability of reporting coming out of the standard, DRSC's **(**Accounting Standards Committee of Germany) comment letter has highlighted that even though the Boards' intention was "in linking the presentation of the gross revenue line with the impairment loss line when accounting for revenue resulting from contracts with customers", they have raised preoccupations about that, such a presentation might be misunderstood by some financial statement users.

Melville (2013) emphasizes this change that impairment losses related to contracts with customers (e.g., bad debts) would be presented in the comprehensive income statement as a separate line item adjacent to the revenue line item.

Any impairment losses recognised (in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments* (replaced by IFRS 9), as applicable) on any receivables or contract assets that arise from the contracts with customers of an entity, should be reported separately from impairment losses from other contracts (IFRS 15 2016; Ernst & Young 2014).

Additionally, IsASB (Israel Accounting Standards Board) has asserted that "the requirement to classify subsequent changes in the estimates of amounts uncollectible from customers in the same line item as the initial assessment of amounts uncollectible from customers would impair the understandability of financial statements". This is because the separate line item adjacent to revenues could contain both credit losses on revenues recognised during the period as well as changes in estimates of credit losses on revenues recognised during prior periods. Hence, there might be no matching between the revenues presented in a particular period and the credit losses presented in the adjacent line item in the same period.

In conclusion, the findings mostly address the understandability of the new revenue standard that includes some new concepts requiring judgement and excessive disclosure requirements.

They also address the understandability of reporting coming out of the standard. As a consequence of this discussion, it can be said that there is no certain evidence that IFRS 15 has significantly changed the understandability of the revenue recognition reporting, either favourably or unfavourably.

5.2. Relevance and Reliability Issues

As reviewed in the previous section, literature has drawn attention and explored issues of the relevance and reliability concepts on revenue recognition. This study shows parallel results with what has been found in recent literature, in addition to pointing out the importance of other concepts. Many comment letters of the standard-setting bodies, as illustrated in the results section, illustrates their concerns about relevance and reliability with regard to the proposed revenue recognition standard.

Useful financial information must be relevant and faithfully presented in order to give accurate information to implementers, investors and users of financial statements (IFRS CF, 2015). In other words, it does not provide useful financial information in the case of a lack of fundamental qualitative characteristics. In some related comment letters, standard-setting bodies state that some criteria and principles of the proposed model might not provide useful information to users. In this section, the main issues of the relevance and reliability concepts in concerning comment letters will be briefly mentioned.

The standard-setting bodies gave their concerns regarding the main issues regarding relevance and reliability. One of these concerns is related to the proposed disclosure requirements. Similar to other standard-setting bodies, DSAK's comment letter asserts that "the proposed disclosure requirements are excessive and would cause potential cost benefit issue not just for the preparers but also the users of financial statements, who could have difficulties in locating information that are relevant and useful for them". Even if the disclosure requirements

proposed by the new standard provide detailed and useful information to those concerned, it appears it might be costly and take a long time for implementers and preparers due to the proposed requirements being too excessive. Moreover, SFRB (Swedish Financial Reporting Board) expressed their concern over the reliability of information owing to the increased requirements for disclosure of expected revenue in future periods. For instance, they do not think that "information about the estimated effects of orders on future revenue will be sufficiently reliable, since contracts are often renegotiated when conditions change". According to the full disclosure principle of accounting, a company's financial statements should contain all the information which would influence a reader's understanding of these statements. CPC's (Brazilian Accounting Pronouncements Committee) comment letter suggests that the Boards should "require the applying parties to use the relevance and faithful representation principles to guide their appropriate disclosure".

Another issue regarding relevance and reliability is full retrospective application of the proposed requirements that the ED attempts to achieve an appropriate level of comparability across presented periods. DRSC's comment letter also states that:

> ...we believe that full retrospective application of the proposed requirements will for many entities, be difficult to apply and in some cases may be impracticable as well. In particular, entities with existing long-term contracts, contracts with variable considerations or other non-standardised complex contracts that require a large degree of estimation will find it a very significant challenge to apply the proposed requirements retrospectively. Such application may require an entity to recreate information from the time at which the transaction was entered into, and which is no longer available. Consequently, management will make subjective estimates that could reduce the relevance and the faithful representation of the financial statements.

This issue makes not only standard-setting bodies concerned, but also other respondent types, such as Apple INC, believe that for most companies, retrospective application of the revised ED will be expensive and burdensome.

5.3. Comparability, Prudence and Materiality Issues

In this section, the main concerns of the comparability, prudence and materiality concepts in concerning comment letters will be briefly mentioned.

In the comment letters, there are some preoccupations with regard to comparability. For instance, ASBJ **(**Accounting Standards Board of Japan) has suggested that the proposed disclosure requirements would not enhance the comparability in revenue recognition across industries, entities, jurisdictions and markets. Moreover, ASB (Accounting Standards Board) has raised concerns about another issue that the proposal of limiting onerous test would not necessarily provide useful information to users and might introduce inconsistencies into financial statements and make comparability between different entities difficult for users as well.

Some studies in the literature reviewed in the previous section have attracted notice and explored issues of the prudence concept on revenue recognition. Concerning the concept of prudence, ICPAR (Institute of Certified Public Accountant of Rwanda) indicates in its comment letter that they do not agree with the proposal of Question 2 (see Appendix) and they provide a following alternative:

> The risk that exists that some customers may not pay their debts (credit risk) has to be taken care of in the usual accounting procedures under prudence concept i.e., cautious. In case of possibility of loss or liability, it has to be recognized immediately whether certain or not, while in case of possibility of income or asset it should not be recognized until when certain of its receipt.

In addition, the AASB (Australian Accounting Standards Board) takes into account the "reference to constraining the cumulative amount of revenue recognised introduces a conservative bias to the recognition of revenue".

Materiality as a subheading under relevance, can be regarding as a part of relevance; however, as seen in Table 4 above, actually one commentator (IAASB) specifically mentioned materiality without making a broader reference to relevance. The IAASB (International Auditing and Assurance Standards Board) has highlighted this issue based upon the concerns

of many stakeholders representing a broad array of groups that excessive disclosures might hinder the effectiveness of financial reporting. They also provide a suggestion in this regard that an appropriate application of materiality concept should be helpful; yet, it could not be as effective as it might be if there is uncertainty about how this concept should be applied in practice.

5.4. Limitations of Study

Even though the research has reached its aim, there are a number of possible limitations. First, due to the time limit, this research was conducted on a small sample of 27 comment letters out of the total 357 comment letters which were received. As it is expected, good research which is aimed at making a wide generalization must have a reasonable sample size that enables inferences to be made. Therefore, this sample size might be deemed insufficient in order to make a wide generalization regarding the results for larger groups. Given more time, this research could have included more comment letters. The second possible limitation of the study might the lack of different respondent types. In this study, the comment letters from only one respondent type were used, hence, it would be better to use different respondent types in order to generalise the result. In terms of the quality and utility of the findings, different viewpoints from different respondent types could make contributions to this research and would have been desirable. The last possible limitation may be in relation to the adequacy of the data contained within the comment letters since most of commentators (except six or seven commentators) have discussed only six of the specific questions (see Appendix) proposed by the Boards. This might hinder generalization in discussing different issues of the new standard in comment letters. It appears that the Boards have shaped and controlled the scope of the discussion, since they chose what question to ask or not to ask. This situation may discourage people from raising concerns which have not been introduced in the questions.

CHAPTER SIX

6. Conclusion and Recommendation

In this study, the new revenue standard IFRS 15 was examined in order to investigate whether this proposed standard makes revenue recognition reported more or less understandable. Literature on revenue recognition was reviewed and the content analysis research method was used to analyse the comment letters written by standard-setting bodies in response to a Revised ED of the standard. The findings mostly address the understandability of the new revenue standard that includes some new concepts requiring judgement and excessive disclosure requirements. They also address the understandability of reporting coming out of the standard.

The main result of this research may be summarized follows. First, it was found that the new revenue standard is not easily understandable because of the introduction of new concepts, though it is intended to establish a single, robust and comprehensive accounting model for dealing with all revenue issues. This study also demonstrates that proposed disclosure requirements might help the users of financial statement to better understand the subject of past performance and future prospects of an entity, in spite of many people finding them too cumbersome, and these requirements might make revenue recognition more understandable.

Having a standard which is too complex and not understandable might have negative impacts on financial reporting. Therefore, to have understandable reporting, an understandable standard is needed and an understandable standard is one which is not too complex and based upon sound and understandable principles.

This study concludes that there is no evidence that IFRS 15 has significantly changed the understandability of the revenue recognition reporting, either favourably or unfavourably.

One striking point is that understandability concerning the new standard and whether it makes revenue recognition reported more or less understandable has not been studied before, even though studies in the literature on revenue recognition have partly referred to some aspects of understandability. From this point of view, it can be said that this study is the first of its kind.

Finally, whereas this study includes some inherent limitations, by extension making its findings limited acceptability, it can be hoped that the outcomes of this study might serve as a foundation for further researches.

REFERENCES

Alexander, D., Britton, A. and Jorissen, A. (2014) *International financial reporting and analysis*. 6th edn. United Kingdom: Cengage Learning EMEA.

Altamuro, J., Beatty, A.L. and Weber, J. (2005) 'The effects of accelerated revenue recognition on earnings management and earnings Informativeness: Evidence from SEC staff accounting bulletin no. 101', *The Accounting Review*, 80(2), pp. 373–401. doi: 10.2308/accr.2005.80.2.373.

Biondi, Y., Tsujiyama, E., Glover, J., Jenkins, N.T., Jorgensen, B., Lacey, J. and Macve, R. (2014) '"Old hens make the best soup": Accounting for the earning process and the IASB/FASB attempts to reform revenue recognition accounting standards', *Accounting in Europe*, 11(1), pp. 13–33. doi: 10.1080/17449480.2014.90318.

Bohusova, H. and Nerudova, D. (2009) 'US GAAP and IFRS Convergence in the Area of Revenue Recognition', *Economics and Management*, 14, pp.12-19.

Bowen, R.M., Davis, A.K. and Rajgopal, S. (2002) 'Determinants of revenue-reporting practices for Internet firms', *Contemporary Accounting Research*, 19(4), pp. 523–562. doi: 10.1506/9728-4yg8-gc3l-fpfa.

Caylor, M.L. (2010) 'Strategic revenue recognition to achieve earnings benchmarks', *Journal of Accounting and Public Policy*, 29(1), pp. 82–95. doi: 10.1016/j.jaccpubpol.2009.10.008.

Ciesielski, J.T. and Weirich, T.R. (2015) 'Revenue recognition: How it will impact three key sectors', *Journal of Corporate Accounting & Finance*, 26(3), pp. 31–39. doi: 10.1002/jcaf.22037.

Collins, W., McKeith, J. and Collins, B. (2009) *Financial accounting and reporting*. Maidenhead: McGraw Hill Higher Education.

Colson, R.H., Bloomfield, R., Christensen, T.E., Jamal, K., Moehrle, S., Ohlson, J., Penman, S., Stober, T., Sunder, S. and Watts, R.L. (2010) 'Response to the financial accounting standards board's and the international accounting standards board's joint discussion paper entitled preliminary views on revenue recognition in contracts with customers', *Accounting Horizons*, 24(4), pp. 689–702. doi: 10.2308/acch.2010.24.4.689.

Cooper, S. (2015) 'Investor Perspectives: Tale of 'Prudence'', June, pp.1-6. Available at: http://www.ifrs.org/Investor-resources/Investor-perspectives-2/Documents/Prudence_Investor-Perspective_Conceptual-FW.PDF (Accessed: 9 June 2016).

CPA and Deloitte (2015) *IFRS 15 Revenue from Contracts with Customers: Your questions answered*. Available at: http://www2.deloitte.com/content/dam/Deloitte/ca/Documents/audit/ca-en-your-questions-answered_IFRS%2015_eFINAL%20FINAL-s.pdf (Accessed: 18 July 2016).

Cronje, C.J. and Gouws, D.G. (2008) 'Corporate annual reports: accounting practices in transition', *Southern African Business Review*, 12(2), pp.108-133.

Crowley, M., Young, B., Zimmerman, A. and McAlister, L. (2013) 'Boards Preparing to Issue Final Standard on Revenue Recognition', *Deloitte: Heads Up*, 20(8) March 5, pp. 1-13.

Davis, A.K. (2002) 'The value relevance of revenue for Internet firms: Does reporting grossed-up or barter revenue make a difference?', *Journal of Accounting Research*, 40(2), pp. 445–477. doi: 10.1111/1475-679x.00056.

Deegan, C. and Unerman, J. (2011) *Financial Accounting Theory*, European Edi. 2nd edn., Maidenhead, Berkshire: McGraw Hill Higher Education.

Demerjian, P.R. (2011) 'Accounting standards and debt covenants: Has the "balance sheet approach" led to a decline in the use of balance sheet covenants?', *Journal of Accounting and Economics*, 52(2-3), pp. 178–202. doi: 10.1016/j.jacceco.2011.08.004.

Dichev, I.D. (2008) 'On the balance sheet-based model of financial reporting', *Accounting Horizons*, 22(4), pp. 453–470. doi: 10.2308/acch.2008.22.4.453.

Dichev, I.D. and Tang, V.W. (2008) 'Matching and the changing properties of accounting earnings over the last 40 years', *The Accounting Review*, 83(6), pp. 1425–1460. doi: 10.2308/accr.2008.83.6.1425.

Dobler, M. (2008) 'Rethinking revenue recognition – the case of construction contracts under International Financial Reporting Standards', *International Journal of Revenue Management*, 2(1), pp.1-22.

Eccles, T., Holt, A. and Fell-Smith, W. (2005) 'Revenue recognition and real estate companies: A preliminary analysis', *Briefings in Real Estate Finance*, 4(3), pp. 245–270. doi: 10.1002/bref.137.

Ernst & Young (2010) 'Conceptual framework: objectives and qualitative characteristics', *Supplement to IFRS Outlook* – Issue 86: October, pp.1-4. Available at: http://www.ey.com/Publication/vwLUAssets/Supplement_86_GL_IFRS/$FILE/Supplement_86_GL_IFRS.pdf (Accessed: 26 July 2016).

Ernst & Young (2011) *IFRS Developments Insurance Accounting Alert: Boards discuss onerous contract testing and measurement of options and guarantees.* Available at: http://www.ey.com/Publication/vwLUAssets/Boards_discuss_onerous_contract_testing_and_measurement_of_options_and_guarantees/$FILE/Insurance_Acccounting_Alert-Dec_2011.pdf (Accessed: 12 August 2016).

Ernst & Young (2014) *A closer look at the new revenue recognition standard,* Available at: http://www.ey.com/Publication/vwLUAssets/Applying_IFRS:_A_closer_look_at_the_new_revenue_recognition_standard_(June_2014)/$FILE/Applying-Rev-June2014.pdf (Accessed: 2 August 2016).

FASB (2012) *AASB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823808872&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=491811&blobheadervalue1=filename%3DREVRECR.ED.0157.AUSTRALIAN_ACCOUNTING_STANDARDS_BOARD_KEVIN_M._STEVENSON.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *AcSB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823842043&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=727024&blobheadervalue1=filename%3DREVRECR.ED.0324.CANADIAN_ACCOUNTING_STANDARDS_BOARD_GORDON_C._FOWLER.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *AFRAC's comment letter*. Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823810031&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=241874&blobheadervalue1=filename%3DREVRECR.ED.0169.AFRAC_ROMUALD_BERTL.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *ANC's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823819802&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=322771&blobheadervalue1=filename%3DREVRECR.ED.0189.ANC_JEROME_HAAS.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *APPLE's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823788418&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=9127320&blobheadervalue1=filename%3DREVRECR.ED.0032.APPLE_INC._BETSY_RAFAEL.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *ARDF's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823830175&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=349951&blobheadervalue1=filename%3DREVRECR.ED.0299.ACCOUNTING_RESEARCH_AND_DEVELOPMENT_FOUNDATION_IN_TAIWAN_YANN-CHING_TSAI.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *ASB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823842078&blobheader=application%2Fpdf&blobheadername2=Content-

Length&blobheadername1=Content-Disposition&blobheadervalue2=351097&blobheadervalue1=filename%3DREVRECR.ED.0325.ACCOUNTING_STANDARDS_BOARD_ROGER_MARSHALL.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *ASBJ's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823813955&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=482928&blobheadervalue1=filename%3DREVRECR.ED.0188.ACCOUNTING_STANDARDS_BOARD_OF_JAPAN_MASAJI_MIYAKO.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *CPC's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823809241&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=512384&blobheadervalue1=filename%3DREVRECR.ED.0174.CPC_EDISON_ARISA_PEREIRA.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *DRSC's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823829897&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=306912&blobheadervalue1=filename%3DREVRECR.ED.0305.DRSC_IFRS_COMMITTEE_LIESEL_KNORR.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *DSAK's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823804395&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=231904&blobheadervalue1=filename%3DREVRECR.ED.0078.INDONESIAN_ACCOUNTING_STANDARDS_BOARD_ROSITA_ULI_SINAGA.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *IAASB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823829827&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=334672&blobheadervalue1=filename%3DREVRECR.ED.0304.IAASB_ARNOLD_SCHILDER.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *ICPAR's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823813663&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=445485&blobheadervalue1=filename%3DREVRECR.ED.0254.ICPAR_AMBROSE_NZAMALU.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *IsASB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823814100&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=242451&blobheadervalue1=filename%3DREVRECR.ED.0195.ISRAEL_ACCOUNTING_STANDARDS_BOARD_DOV_SAPIR.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *KASB's comment letter*. Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823814163&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=392803&blobheadervalue1=filename%3DREVRECR.ED.0197.KOREA_ACCOUNTING_STANDARDS_BOARD_SUK-SIG_STEVE_LIM.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

FASB (2012) *SFRB's comment letter.* Available at: http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175823830035&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-

Disposition&blobheadervalue2=2590479&blobheadervalue1=filename%3DREVRECR.ED.0309.SWEDISH_FINANCIAL_REPORTING_BOARD_ANDERS_ULLBERG.pdf&blobcol=urldata&blobtable=MungoBlobs (Accessed: 8 June 2016).

Hussey, R. (2011) *Fundamentals of international financial reporting and accounting*. Singapore: World Scientific Publishing Co Pte.

Horton, J., Macve, R. and Serafeim, G. (2011) '"Deprival value" vs. "Fair value" measurement for contract liabilities: How to resolve the "revenue recognition" conundrum?', *Accounting and Business Research*, 41(5), pp. 491–514. doi: 10.1080/00014788.2011.603206.

IFRS (2012) *Feedback on the premium-allocation approach decisions.* Available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/Premiumallocationapproach.pdf (Accessed: 12 August 2016).

IFRS (2012) *IAS 18 Revenue: Technical summary*. Available at: http://www.ifrs.org/Documents/IAS18.pdf (Accessed: 5 July 2016).

IFRS (2012) Revenue *Recognition: Feedback summary from comment letters and outreach.* Available at: http://www.ifrs.org/Documents/RR0512b07A.PDF (Accessed: 8 April 2016).

IFRS (2013) *Revenue Recognition: Collectibility.* Available at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/October/07C-RevRec-Collectibility.pdf (Accessed: 10 August 2016).

IFRS (2014) *IFRS 15 Revenue from Contracts with Customers: Project summary and feedback statement*. Available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Revenue-Recognition/Documents/IFRS-15/Revenue-from-Contracts-Project-summary-Feedback-Statement-May-2014.pdf (Accessed: 2 August 2016).

IFRS (2015) 'Basis for Conclusions Exposure Draft: Conceptual framework for financial reporting'. Available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED_CF_MAY%202015.pdf (Accessed: 14 June 2016).

IFRS (2015) *Conceptual Framework for Financial Reporting: Basis for conclusions exposure draft.* Available at: http://www.ifrs.org/Current-Projects/IASB-Projects/Conceptual-Framework/Documents/May%202015/Basis-to-ED_CF_MAY%202015.pdf (Accessed: 1 August 2016).

IFRS (2015) *Revenue from Contracts with Customers: Effective date of IFRS 15—comment letter summary, due process and permission to ballot*. Available at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/July/AP07-Revenue.pdf (Accessed: 8 April 2016).

International financial reporting standards as issued at 1 January 2010 (2010) United States: International Accounting Standards Board.

Jones, J.P and Pagach, D. (2013) 'The Next Step for Revenue Recognition: Examining the new principles-based five-step model', *The CPA Journal*, October, pp. 30-34.

Kasztelnik, K. (2015) 'The value relevance of revenue recognition under international financial reporting standards', *Accounting and Finance Research*, 4(3). doi: 10.5430/afr.v4n3p88.

KPMG (2014) *Issues In-Depth Revenue from Contracts with Customers.* Available at: http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Newsletters/Issues-In-Depth/Documents/Issues-In-Depth-1409.pdf (Accessed: 13 April 2016).

KPMG (2016) *Revenue Issues In-Depth.* Available at: https://home.kpmg.com/content/dam/kpmg/pdf/2016/05/IFRS-practice-issues-revenue.pdf (Accessed: 3 August 2016).

Krippendorff, K. (2004) *Content analysis: An introduction to its methodology*. 2nd edn. Thousand Oaks, CA: SAGE Publications.

Liang, P.J. and Zhang, X.-J. (2006) 'Accounting treatment of inherent versus incentive uncertainties and the capital structure of the firm', *Journal of Accounting Research*, 44(1), pp. 145–176. doi: 10.1111/j.1475-679x.2006.00195.x.

Marton, J. and Wagenhofer, A. (2010) 'Comment on the IASB discussion paper "preliminary views on revenue recognition in contracts with customers"', *Accounting in Europe*, 7(1), pp. 3–13. doi: 10.1080/17449480.2010.485386.

McCarthy, M. and McCarthy, R. (2014) 'Financial Statement Preparers' Revenue Decisions: Accuracy in Applying Rules-Based Standards and the IASB-FASB Revenue Recognition Model', *Journal of Accounting and Finance*, 14(6), pp. 21-43.

McKee, T. E. (2015) 'New FASB standard addresses revenue recognition considerations', *Healthcare Financial Management*, 69(12) December, pp.72-78.

Melville, A. (2013) *International financial reporting: A practical guide*. 4th edn. United Kingdom: Pearson Education.

Melville, A. (2015) *International financial reporting: A practical guide*. 5th edn. United Kingdom: Pearson Education.

Ohlson, J.A., Penman, S.H., Biondi, Y., Bloomfield, R.J., Glover, J.C., Jamal, K. and Tsujiyama, E. (2011) 'Accounting for revenues: A framework for standard setting', *Accounting Horizons*, 25(3), pp. 577–592. doi: 10.2308/acch-50027.

Prakash, R. and Sinha, N. (2012) 'Deferred revenues and the matching of revenues and Expenses', *Contemporary Accounting Research*, 30(2), pp. 517–548. doi: 10.1111/j.1911-3846.2012.01164.x.

Peterson, K. (2011) 'Accounting complexity, misreporting, and the consequences of misreporting', *Review of Accounting Studies*, 17(1), pp. 72–95. doi: 10.1007/s11142-011-9164-5.

PWC (2015) *In Depth: A look at current financial reporting issues.* Available at: https://www.pwc.com/us/en/cfodirect/assets/pdf/in-depth/us2015-11-investments-using-nav-removed-from-fv-hierarchy.pdf (Accessed: 11 August 2016).

Rasmussen, S.J. (2013) 'Revenue recognition, earnings management, and earnings informativeness in the semiconductor industry', *Accounting Horizons*, 27(1), pp. 91–112. doi: 10.2308/acch-50291.

Schulzke, K., Berger-Walliser, G. and Marchini, P.L. (2013) 'Lexis nexus Complexus: Comparative contract law and international accounting Collide in the IASB-FASB revenue recognition exposure draft', *SSRN Electronic Journal*, doi: 10.2139/ssrn.2139578.

Schipper, K.A., Schrand, C.M., Shevlin, T. and Wilks, T.J. (2009) 'Reconsidering revenue recognition', *Accounting Horizons*, 23(1), pp. 55–68. doi: 10.2308/acch.2009.23.1.55.

Sonnier, B.M., Carson, K.D. and Phillips Carson, P. (2008) 'Intellectual capital disclosure by traditional US companies: A longitudinal assessment', *Journal of Accounting & Organizational Change*, 4(1), pp. 67–80. doi: 10.1108/18325910810855798.

Spiceland, D.J., Thomas, W. and Herrmann, D. (2013) *Financial accounting*. United States: Irwin/McGraw-Hill.

Srivastava, A. (2014) 'Selling-price estimates in revenue recognition and the usefulness of financial statements', *Review of Accounting Studies*, 19(2), pp. 661–697. doi: 10.1007/s11142-013-9263-6.

Stubben, S.R. (2010) 'Discretionary revenues as a measure of earnings management', *The Accounting Review*, 85(2), pp. 695–717. doi: 10.2308/accr.2010.85.2.695.

Tsujiyama, E. (2009) 'Revenue recognition based on net position: A Critical Study', *Accounting*, 61(9), pp. 6-15.

Wagenhofer, A. (2014) 'The role of revenue recognition in performance reporting', *Accounting and Business Research*, 44(4), pp. 349–379. doi: 10.1080/00014788.2014.897867.

Weil, R.L. (1983) *Handbook of modern accounting*. Edited by Sidney Davidson. 3rd edn. New York: McGraw Hill Higher Education.

Wustemann, J. and Kierzek, S. (2005) 'Revenue recognition under IFRS revisited: Conceptual models, current proposals and practical consequences', *Accounting in Europe*, 2(1), pp. 69–106. doi: 10.1080/09638180500379111.

Yeaton, K. (2015)' A New World of Revenue Recognition: Revenue from Contracts with Customers', *The CPA Journal*, July, pp. 50-53.

Zhang, Y. (2005) 'Revenue recognition timing and attributes of reported revenue: The case of software industry's adoption of SOP 91-1', *Journal of Accounting and Economics*, 39(3), pp. 535–561. doi: 10.1016/j.jacceco.2005.04.003.

2016 IFRS standards (red book) official pronouncements issued at 13 January 2016: Includes standards with an effective date after 1 January 2016 but not the standards they will replace (2016) United Kingdom: International Accounting Standards Board.

APPENDIX

Specific questions proposed by the Boards, which are discussed in the comment letters.

Question 1:

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

Question 2:

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

Question 3:

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for satisfied performance obligations? If not, what alternative constraint do you recommend and why?

Question 4:

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that an entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

Question 5:

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports. The disclosures that would be required (if material) are:

- The disaggregation of revenue (paragraphs 114 and 115);
- A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117);
- An analysis of the entity's remaining performance obligations (paragraphs 119–121);
- Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)
- A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

Question 6:

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset. Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?