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Consequences of the Implementation of IFRS 15 *Revenue from Contracts with Customers* on Accounting Quality

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Authors:

Anna Meyer

Henrikke Hovda Larsen

Supervisor:

Thomas Ryttersgaard

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Abstract

Revenue is a vital part of companies' financial reporting both to preparers and users of financial statements. It serves an important role in measuring financial performance and predicting future prospects. In light of this, the process of measuring and recognizing revenue has been a widely discussed topic. It has gained increased attention in the latter years due to scandals involving improper revenue recognition and due to increased globalization of markets, which has called for a harmonization of accounting standards. The two most influential standard-setters, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), have conducted a project of converging accounting principles and removing inconsistencies and weaknesses of the current revenue recognition standards. IFRS 15 *Revenue from Contracts with Customers* was the outcome of this project for IFRS. It is to replace the two current standards governing revenue recognition within IFRS, IAS 18 *Revenue* and IAS 11 *Construction Contracts.*

This study aims to investigate the consequent changes of the shift from IAS 18 and IAS 11 to IFRS 15. These are analyzed from an accounting quality perspective in which accounting quality is defined and based upon the IASB's Conceptual Framework. A qualitative approach through a multiple-case study was adopted to research the problem, both from the views of preparers and users. The empirical data was collected through interviews and reviews of comment Letters sent to the IASB and FASB during the development process of IFRS 15.

The findings show that the implementation of IFRS 15 is expected to result in limited effects on revenue recognition in many industries, and consequently the effect on accounting quality will be limited. However, accounting quality may be positively affected through the increased disclosure requirements prescribed by IFRS 15, which have a potential to increase understandability, verifiability and comparability. The effects are further dependent on the industry in question. The telecom industry will be significantly more affected than other industries, and our findings suggests that accounting quality will be reduced in this particular industry from a user perspective. Furthermore, the study contributes to literature on accounting quality by demonstrating the elusiveness of the concept of accounting quality, which can be viewed and interpreted differently by different stakeholders.

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Abbreviations

ARPU: Average revenue per user

BC: Basis for Conclusions

CF: The IASB's current Conceptual Framework, 2010

CL: Comment letter

CNC: Conseil National de la Comptabilité

DP: Discussion Paper in relation to IFRS 15, 2008

DRSC: Deutches Rechnungslegungs Standards Committee

ED: Exposure Draft

ED1: Exposure Draft for IFRS 15, 2010

ED2: Revised Exposure Draft for IFRS 15, 2011

EFRAG: European Financial Reporting Advisory Group

FASB: Financial Accounting Standards Board

IASB: International Accounting Standards Board

IAS: International Accounting Standard

IFRIC: International Financial Reporting Interpretations Committee

IFRS: International Financial Reporting Standard

KPI: Key Performance Indicator

SIC: Standard Interpretations Committee

US GAAP: US Generally Accepted Accounting Principles

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1. Introduction

Revenue is an important number in companies' financial statements. It is one of the most important measures when assessing financial performance as it provides information about the state of business activities and their performance in a given period, as well as serving as an important input to assess future prospects (Wagenhofer, 2014; Godfrey, Hodgson, Tarca, Hamilton & Holmes, 2010; Jones & Pagach, 2013). Revenue has also been ranked as the second most important performance measure, only succeeded by earnings, in a survey answered by 400 chief financial officers (Graham, Harvey & Rajgopal, 2005). Furthermore, revenue has been a recurrent theme in several fraudulent cases. The infamous Enron scandal is one example of how a firm can exploit revenue recognition methods to manipulate the revenue figure for their own benefit (Baker & Hayes, 2004). A more recent example is the scandal with Tesco in 2014. It was revealed that they had overstated their profits for the first six months of 2014 by £250 million, and the reason was stated to be "[...] accelerated recognition of commercial income and delayed accrual of cost" (Tesco – Trading Update, 2014). These examples highlight the importance of revenue as well as the importance of having robust revenue recognition rules in order to mitigate manipulation.

Historically, accounting standards were set nationally. However, as markets are becoming increasingly globalized, there is a pressure to converge accounting principles to align accounting practices. Hoogervorst (2012), Chairman of the IASB, highlighted that the "[...] interconnected nature of today's financial markets [...]" (p. 2) demands a coherent set of accounting principles. Reasons for this include the importance of consistent reporting among companies based in different countries in order to make them more comparable for investors seeking diverse investment opportunities on a global basis. Furthermore, it facilitates financial reporting for multinational companies (Hoogervorst, 2012). In this work, international accounting standard-setters such as the IASB and the FASB play a significant part.

Financial reporting is a vital part in today's market-based economies. Professionals as well as private individuals need it to make investment decisions, and lenders and creditors need it to assess whether they want to extend loans or credits to companies. Due to the many stakeholders interested in and dependent on financial reports, the quality of it is vital. Hoogervorst (2012) expressed it as follows:

"High quality financial information is the lifeblood of market-based economies. If the blood is of poor quality then the body shuts down and the patient dies. It is the same with financial reporting. If investors cannot trust the numbers, the financial markets stop working. For market-based economies, that is really bad news. It is an essential public good for market-based economies" (p. 2).

The IASB's Conceptual Framework lays a foundation for how quality can be evaluated and achieved based on six qualitative characteristics (CF, 2010). Furthermore, several studies have over the years been conducted in attempts to measure the quality of accounting, which further indicates the relevance of it (Barth, Landsman & Lang, 2008; Chen, Tang, Jiang & Lin, 2010; Lin, Riccardi & Wang, 2012; Sloan, 1996; etc.).

Considering the importance of revenue, an obvious extension is how to measure and recognize revenue in order to obtain a high level of accounting quality. In 2002, the IASB and the FASB (from hereon referred to as "the Boards") initiated a joint project to develop a new, principle-based revenue recognition standard, common for both IFRS and US GAAP reporting companies (Revenue recognition - Joint Project of the IASB and the FASB, 2014). The outcome of this project was the release of IFRS 15 *Revenue From Contracts with Customers* in 2014 (Revenue Recognition, n.d). The Standard is to replace the existing standards for revenue recognition, IAS 18 *Revenue* and IAS 11 *Construction Contracts,* as well as related revenue recognition interpretations (IFRS 15.IN3). The new Standard will govern the accounting for revenue from ordinary activities in all industries, except for leases, insurance, financial instruments and non-monetary exchanges between entities in the same line of business (IFRS 15.5). The purpose of this thesis is to investigate the consequences of IFRS 15 on accounting quality in selected industries. This investigation is based on a qualitative approach in which views of both preparers and users as well as auditors and other regulatory bodies are used to illuminate the effects of the changes between the new Standard and current revenue recognition requirements.

1.1 Problem Discussion and Problem Formulations

Revenue may seem like a simple concept, yet it is widely discussed. As stated by DRSC, EFRAG and CNC (2007) in their discussion paper on revenue recognition: "Everyone knows what revenue is and when it arises. Or so it is often claimed. Yet, on closer inspection it becomes clear that, except in the simplest of transactions, that is not actually the case" (p. 13). This suggests that the process of revenue recognition may not be straightforward for many transactions in practice, and various views and models exist on how to best account for revenue in financial reporting. What further increases the difficulty is

the rise of new and innovative business models in the latter years, for which existing revenue recognition standards are struggling to catch up with.

Current revenue recognition standards are criticized for several reasons. One of them is that they are based on different underlying models depending on the type of transaction. The accounting for revenue from the rendering of services under IAS 18 and construction contracts under IAS 11 are based on the underlying activity performed, while the sale of goods under IAS 18 is based on the transfer of goods. IAS 18 is said to lack sufficient guidance with respect to multiple-element and complex arrangements, which has lead to various accounting treatments in practice. The problem with having different approaches and accounting treatments is that entities may recognize revenue at different times and in different amounts for similar transactions. This is unfortunate for users of financial statements when they are to assess companies' performance and value and compare companies.

With this in mind, one of the reasons why the Boards initiated the revenue recognition project was to converge accounting regulations into one robust framework, in order to improve the accounting of revenue for both preparers and users of financial statements. For IFRS, this has resulted in a shift from two revenue recognition standards and several approaches, to one standard and allegedly one approach. The development process resulting in the new Standard has been extensive and stretched over 12 years, signaling that there was a vast amount of different views and aspects to consider. The Standard is based on a five-step model, which is expected to lead to changes of varying degrees within different industries. The Boards opted for one approach to revenue recognition, despite the existence of various industries with very different business models with specific characteristics. Considering all of the above, it is interesting to investigate whether IFRS 15 will in fact improve the process of revenue recognition and whether it will lead to new issues. Furthermore, due to the importance and wide use of revenue among both preparers and users, it is crucial that the amount of revenue stated in financial statements is of high quality in order for it to be decision-useful. Thus, a natural area to look at is the effects of IFRS 15 on accounting quality, which culminates into the following main research question:

How will IFRS 15 Revenue from Contracts with Customers affect accounting quality?

In this thesis, accounting quality will be defined based on the qualitative characteristics presented in the IASB's Conceptual Framework. These were chosen because they represent how the IASB view accounting quality; namely, that decision-usefulness of financial statements to users is enhanced by maximizing the qualitative characteristics (CF, 2010). Additionally, they form the basis from which the

IASB develops standards within IFRS. Therefore, by using the same basis as the IASB, it will allow us to evaluate the new Standard from the same perspective from which it was developed.

In order to answer this question, the following sub-questions will be addressed:

1. *Why was there a need for a new revenue recognition standard?*

2. *How does IFRS 15 harmonize with the IASB's Conceptual Framework compared to current revenue recognition requirements?*

3. *What are the implications of the implementation of IFRS 15 for companies beyond pure accounting changes?*

1.2 Delimitations

The thesis will be delimited to looking at the consequences of the introduction of IFRS 15 within IFRS; thus, consequences within the US GAAP regime will not be addressed. Furthermore, the thesis will disregard the consequences of applying IFRSs that IFRS 15 refers to and IFRSs that currently makes reference to IAS 18 and/or IAS 11 that will be amended to IFRS 15 following the implementation of the Standard. The effects of IFRS 15 on tax accounting will also be left out of the study. Lastly, the study will only investigate the consequences of the implementation of IFRS 15 within certain selected companies from different industries; thus, consequences in other industries will not be dealt with. These are manufacturing of capital goods, construction, telecom, IT infrastructure and subsea. The reasons for selecting these are explained in the Methodology chapter.

1.3 Study Contributions

The contributions of this thesis come in several ways. On a practical level, the thesis investigates a new standard to be implemented within the next two years, and presents various kinds of changes and effects that can be expected after implementation. This can contribute towards a higher understanding of the consequences for both users and preparers. The thesis will also contribute with highlighting how different industries will be affected, and how well the new Standard can reflect the revenue streams of different business models.

On a theoretical level, the thesis contributes with insight into how IFRS 15 harmonizes with the IASB's Conceptual Framework, and thus its impact on accounting quality in the view of the IASB. Furthermore, the thesis will also portray different views on accounting quality held by different stakeholders, such as preparers, users and accounting regulators. This will illustrate the elusiveness of the concept of accounting quality, and thereby the great difficulties of developing accounting standards that incorporate the differing views of various stakeholders.

2. The Revenue Recognition Project

In 2002, the IASB and the FASB formalized an agreement to consolidate efforts towards the convergence of the IFRS and the US GAAP, known as the Norwalk agreement (Memorandum of Understanding, 2002). The revenue recognition project was a part of this agreement and was initiated the same year (Revenue recognition - Joint Project of the IASB and the FASB, 2014).

Throughout the development process, the Boards have released several documents discussing various aspects and proposals for the new revenue recognition Standard (Revenue Recognition, n.d). Three of these have been subjected to public hearing. In 2008, the Boards released the discussion paper (DP) *"Preliminary Views on Revenue Recognition in Contracts with Customers"*. Thereafter, two exposure drafts were issued, in 2010 and 2011. This is not the due process procedure for the issuance of a new standard, which normally only consist of one discussion paper and one exposure draft (ED2, 2011, IN5). However, the high volume of nearly 1000 comment letters received in relation to the 2010 Exposure Draft (ED1), showed great discontent towards the new proposals by several stakeholders (ED2, 2011, IN5). The Boards acknowledged the negative feedback, and due to the importance of revenue to all entities they decided to release and re-expose a revised Exposure Draft (ED2) for public hearing (ED2, 2011, IN5). ED2 amended many of the aspects that had generated negative reactions in ED1 and received considerably fewer comment letters (IASB & FASB, 2012). IFRS 15 was subsequently issued in May 2014 together with its US GAAP counterpart, Topic 606 (IFRS 15.IN6). Within the IFRS, IFRS 15 supersedes IAS 18 and IAS 11, as well as the interpretations 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* (IFRS 15.IN3).

The stated objectives of the revenue recognition project, which IFRS 15 is expected to achieve, are:

1. Remove inconsistencies and weaknesses in previous revenue requirements
2. Provide a more robust framework for addressing revenue issues
3. Improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets
4. Provide more useful information to users of financial statements through improved disclosure requirements

5. Simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer (IFRS 15.IN5).

Initially, the effective date of IFRS 15 was set to January 1, 2017 (IFRS 15.IN2). However, in April 2015, the IASB voted to defer the effective date to January 1, 2018 (IASB, 2015c). This was due to recommendations from the Transition Resource Group (TRG) that was created to help companies implement the new Standard. They urged the Boards to make some clarifications to the Standard, and amendments were made to clarify the following:

- Identification of performance obligations
- Determination of whether a company is acting as a principal or an agent
- Determination of whether revenue from granting a license should be recognized at a point in time or over time (IASB, 2016).

3. Methodology

The purpose of this chapter is to account for the methodology that has been applied to answer the research questions presented in section 1.1. First, the purpose of the research will be elaborated on in order to clarify what type of answers this thesis is seeking.

3.1 Research Purpose

The context of this thesis is the introduction of a new accounting standard, IFRS 15, which all IFRS-reporting companies must apply when recognizing revenue generated from ordinary activities. The overall purpose of the thesis is to investigate how the new Standard will affect accounting quality. The thesis will adopt a definition of accounting quality according to what the IASB's Conceptual Framework defines as the objective of general purpose financial reporting, namely "[...] to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (CF, 2010, OB2). Furthermore, the Conceptual Framework presents six qualitative characteristics that preparers of financial reports must strive to fulfill to the best of their abilities in order to achieve this objective. The qualitative characteristics will form the basis of the analysis and are further explained in section 4.2.3.

With this overall research purpose in mind, the thesis is explanatory in nature in the way that it seeks to explain *how* accounting quality will be affected after IFRS 15 is implemented. Furthermore, to approach this, a natural starting point is to delve into *why* the Standard is introduced, which further highlights the explanatory nature of the study. To analyze the need for a new revenue recognition standard, we need to explore and understand the previous revenue recognition requirements outlined by former standards, and further on analyze which problems they created in terms of the qualitative characteristics. This will indicate which areas of revenue recognition that needed improvement and can be used as a basis for assessing whether and how the resulting accounting changes due to IFRS 15 can result in an improvement in these areas. Another important aspect to address is whether any new issues will arise following the implementation of IFRS 15, and whether it is possible to have one revenue recognition standard for different types of industries that generate ordinary revenue in different ways.

The research will also seek to explore what consequences the implementation of IFRS 15 will bring to companies in different industries beyond pure accounting implications. This part of the thesis will be more descriptive and exploratory in nature, as it explores and describes the necessary changes they will

have to make in other areas of their business in order to implement IFRS 15. Furthermore, this will contribute to our assessment of whether the benefits of IFRS 15 will outweigh its costs. This is important to consider due to the fact that there is a cost constraint on the generation of decision-useful information, according to the IASB's Conceptual Framework (CF, 2010, QC35-QC39).

Lastly, following the findings from all of the various analyses outlined above, the thesis will attempt to answer whether the stated objectives for the revenue recognition project initiated by the Boards can be expected to be achieved.

3.2 Research Design

The research design is meant to provide a blueprint or plan for the collection and analysis of data in order to arrive at answers to research questions (Blumberg, Cooper & Schindler, 2014). In this section the design choices made to approach our research questions will be explained.

3.2.1 Deductive and Inductive Method

The relationship between theory and research is often described through the concepts of deduction and induction. Qualitative studies are usually associated with inductive approaches as they often involve studying a phenomenon in depth in practice by collecting qualitative data and attempting to generate theory based on the findings from the analysis of the data (Saunders, Lewis & Thornhill, 2009). This thesis takes departure in an inductive approach because it is collected data from interviews and other written documents about the upcoming implementation of IFRS 15 that form the basis for analysis and from which we will attempt to draw general conclusions. However, according to several authors of methodology literature (Bryman & Bell, 2011; Saunders et al., 2009; Zhang & Wildemuth, 2009), the two approaches are not mutually exclusive and using a mix of the two is very common. Consequently, at the inception of the analysis of the collected data, theory was used as a starting point to help make sense of the data, which is a deductive approach. Throughout the analysis, however, we were attentive to any new variables that emerged from the data in order to detect unforeseen consequences of IFRS 15, and thus avoided that the deductive starting point made us overlook interesting findings. The process of analyzing the data is further elaborated on below.

3.2.2 Multiple-Case Study Approach

In order to explore how different industries are affected by the new Standard in a deeper manner, a multiple-case study approach was adopted. Yin (2003) argues that case studies are suitable to answer

questions beginning with "how" and "why", which is well suited with our main research question and the explanatory level of study. Furthermore, it is the preferred research strategy in situations where the researcher has little control over events and when the focus is on a contemporary phenomenon within a real-life context, as is the case with the upcoming implementation of IFRS 15. Such explanatory case studies can be complemented by exploratory and descriptive case studies, which this thesis has taken into consideration. Yin (2003) further states that the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events, which supports this study as it attempts to take a broader view on the consequences of implementing IFRS 15 and as it attempts to investigate its effects in real companies.

3.2.2.1 Case Companies

In the following, a brief presentation of the case companies selected to represent their respective industries and that serve as the focal point of the analysis is provided. The identities of the companies are concealed in order to comply with their wishes to remain anonymous in the study. Common for all of the companies is that they are publicly traded and report after the IFRS.

Firm A operates in the capital goods sector and produces industrial tools, equipment and machinery, as well as providing systems, solutions and services that assist other businesses in their daily operations. Their customers are mainly other businesses within the manufacturing industry, process industry and construction. Sales are conducted both through direct and indirect sales channels (distributors), however, most of their sales are made directly to the end user. Their revenue is composed of both sale of equipment and services. They also offer combinations of equipment and services as well as larger construction projects. Some standard, high volume equipment is manufactured based on anticipated demand, but most manufacturing of equipment is based on customer orders. The contracts with customers vary broadly in terms of complexity, length of contract period and degree of customization at the customer's request. Consequently, current revenue recognition is regulated through both IAS 18 and IAS 11.

Firm B is in the business of providing IT infrastructure, system integration and solutions for businesses and public sector organizations. Their business is composed of three areas: hardware, software and service offerings. The hardware and software is not produced internally, but rather acquired from a range of suppliers. Their business model revolves around combining products and services into complete solutions and systems. In addition to providing system integration, they provide advisory and consultancy services on how customers best can design, implement, support and operate complex and

integrated IT systems. In terms of revenue, the hardware business is the largest business area, while the service business is the most profitable. They have a broad range of contracts with customers, most of which are bundles of goods and services. Some contracts are fixed-price, while the majority of contracts are based on hourly rates. IAS 18 governs current revenue recognition.

Firm C is a subsea company providing integrated services and total solutions to the oil and gas industry. These are conducted on a project-by-project basis. The subsea projects are highly complex and integrated in nature and include many different services and operations, such as project management, survey and positioning of fields, engineering, subsea construction and installation, maintenance and repair and removal of subsea infrastructure – all sorts of operations and services that contribute to develop and sustain oil or gas fields. The contracts related to these projects are based on daily rates, fixed price or milestones. Variations in contracts are very common. Currently, revenue recognition is primarily governed by IAS 11, especially for fixed price contracts.

Firm D operates in the construction industry and their business is largely project-based. Their business model is based on residential, non-residential and civil construction as well as project development within residential real estate, commercial property and infrastructure. The construction business area is the largest in terms of revenue. The projects are usually won through tendering processes, but some are also conducted on speculation based on projected demand. Additionally, they offer service contracts related to, for example, facility operation and maintenance. They have hundreds of different customer contracts, many of which are highly customized to the customer and long-term in nature. Project revenues are reported in compliance with IAS 11, while other revenue is reported according to IAS 18. For projects related to construction of real estate, IFRIC 15 provides guidance on when IAS 11 or IAS 18 should be applied.

Firm E is a telecom company. They primarily offer various services, including mobile communication, Internet access, fixed telephony and TV distribution. Sale of equipment is mainly mobile devices. Revenue from services is comprised of traffic fees, subscription fees, connection fees, interconnection fees, roaming charges, among others. They deliver both to private customers as well as business customers. The company has a high volume of single customer contracts that vary from customer to customer and can be modified easily. Furthermore, the contracts contain multiple elements, such as handsets and subscription including different services like data packages and cloud services. Also, the company regularly runs campaigns in which the customers may receive reduced monthly fees on their subscription or even full months for free. Regarding sale of mobile subscriptions, the company sells

either directly to the end user online or through own dealers, or through independent-third party dealers. IAS 18 governs their revenue recognition.

3.3 Data Collection Method

3.3.1 Sources of Data

This thesis makes use of both primary and secondary data. The primary data consists of interviews with financial analysts as well as individuals with positions within finance and accounting departments of the case companies. The secondary data consists of two broad categories. The first category contains sources related to building the foundation of knowledge for the theoretical section of the thesis, such as academic articles and studies, theoretical literature found in books, as well as the IASB's Conceptual Framework. The second category relates to data used to develop the analysis of the research questions. The first set of data is the latest annual reports of the case companies, which, in combination with the interview responses, provide insight into how they currently recognize revenue. They also provide a picture of the current level of information given in the disclosures. The second set of data is the comment letters submitted by various stakeholders during the three consultation rounds that have taken place during the development of IFRS 15. Furthermore, various discussion papers and exposure drafts released by the IASB, publications from various audit firms and views presented by auditors and other accounting professionals in journal articles have been used to enhance the analysis and the subsequent discussions.

3.3.2 Interview Method

The selected interview technique is semi-structured interviews, one of the most common interview techniques for qualitative research (Bryman & Bell, 2011). Given the context of the thesis, it is highly probable that the interviewees possess more information than the researchers about specific consequences and effects in their companies and line of work. It was therefore important that the interviewees were not restricted to only talk about what they were specifically asked about, as they might have experiences or knowledge about aspects that are not visible to individuals outside the firm. If a structured interview technique had been applied, important information could have been lost simply because they were not asked directly about it. On the other end of the spectrum, if unstructured interviews had been used, there would be a possibility of the interviewee not addressing issues valuable for the study and its research questions. Semi-structured interviews thus serve as a middle ground where the interviewee is able to speak rather freely and enrich the information with their opinions, while the

interview guide provides a clear direction and focus on what should be addressed during the interview. A weakness of semi-structured interviews is that it is less suitable for making generalizations. Structured interviews, which are more common in quantitative research, are more structured in order to maximize the reliability and validity of key concepts (Bryman & Bell, 2015).

Prior to each interview, an interview guide was sent to the interviewees. These are available in Appendix A and B. Two interview guides were developed; one focusing on the implications of IFRS 15 for the preparers, the case companies, and one for the users, the analysts. In order to obtain richer and more prepared answers, it was important that the interviewees received the questions in advance. Furthermore, since the thesis researches several industries, some questions specific for only a particular industry were included. Thus, not all questions were asked to all of the case companies, simply because it was not applicable to that industry. The industry specific questions were formulated after reading consultancy and audit reports that address industry-specific implications of IFRS 15.

The interviews were conducted in two fashions; face-to-face and over the phone. The choice between face-to-face versus telephone interview was based on the location of the interviewees, as some work in another country. It was unreasonable to conduct all interviews face-to-face, due to time and cost constraints. While the actual interviews were conducted in two different ways, the structure and preparation of the interviews were the same. Bryman and Bell (2015) address some disadvantages of telephone interviews, such as not being able to observe the body language of the interviewee and the possibility of technical difficulties. However, we do not believe these have affected the collected data. There were no technical difficulties, and the questions were not formulated in such a way that the interviewees' body language would play an important part of the response. The benefits of telephone interviews, the significantly lower costs and less time consumption, greatly outweighed the disadvantages.

3.3.3 Selection of Respondents and Comment Letters

Purposive sampling is often used for qualitative research (Bryman & Bell, 2011). This method has been used for this thesis, as interviewees and comment letters were chosen strategically due to their relevance to the research questions posed. Because the main purpose of the study is to investigate how IFRS 15 will affect accounting quality, it was natural to select respondents from both the users and preparers of financial statements. Users of financial statements provide insight into what type of information is useful for decision-making and valued when analyzing companies' financial reports, while preparers of

financial statements can explain how they account for different transactions and arrangements that ultimately show in the financial statements presented to the users.

IFRS-reporting companies from different industries were selected as case companies to represent the preparers. They were chosen to illustrate how companies from different industries will be affected by IFRS 15 and whether the effects on accounting quality will differ across industries. The selection of industries was based on the scope and nature of the customer contracts that are common in specific industries as IFRS 15 is built on a contract-based model. Furthermore, large audit companies, such as PwC, Deloitte, EY and KPMG, have identified the industries that will be most affected by IFRS 15, which further influenced our choice of companies. The size of the companies was also a factor in the decision, because the implementation of IFRS 15 is expected to be a greater and more complex task in companies with many different kinds of customer contracts and contracts that are long-term and complex in nature and contain multiple elements. The individuals interviewed in each company were selected by the companies themselves, as they have the best knowledge of who is involved with the preparations for the implementation of IFRS 15. Each interviewee works with accounting and finance and is in charge of or involved with the upcoming implementation of IFRS 15, which makes them highly suitable to provide the most thorough information on the topic.

In the selection of interviewees to represent the users of financial statements, the definition of the primary user of financial statements in the Conceptual Framework was considered. Consequently, financial analysts were selected to represent the user perspective as they use financial statements to a great extent in their work. Furthermore, the selection of analysts was limited to those covering the industries in which the case companies are active. This choice was made to ensure that the respondents are familiar with the specific industry and its revenue recognition, and thus any possible implications that IFRS 15 will have for that particular industry. Analysts covering the case companies were first contacted, and if no or a negative response was obtained, analysts covering other companies in the same industry were contacted. In total, six analysts covering the above-mentioned industries were interviewed. The table below displays the industry each analyst is covering. Their identities are concealed due to confidentiality reasons.

Table 1: Overview of analysts interviewed

Analyst	Industry Coverage
Analyst 1	Construction
Analyst 2	Subsea & Oil Service
Analyst 3	Subsea & Oil Service
Analyst 4	Telecom, Consumer and Capital Goods
Analyst 5	Telecom
Analyst 6	Chairman of a Financial Analysts Association

Another important empirical source is the comment letters submitted by various stakeholders during the hearing rounds throughout the development of IFRS 15. These letters provide insight into issues and inconsistencies within current revenue recognition standards, as well as potential new issues and concerns that may arise following the implementation of IFRS 15. In the process of reviewing comment letters, a strategic selection was made as over 1000 comment letters were submitted throughout the development of IFRS 15. Focus was put on comment letters from companies in the same industry or industries with similar types of customer contracts as the case companies are operating in, as well as comment letters from users of financial statements, audit firms and national standard-setters. Most emphasis was put on comment letters from the first hearing round, in which stakeholders commented on the DP, because these provides a deeper understanding of the weaknesses and issues with current revenue recognition standards. An overview of the comment letters reviewed is available in Appendix C.

3.4 Qualitative Data Analysis

After collecting the empirical data, analyzing the data obtained is imperial in order to be able to use it in a structured and coherent manner. The objective of qualitative content analysis (QCA) is to identify themes or categories from a body of content, in order to provide a rich description of a phenomenon (Zhang & Wildemuth, 2009). In order to give the data meaning and validity, it must be analyzed in a methodological style. To achieve this, the existing frameworks of QCA were selected to be the guiding principles in the analysis of the data. Hseih and Shannon (2005) describe three approaches to QCA, which differs in the degree of involvement of inductive reasoning. The approach used for this thesis is

the directed content analysis, in which theory or previous relevant research findings are used for the initial coding (Hseih & Shannon, 2005). For example, the qualitative characteristics of the IASB's Conceptual Framework are used as initial themes for coding, and then during the data analysis, new themes emerged from the data. The coding was facilitated by the use of Nvivo, a qualitative data analysis software program that allows digitally creation of themes and categories and coding of corresponding responses.

Zhang and Wildemuth (2009) have developed a step-by-step process for QCA. This process guided our data analysis procedure, and a descriptive summary of the process is provided below:

- First, the collected data was transformed into written text. The interviews were transcribed with a high level of detail. Albeit a time-consuming task, it ensures that no information is lost from the interviews, and thus enables a complete analysis of the responses obtained.
- The second step refers to the unit of text to be coded during the content analysis (words, sentences or whole paragraphs). Complete chunks of text that embraced the theme or issue relevant for a particular category were coded, disregarding the length of the text. This was done in order to capture the entire significance of the theme or issue.
- Thirdly, the categories and coding scheme were developed. An initial model of categories based on various aspects of the IASB's Conceptual Framework and IFRS 15 as well as other necessary categories were created. From the initial model, new categories were added when recurrent themes of interest were discovered.
- Following the development of a coding scheme is the actual coding. Chunks of text were assigned to several categories if they reflected more than one theme. In order to arrive at valid and reliable conclusions, it is of great importance to ensure consistency in the coding. If the data is divided and coded separately by several people, as in this study, consistency may be at risk. In order to reduce the risk, a coding manual with clear directions and rules was developed for how to conduct the coding, and continuous communication and collaboration were kept throughout the process.
- After coding is finalized, it is time to make sense of the themes. The coding scheme was reviewed, subcategories were added and attributes were assigned to the respondents (for example, "preparer" and "user"). From this, the categories, sub-categories and attributes and the relationship between them were explored in order to detect different views towards and effects of the new revenue recognition Standard. The result of the exploration is used to answer the research questions in the Chapter 6 and 7.

- As some of the interviews were held in a language different from English, any citations used to support arguments have been translated by the authors.

3.5 Evaluation of Quality of the Research

Establishing the quality of the collected data and the data analysis is a critical part of any research project. Without addressing the issue of quality, it is hard to assess the usefulness and truthfulness of research. Furthermore, qualitative research approaches are often criticized for being too subjective, difficult to replicate and lacking generalization and transparency (Bryman & Bell, 2011). In the following, the actions taken to diminish these weaknesses are addressed.

Common terms used to describe the quality of data are *reliability* and *validity* (Saunders et al., 2009; Bryman & Bell, 2011; Yin, 2003). These are typically linked to more quantitative research. However, there exist different perspectives of these concepts that are more applicable for assessing the quality of qualitative research. Lincoln and Guba (1985) and Guba and Lincoln (1994) propose to use *trustworthiness*. Trustworthiness is built upon four aspects, each of which has a parallel to a criterion more associated with quantitative studies. The aspects are credibility, transferability, dependability and confirmability, which parallel internal validity, external validity, reliability and objectivity, respectively.

Credibility, or internal validity, refers to the extent to which a finding incorporating a causal relationship between two or more variables is sound (Bryman & Bell, 2011). It entails ensuring that research has been conducted according to the pillars of good practice without large flaws and that a phenomenon is addressed from several possible accounts. In order to achieve a high credibility of our findings, we strived to be transparent in our coding process by developing a coding manual and use a qualitative data analysis software program, as explained in the previous section. In the process of analyzing the data, the technique of triangulation was employed by using more than one source of data to illuminate the phenomenon under research, as well as addressing rival views and explanations. Furthermore, as semi-structured interviews allow follow-up questions, this further increases credibility as it can ensure that all possible factors have been addressed. The interviewees involved in the study were also offered the chance to validate any citations or paraphrases that have been used, thus further improving the credibility.

Transferability, or external validity, refers to the extent to which results of a study can be generalized beyond the specific research context in which it was conducted (Bryman & Bell, 2011). Transferability

is important for this thesis because it attempts to draw general conclusions about how IFRS 15 will affect accounting quality. Case studies are often criticized for lacking generalizability due to a small sample size. However, the objective of case studies is not to generalize the findings to populations through statistical methods and criteria, but to generalize them to theory (Bryman & Bell, 2015; Yin, 2003). It is the clear and logical reasoning behind the theoretical inferences drawn from the qualitative data that is decisive to the assessment of generalization. Through that process *analytical generalization* is achieved, rather than statistical generalization, as explained by Yin (2003). This has been the main emphasis in the analysis and discussion of the thesis, in which we have strived to go into the depths of the effects of the new revenue recognition standard by using findings from several cases, several stakeholder perspectives and several criteria of accounting quality. Thus, the provision of a "thick description" of the phenomenon under study is attempted, which, according to Lincoln and Guba (1985) can help others to make judgments about the level of transferability of the study.

Dependability, or reliability, is the extent to which data collection techniques and other techniques applied will yield consistent findings (Saunders et al., 2009). It implies that the findings would have been the same if the study was repeated at another occasion or by another researcher. To ensure that dependability would not be diminished by participant bias, the interview respondents were assured that their names, title and company would be kept anonymous in the study. In order to avoid researcher error and bias, a lot of time and effort were spent on developing the interview guide, and both were present at most of the interviews. Furthermore, complete records of what has been done under all phases of the research have been kept, including recordings of the interviews. This allows the research process to be audited and replicated by others, which increases reliability according to LeCompte and Goetz (1982). However, the exact setting of a case study can never be replicated, as time passes and the context changes continuously.

Confirmability, or objectivity, refers to the researchers' attempt to stay objective and not let personal values or beliefs influence or cloud the research or findings (Lincoln & Guba, 1985). Confirmability can be assessed through the complete records of the research process presented above. Furthermore, to remain objective, the interview guide was adhered to as much as possible during the interviews in order not to ask leading questions and misinterpret the responses. Being two researchers conducting the study, instead of one, also helps maintain higher objectivity. Moreover, when misunderstandings or confusion arose we checked the recordings again or asked follow-up questions to the interview respondents.

4. Theoretical Context

In this chapter, the theoretical context of the thesis will be presented. In the first section, a review of studies and views on accounting quality is conducted. This culminates into a description and explanation of the IASB's Conceptual Framework, which serves as the basis for accounting quality throughout the thesis. The third section presents and contrasts perspectives on revenue recognition, which further on will be in used when analyzing current and prospective revenue recognition standards.

4.1 The Concept of Accounting Quality

Accounting quality is an elusive and ambiguous concept with no universal definition. It has a strong presence in accounting literature, but the definition often differs between various publications, as well as in the variables used to measure accounting quality. According to Imhoff (1992), accounting quality is "[...] a term used to suggest that all accounting signals may not be equally free of noise due to bias or measurement error or both" (p. 97). He continues by stating that, despite the appeared importance of the notion of quality, it appears to be little consensus about the accounting attributes used by individuals in assessing accounting quality.

Some studies, among others Barth et al. (2008), Chen et al. (2010) and Lin et al. (2012), have chosen to examine the level of accounting quality in relation to IFRS from a quantitative perspective. Chen et al. (2010) and Lin et al. (2012) have studied accounting quality before and after the adoption of IFRS or IAS standards, while Barth et al. (2008) have compared firms adhering to IAS standards and non-US domestic standards. Their findings indicate that an adoption or adherence to IFRS/IAS standards do result in a higher accounting quality (Barth et al. 2008; Chen et al. 2010; Lin et al. 2012).

Chen et al. (2010) operationalize accounting quality by using five variables; earnings smoothing, managing earnings towards targets, the magnitude of absolute discretionary accruals, accruals quality and timely loss recognition. The first four variables relate to earnings management, which is described as the exercise of judgment by management in choosing certain methods of accounting or reporting that mislead stakeholders about the economic position or performance of the firm or influence contractual outcomes (Healy & Wahlen, 1999). Earnings management is strongly linked to the use of accruals, in the way that managers are able to exploit their judgment and have discretion regarding cost allocations, estimates and policies (Petersen & Plenborg, 2012). Thus, the quality of accruals is crucial in order for

them to have value and bear decision-usefulness. Sloan (1996) further addresses the use of accruals and related it to earnings quality and predictive value. He claims that the magnitude of accruals affects accounting quality negatively and is less suitable to use for future predictions about a firm. Barth et al. (2008) and Lin et al. (2012) use the level of earnings management, timely loss recognition and value relevance metrics as indicators of accounting quality. Firstly, a lower exhibition of earnings management is argued to be indicative of a higher accounting quality. Secondly, more timely reflection of losses in earnings is also indicative of high accounting quality. Finally, accounting amounts that are more value relevant are interpreted as achieving a higher accounting quality.

The level of managerial discretion and possibility to influence accounting numbers is also widely used as a measure of accounting quality, as stated by Ahmed, Neel and Lang (2013), among others. The less discretion left for managers concerning how to prepare financial statements and accounting numbers, the higher accounting quality is assumed to be. This view is also shared by the IASB, which aims to develop an internationally acceptable set of high quality accounting standards (CF, 2010). To achieve this, principles-based standards have been issued in order to limit the use of alternative accounting treatments. The removal of accounting alternatives can result in a higher accounting quality and portray a better depiction of a firm's performance and economic position (Barth et al. 2008). Chen et al. (2010) address the same issue and argues that use of IFRS result in a higher accounting quality not only due to the above-mentioned reason, but also because the adoption of IFRS will reduce inconsistencies and possibilities for earnings management between domestic accounting standards. However, Barth et al. (2008) simultaneously exemplifies situations when standards may not result in a higher accounting quality. For example, if standards force firms to report their financials in a way that is less reflective of its economic position or its performance. This could happen when a new standard eliminates a previously accepted accounting alternative that was better suited for the company in question. These situations are also highlighted in Chen et al. (2010), but finally it is concluded that by establishing a limit on managers' discretion, IFRS can reduce earnings management.

Petersen and Plenborg (2012) states that "[...] good accounting quality is defined as the financial reporting that provides the input which best supports the decision models used" (p. 335), suggesting that accounting quality is dependent on who and for what purpose someone uses financial statements. Wagenhofer (2014) and Chen et al. (2010) also express a view that depending on what the objective of the financial statement is, for decision-making or stewardship, different formulations of standards may be desirable by different users.

In conclusion, it is evident that accounting quality is a wide topic with several interpretations. To this day, researchers have approached it from many different angles and have included several different variables to explain accounting quality. A full and general assessment of accounting quality is a hard and time-consuming task, as many aspects must be explored. Accounting quality can also be interpreted differently depending on the type of stakeholder or decision-maker using the financial statements, as Petersen and Plenborg (2012), Wagenhofer (2014) and Chen et al., (2010) suggest. In the Conceptual Framework, the IASB has identified a group of primary users: existing and potential investors, lenders and other creditors (CF, 2010, OB5). Thus, accounting quality will be interpreted and assessed from the perspective of the primary users for the remainder of the thesis. The qualitative characteristics defined in the Conceptual Framework will similarly be the foundation upon which accounting quality will be assessed. The IASB's Conceptual Framework will be described in the following section.

4.2 IASB's Conceptual Framework

4.2.1 Purpose and Scope of the Conceptual Framework

The IASB's Conceptual Framework is the framework that dictates the development of IFRSs to ensure that they are based on consistent concepts (CF, 2010). Thus, for companies reporting after IFRS, the Conceptual Framework is the basis for the preparation and presentation of financial statements for external users. Furthermore, the purpose of the Framework is to assist preparers of financial statements in applying IFRSs and choose the right accounting solutions when no IFRS apply or when a choice of policy is allowed, as well as assist users of financial statements in interpreting the information given by the financial statements (CF, 2010).

The Framework encompasses four areas: the objective of financial reporting; the qualitative characteristics of useful financial information; the definition, recognition and measurement of the elements from which financial statements are constructed; and concepts of capital and capital maintenance (CF, 2010). The parts relevant for addressing the research questions of this thesis will be briefly explained in the following sections.

4.2.2 Objective of General Purpose Financial Reporting

According to the Conceptual Framework, "the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity" (CF, 2010,

OB2). This group of stakeholders represents the primary users of financial statements (CF, 2010, OB5). Thus, the Framework favors decision-useful information related to resource-allocation decisions rather than for control purposes. The reason for this focus is that this user group cannot demand entities to report information directly to them, and thus they have no other choice but to rely on the general purpose financial reports for the financial information they require (CF, 2010, OB5).

4.2.3 Qualitative Characteristics of Useful Financial Information

The Conceptual Framework presents two categories of qualitative characteristics that prescribe which qualities financial information should have in order to be useful (CF, 2010, QC1). These are fundamental and enhancing qualitative characteristics. The fundamental qualitative characteristics, *relevance* and *faithful representation*, must be fulfilled in all financial reporting for the information to be useful (CF, 2010, QC4). The enhancing qualitative characteristics, *comparability*, *verifiability*, *timeliness* and *understandability*, cannot make information useful unless relevance and faithful representation is fulfilled, but they can enhance the usefulness of information that is relevant and faithfully represented (CF, 2010, QC4).

The ability of the qualitative characteristics to provide the most useful information for decision-making is subject to a cost constraint (CF, 2010, QC35). Costs are incurred by preparers of financial statements in the process of reporting financial information, which ultimately fall on the user in terms of reduced returns (CF, 2010, QC36). Additionally, costs are incurred by the users when they need to retrieve required information from other sources or estimate it. It is therefore important that preparer considers the trade-off between providing the most decision-useful information and the cost of preparing the statements (CF, 2010, QC35).

Relevance

Relevance implies that presented information is "[...] capable of making a difference in the decisions made by users" (CF, 2010, QC6). Relevant information should have predictive value, confirmatory value or both (CF, 2010, QC7). Furthermore, the materiality of information must be considered. Materiality means that decisions made by users based on provided financial information are influenced by omitting or misstating a specific piece of information (CF, 2010, QC11). This is an entity-specific aspect of relevance. Therefore, no threshold for materiality is specified by the IASB, and it is up to each entity to assess the materiality of information.

Faithful Representation

The second fundamental qualitative characteristic, *faithful representation*, prescribes that financial information must "[...] faithfully represent the phenomena that it purports to represent" (CF, 2010, QC12). More specifically, financial information must be presented in a way that is complete, neutral and free from error (CF, 2010, QC13-QC15).

Comparability

The enhancing qualitative characteristic *comparability* is meant to facilitate the choice between alternatives when making an investment-related decision about one entity over another (CF, 2010, QC20). Financial information is more useful if it can be compared with similar information across entities and time periods. For this to be possible, the information presented must be comparable in a way so that similarities in and differences among items are identifiable and understandable (CF, 2010, QC21).

Verifiability

Verifiability helps assure users that financial information is a faithful representation of the economic phenomenon it purports to represent (CF, 2010, QC26). There are two ways of verifying financial information: direct or indirect verification (CF, 2010, QC27). Under direct verification one verifies an economic phenomenon through direct observation. With indirect verification, one checks the input to a model, formula or other technique, and recalculates the outputs using the same methodology.

Timeliness

In order to make informed decisions users need to receive required information in time to influence the decisions. The Framework refers to this as *timeliness*. As a general rule, the older the information is, the less useful it is (CF, 2010, QC29).

Understandability

The last enhancing qualitative characteristic in the Framework is *understandability*. The Framework states that "classifying, characterising and presenting information clearly and concisely makes it understandable" (CF, 2010, QC30). No information should be excluded on the basis of it being too complicated or hard to understand, as this violates the fundamental qualitative characteristic of faithful presentation (CF, 2010, QC31).

4.2.4 The Definitions, Recognition and Measurement of the Elements from which Financial Statements are Constructed

This part of the Framework forms the basis for how to treat accounting issues in practice; namely, the recognition and measurement of the elements of the statements of financial position and financial performance. The choices made about recognition and measurement are guided by the qualitative characteristics (CF, 2010, BC3.7).

4.2.4.1 Definitions

The Conceptual Framework presents definitions of five different accounting items, essential for preparation and presentation of financial statements. Three of these, *assets*, *liabilities* and *equity*, are directly related to the measurement of an entity's financial position (CF, 2010, 4.4). The remaining two, *income* and *expenses*, are directly related to the measurement of an entity's financial performance (CF, 2010, 4.24). The definitions play an important role in the recognition of items in the financial statements, as an item first and foremost need to satisfy its respective definition for it to be recognized (CF, 2012, 4.38). This will be further explained below. Furthermore, the definitions of *income* and *expenses* reveal that the Conceptual Framework has an asset-liability-oriented focus as the definitions say that income and expenses arises from changes in assets and liabilities (CF, 2010, 4.25). This implies that it is the recognition of the elements in the statement of financial position that dictates the recognition of income and expenses in the statement of financial performance.

4.2.4.2 Recognition

In this section, the Framework explains the general criteria and guidelines for recognizing various items in the financial statements. Recognition is defined as "[...] the process of incorporating in the balance sheet or income statement an item that meets the definition of an element and satisfies the criteria for recognition [...]" (CF, 2010, 4.37). When an item meets the relevant definition of an element, the following criteria need to be met:

a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and
b) the item has a cost or value that can be measured with reliability (CF, 2010, 4.38).

4.2.4.3 Measurement

This section of the Conceptual Framework deals with the selection of measurement basis for measuring amounts at which the various elements are to be recognized in the financial statements (CF, 2010, 4.54).

The Framework lists four possible measurement bases: historical cost, current cost, realisable (settlement) value and present value (CF, 2010, 4.55).

4.2.5 Current Project on Revising the 2010 Conceptual Framework

The IASB is currently revising the Conceptual Framework. In May 2015, an exposure draft to the Conceptual Framework was published (ED CF, 2015). The revised version is expected to be finalized in early 2017 (Conceptual Framework, n.d). In the following, the most prominent changes between the current and the prospective Conceptual Framework, relevant for this thesis, will be presented.

4.2.5.1 Objective of General Purpose Financial Reporting

The IASB proposes to reintroduce the term *stewardship* as one of the objectives of general purpose financial reporting (ED CF, 2015, BC1.9). However, it will not be an additional nor equally prominent objective as the existing primary objective (ED CF, 2015, BC1.10). The inclusion of the term does, however, suggest that financial reports should also provide information to help assess management's stewardship of an entity's resources.

4.2.5.2 Qualitative Characteristics of Useful Financial Information

Some new concepts are proposed to be reintroduced in the guidance on the qualitative characteristics. The guidance regarding *relevance* is largely untouched, however, the IASB is proposing to move the discussion of measurement uncertainty considerations from paragraph QC16 of the existing Conceptual Framework to the guidance on relevance (ED CF, 2015, BC2.24(b)(i)). This better highlights the trade-off between measurement uncertainty and relevance, by stating that the benefits to relevance of including an estimate must outweigh the negative aspects of having a high level of measurement uncertainty (ED CF, 2015, 2.13).

With respect to *faithful representation,* the IASB is proposing to reintroduce the notion of prudence (ED CF, 2015, 2.18). In the Exposure Draft, prudence is explained to support neutrality when making decisions under conditions of uncertainty. It was removed from the 2010 Framework due to its potential conflict with neutrality (ED CF, 2015, BC2.2). However, the IASB has noted that entities continue to consider prudence in financial reporting and with no clear explanation of the term in the Conceptual Framework, great diversity in its use is the result in practice (ED CF, 2015, BC2.10). Thus, they think that including a definition of the term in the Conceptual Framework will lead to more consistent usage.

The Exposure Draft furthermore makes an explicit reference to *substance over form* when explaining faithful representation, which is a change from the current Conceptual Framework (ED CF, 2015, 2.14). It is included to emphasize that merely reporting an economic phenomenon according to its legal form may not result in faithful representation.

4.2.5.3 Definitions

The IASB proposes to change the definitions of assets and liabilities slightly (ED CF, 2015, BC4.4-4.45). In relation to the definition of assets, the Exposure Draft includes a definition of control, which does not exist in the current Conceptual Framework. The Exposure Draft proposes to define control as "[...] the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it" (ED CF, 2015, 4.18). Some argue that the definition of assets should include exposure to risks and rewards of ownership (ED CF, 2015, BC4.2). However, the IASB is of the opinion that exposure to risks and rewards of ownership is only a factor to consider when assessing control (ED CF, 2015, BC4.43).

Furthermore, the IASB intends to keep the asset-liability approach as the underlying model from which income and expenses arise by continuing to define income and expenses in terms of changes in assets and liabilities (ED CF, 2015, BC4.2). In fact, the Exposure Draft to the new Conceptual Framework proposes to make this more prominent by more clearly describing the linkages between the financial statements in §5.6 and explicitly stating that income is recognized simultaneously with the recognition of an asset or an increase in an existing asset, or the derecognition of a liability or decrease in an existing liability; and vice versa for the recognition of expenses.

4.2.5.4 Recognition

In the Exposure Draft, the existing recognition criteria of reliable measurement of cost and value and probable that economic benefits associated with an item will flow to or from the entity have been removed. This is due to problems that have arisen in practice. Some standards do not operate with a probability criterion, while other standards contain different variations of probability thresholds (ED CF, 2015, BC5.8). This has lead to inconsistent interpretation of the criterion. Furthermore, reliable measurement has caused confusion as reliability is not a qualitative characteristic (ED CF, 2015, BC5.10). Many have interpreted the criterion as relating to measurement uncertainty, which is better accounted for when assessing the qualitative characteristic of relevance.

The Exposure Draft instead proposes to let the fundamental qualitative characteristics of relevance and faithful representation, as well as the cost constraint on useful financial reporting, guide when recognition of elements provides users with useful information (ED CF, 2015, 5.9). Thus, there is expected to be a stronger link between recognition and the qualitative characteristics in the new Conceptual Framework.

Furthermore, the existing Conceptual Framework explicitly prescribes that recognition of expenses are matched with the recognition of income in the statement of financial performance (CF, 2010, 4.50). The Exposure Draft tones down the use of the matching principle by stating that matching should only occur as a result of recognition of changes in assets and liabilities (ED CF, 2015, 5.8). This further highlights the emphasis on the asset-liability approach. According to the IASB the statement of financial position should not be "[...] a mere summary of amounts that have arisen as by-products of a matching process" (ED CF, 2015, BC4.3(d)).

Lastly, the Exposure Draft includes a section about criteria for derecognition, which is not included in the existing Framework (ED CF, 2015, 5.25-5.32). In relation to this, it proposes to include explicit guidance on how treat modifications of contracts that reduce or eliminate existing rights and obligations or add new rights or obligation (ED CF, 2015, 5.33-5.36). The treatment is guided by an assessment of whether a modification adds rights and obligations that are distinct. If that is the case, the additions are treated as new assets or liabilities.

4.2.5.5 Measurement

The guidance on measurement in the 2010 Conceptual Framework is limited, and it is thus substantially expanded in the Exposure Draft. It will still prescribe the same measurement bases, including historical cost and current value approaches, but the Exposure Draft proposes to add advantages and disadvantages of the use of these. Different from the current version, the revised Conceptual Framework will provide a guide on how to choose the most suitable measurement base, stemming from the qualitative characteristics (ED CF, 2015, 6.53-6.63). It will thus be a stronger link between these and the choice of measurement base than in the current version.

4.2.5.6 Presentation and Disclosures

The final relevant changes relate to the guidance on presentation and disclosures, which is not present in the existing Conceptual Framework. The Exposure Draft highlights the importance of presentation and disclosures as communication tools. Efficient and effective communication is obtained through proper

classification and aggregation techniques, as well as using objectives and principles for presentation and disclosure rather than strict rules (ED CF, 2015, 7.8).

4.3 Revenue Recognition

4.3.1 Approaches to Revenue Recognition

Revenue recognition is built upon two main decisions, namely when and how much revenue to recognize (Wagenhofer, 2014). Several theories or approaches on how to handle revenue recognition exist. What is common among many is the notion of a critical event or a point in time when revenue is to be recognized. Wagenhofer (2014) uses the earnings cycle (also known as earnings process model) to decide when the critical event has taken place, and that the resolving of risks associated to each stage in the cycle determines the criteria that need to be fulfilled in order to recognize revenue. He further points out that different accounting standards prescribes recognition criteria based on different times for the critical event; the percentage-of completion method dictates revenue recognition throughout production progression, while revenue is recognized at delivery for the sale of goods.

Christensen and Demski (2003) address the issue of whether early or late revenue recognition is to prefer. They argue that it depends on what the objective of the financial report is. For information and decision-making purposes, early recognition is preferable over late recognition as this holds a signaling value and arguably incorporates more information earlier to the users. Late recognition is less timely and thus can have less value for users who seek to use the information for decision-making today or in the future. Wagenhofer (2014) supports this view by saying that the value of information increases with timeliness as it allows users to make decisions earlier, despite it being possibly less reliable or precise than revenue that is recognized later. Thus, there is a trade-off between timeliness and certainty depending on the time of recognition. The Conceptual Framework has identified that their primary user is someone who needs financial information to make decisions about resource-allocation, which points towards that an early recognition principle would be more beneficial than a late recognition principle.

Early and late revenue recognition can further be linked to the accrual and cash flow accounting (Christensen & Demski, 2003). Accrual accounting allows a firm to register transactions in the period in which they occur, even though the cash receipts and payments occur in a different period (CF, 2010, OB17). Accrual accounting allows users of financial statements to receive information about transactions earlier than if the transactions would have been registered when payment is received, if this

occurs in a later period. Christensen and Demski (2003) further state that "[...] the information content of the accrual process is incremental to that provided by the cash-basis recognition" (p. 315). The Conceptual Framework emphasizes the importance of accruals by stating that it allows users to better asses the past and future performance of an entity than information solely based on cash accounting (CF, 2010, OB17). Furthermore, studies on the information-content of performance measures have shown that accrual-based performance measures are better than cash-flow-based measures when trying to assess the future earnings capacity of a firm (Dechow, 1994; Ali and Pope, 1995; Plenborg, 1999). Criticism of accrual accounting is related to the level of quality, as described previously. It is argued to be prone to manipulation and earnings management due to the degree of judgment involved by the preparers (Petersen & Plenborg, 2012). Accrual accounting can be linked to early recognition of revenue, as revenue can be recognized during the period it was earned rather than when payment was obtained (Christensen & Demski, 2003).

In addition to the statements of financial position and financial performance, a statement of cash flows is provided in financial reporting. It provides information about when cash is received and paid and helps users assess an entity's ability to generate positive cash flows in the future (CF 2010, OB20). It can further be used to assess liquidity and solvency of a firm. Many argue that cash flows are more objective and less prone to manipulation, as it merely records cash inflows and outflows without any judgment involved by an individual. However, it is possible to manipulate cash flows as well (Petersen & Plenborg, 2012). The use of factoring and deferment of inventory purchases are examples of this. Cash-flow based performance measures can further provide information that is not included in accrual-based measures, and rather than regard them as opposites they can be seen as complementary to each other (Petersen & Plenborg, 2012). Recording revenue when an entity has received a payment is furthermore an example of late revenue recognition (Christensen & Demski, 2003). Cash-accounting can, on the other hand, be viewed as more prudent as it does not recognize revenue for a transaction until the payment is received from the customer (Petersen & Plenborg, 2012).

4.3.1.1 Income-Expense Approach

There are two fundamental approaches of revenue recognition. These are the income-expense approach and the asset-liability approach. The asset-liability approach has been featured earlier and will be briefly explained in the next section. In the following, the income-expense approach will be explained.

The income-expense approach, or sometimes referred to as the income statement approach or revenue-expense approach, is an accounting approach that is centered on determining income in a given period

(Dichev & Penman, 2007; Wagenhofer, 2014). It emphasizes the proper timing and matching of revenues and expenses, and it is thus heavily based on the realization, matching and accrual principles (Wüstemann & Kierzek, 2005). In this view, balance sheet items are considered residuals of the aforementioned principles, and represent the difference between revenue, expenses and the corresponding cash flows from a given period (Wagenhofer, 2014). The goal according to the income-expense approach is to measure financial performance defined as efficiency (Schmalenbach, 1919; as cited in Wüstemann & Kierzek, 2005). IAS 11 is primarily based on this approach by prescribing the use of the percentage of completion method (Wagenhofer, 2014; Wüstemann & Kierzek, 2005). Revenue is recognized as the activities are performed, and it is thus an example of when the critical event of the earnings cycle takes place during the production phase.

4.3.1.2 Asset-Liability Approach

The asset-liability approach is centered on "[...] the determination of net assets (equity) at the balance sheet date" (Wagenhofer, 2014, p. 362). According to the asset-liability approach, the goal of financial statements it to provide information about an entity's financial position, or wealth (Wüstemann & Kierzek, 2005). Assets and liabilities are viewed as the primary indicators of an entity's wealth. The emphasis is on correctly valuing assets and liabilities, and subsequently revenue and expenses result from the changes in the value of assets and liabilities. Revenue less expenses result in earnings, which measures the increase (or decrease) in an entity's wealth.

Over the last decades, the asset-liability approach has become the dominating one. The FASB adopted the approach in the late 70's, arguing that earnings, revenues and expenses, is a "change in value" concept, and thus a change in value cannot be determined without first defining what "value" is (Dichev & Penman, 2007). Furthermore, the IASC, the predecessor of the IASB, developed the Conceptual Framework in 1989, which to a large extent was based on the asset-liability approach used by the FASB (Dichev & Penman, 2007). IAS 18 is closer to this approach (Wagenhofer, 2014; Wüstemann & Kierzek, 2005).

5. Changes Between IFRS 15 and Current Revenue Recognition Requirements

In this chapter, the changes between IFRS 15 and the current revenue recognition requirements in IAS 18 and IAS 11 will be briefly presented. The changes will be the object of analysis in the subsequent chapters.

Current revenue recognition standards provide separate guidance and criteria depending on the type of transaction or contract. IAS 18 deals with sale of goods, rendering of services and interest, royalties and dividends, while IAS 11 covers construction contracts (IAS 18.1; IAS 11.1). Under IFRS 15, all of these will be accounted for as a contract with a customer, except for interests and dividends, which will be covered by IAS 39 or IFRS 9 (EY, 2014). A customer is defined as "[…] a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration" (IFRS 15.6). Furthermore, IFRS 15 introduces a five-step model that entities are required to apply when accounting for revenue from contracts with customers. The steps are:

1. Identification of the contract(s) with a customer
2. Identification of the performance obligations in the contract
3. Determination of the transaction price
4. Allocation of the transaction price to the performance obligations in the contract
5. Recognition of revenue when (or as) the entity satisfies a performance obligation (IFRS 15.IN7)

When applying this model, the objective is to recognize revenue in accordance with the core principle of the Standard, which is that "[…] an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services" (IFRS 15.IN7).

IFRS 15 also includes an Application Guidance in Appendix B of the Standard, which further explains some of the concepts of the model, as well as providing guidance on how to account for some specific types of arrangements, such as warranties, repurchase agreements, licensing and customer options for additional goods and services.

A brief overview over the changes is presented in the table below.

Table 2: Overview of changes from current revenue recognition requirements

Overview of Changes from Current Revenue Recognition Requirements	
Scope	One model for recognizing revenue as opposed to several approaches depending on the type of transaction
Step 1: Identification of contract(s) with a customer	IFRS 15 requires entities to establish the existence of a contract before revenue can be recognized. Combinations of contracts: • No guidance on how to combine transactions in IAS 18 • Slight change in criteria from IAS 11 due to the new criteria for identifying separate performance obligations Contract modifications: • No explicit guidance on contract modifications in IAS 18 • IAS 11 contains guidance on construction of additional assets, variations and claims separately. IFRS 15 has a higher threshold for accounting for revenue from contract modifications, as the parties in the contract must approve them first. Claims are treated as variable consideration under IFRS 15.
Step 2: Identification of performance obligations in the contract	IFRS 15 introduces a new way of unbundling contracts into their separate performance obligations by prescribing criteria for identifying distinct goods and services. IAS 18 contains no guidance for how to unbundle transactions into separately identifiable components. IFRS 15 also contains explicit guidance on several types of arrangements, for which the criteria for identifying distinct goods and services must be considered: • Consideration payable to a customer • Warranties • Customer options for additional goods or services • Non-refundable upfront fees • Licensing
Step 3: Determination of the transaction price	IFRS 15 prescribes a measurement based on customer consideration to which an entity expects to be entitled, while IAS 18 and IAS 11 prescribe fair value measurement. IFRS 15 introduces a new way of assessing whether variable consideration can be included in revenue to be recognized: • Variable consideration must be estimated upfront • For an estimate of variable consideration to be included in the transaction price it must be highly probable that a significant reversal of accumulated revenue recognized will not occur “Variable consideration” under IFRS 15 encompasses many types of variable consideration; including discounts, price concessions, customer refunds, return rights, contingent consideration, performance bonuses and penalties. Under IFRS 15 financing components of transactions need to be significant to warrant adjustment of the transaction price for the time value of money.

Step 4: Allocation of the transaction price to the performance obligations in a contract	IFRS 15 introduces a new methodology for allocating revenue arising from an arrangement with a customer to the separate components in the arrangement, for which neither IAS 18 nor IAS 11 provide explicit guidance on: • Allocation of the transaction price to each performance obligation on a relative standalone selling price basis • Unobservable standalone selling prices shall be estimated • Allocation of discounts, variable consideration and changes in the transaction price to the performance obligations to which they relate
Step 5: Recognition of revenue when (or as) performance obligations are satisfied	IFRS 15 introduces new criteria for when revenue can be recognized. Revenue is recognized when or as performance obligations are satisfied by transferring the control of promised goods and services to a customer. This occurs either at a point in time or over time. Recognition criteria in IAS 18 and IAS 11 are based on reliable measurement of revenue and costs and that it is probable that the economic benefits associated with a transaction or contract will flow to the entity. The standards also contain specific recognition criteria depending on the type of transaction, such as the transfer of the significant risks and rewards to the customer in the case of sale of goods. IFRS 15 also contains explicit guidance on several types of arrangements to aid the assessment of when control transfers to the customer in specific types of arrangements: • Principal-agent considerations • Repurchase agreements • Licensing • Consignment arrangements • Bill-and-hold arrangements
Presentation of contract asset or contract liability in the statement of financial position	IFRS 15 is based on an asset-liability approach, which requires entities to recognize a net contract position in the statement of financial position representing the relationship between an entity's performance under the contract and the customer's payment. Revenue is recognized when the net position changes when or as control for promised goods and services transfers to the customer. This is a new requirement for entities reporting after IAS 18.
Cost guidance	IFRS 15 contains guidance on how to account for costs to obtain and fulfill a contract. Incremental costs of obtaining a contract and costs that directly relate to fulfilling a contract or an anticipated contract are recognized as assets. Additionally, IFRS 15 contains guidance for how and when to amortize the assets and recognize impairment losses related to the assets. Assets are amortized in a way that is consistent with transfer to a customer of the promised goods and services to which the asset relates. IAS 11 contains guidance on which costs to include in contract costs that warrants capitalization. The specifics of what costs that can be capitalized differ from IFRS 15. Costs are expensed together with recognition of revenue according to the stage of completion of a contract. IAS 18 only includes guidance on the matching of expenses with revenue recognized.
Onerous contracts	Onerous contracts are to be treated according to IAS 37 under IFRS 15. IAS 11 contains explicit guidance on when and how to account for contract losses.
Disclosure	IFRS 15 prescribes significantly more disclosure requirements than IAS 18 and IAS 11. Entities are to disclose more detailed information, both quantitatively and qualitatively, about the following: • Contracts with customers; including disaggregation of revenue, contract balances, performance obligations and transaction price allocated to the remaining performance obligations • Significant judgments made when performing step 3-5 of the model • Assets recognized from the costs to obtain or fulfill a contract

6. Analysis

6.1 Why Was there a Need for a New Revenue Recognition Standard?

A natural starting point when assessing the effects of IFRS 15 on accounting quality is to investigate what the reasons for a new revenue recognition standard were. In order to assess this, a review of documents and articles from several different sources has been undertaken. These include documents released by the Boards in relation to the revenue recognition project, most importantly the DP and various agenda and staff papers released throughout the project; comment letters submitted during the hearing rounds; journal articles on the matter; as well as responses from the interviews. From these, five main weaknesses and inconsistencies with the current revenue recognition requirements were identified: lack of guidance on how to deal with multi-element and complex transactions; issues with the earnings process model; problems with risks and rewards; inconsistencies across current standards; and lack of disclosures. In the following, these will be elaborated on.

6.1.1 Lack of Guidance in Current Standards

A fundamental issue with IAS 18 is the lack of guidance, especially for more complex transactions such as multi-element arrangements (DP, 2008, 1.12; IASB, 2007). In Agenda Paper 4B, the IASB (2007) states that this is a fundamental flaw of IAS 18, as almost all transactions consists of multiple elements. While §13 of IAS 18 does touch upon the subject, it does not clearly define how or when an entity needs to separate a transaction into components (DP, 2008, 1.12). This weakness is also frequently highlighted in the comment letters submitted in relation to the DP (CESR CL DP; Swedish Financial Reporting Board CL ED1). It also became evident when interviewing our case companies; of those who currently use IAS 18, everyone expressed that it contains little guidance for how and when to recognize revenue for certain arrangements. As said by Firm A: "It is not so detailed, I would say IAS 11 is better than IAS 18. IAS 18 is very thin, when considering that it [revenue] is actually the most important in a company's financial reporting, it is very thin." Furthermore, the respondent gave the example of unbundling of transactions to be an area where IAS 18 lacks guidance. With a lack of guidance, it is up to the discretion of entities to interpret how these issues are to be dealt with. The DP for IFRS 15 addresses this by referring to §17 and §19 in IAS 18, and states that interpretation of the paragraphs differs between entities (DP, 2008, 1.12). This leads to inconsistent treatment of similar transactions across entities, with some recognizing revenue when the first of several elements has been delivered and some recognizing revenue when the final element has been delivered. Firm C said that IAS 11 also leaves

much room for discretion, especially with respect to change orders to large projects that falls outside the standard frame of regulation. The respondent further added that due to the lack of guidance for more complex transactions, the treatment of certain accounting items may differ within the firm itself, and definitely between firms in the same industry. Analyst 1 addressed the issue of comparability and stated that efforts by accounting boards such as the IASB and the FASB that push towards higher consistency are welcomed and good. It is evident that consistency within and among firms in the same industry is important in order for users to be able to compare firms with one another. The current standards, and IAS 18 in particular, lacks the guidance necessary to enable entities to consistently recognize and report revenue. The result of this is an adverse effect on the decision-usefulness of financial statements, as it reduces both understandability and comparability across entities. It also has an adverse effect on faithful representation as fundamentally similar transactions are treated differently within and across entities.

Furthermore, the standards also lack guidance on how to measure the individual elements in a multi-element arrangement (DP, 2008, 1.13). Measurement of revenue in IAS 18 is stated to be made at fair value, but this is not explicitly linked to the measurement of individual elements in a multiple-element agreement, which can cause confusion. This has resulted in entities applying different measurement approaches to similar transactions. As with the previous issue, the consequences are inconsistent application among firms and, thus, reduced comparability.

6.1.2 Issues with the Earnings Process Model

The earnings process model, based on the view of the income-expense approach, relies on an assessment of when an earnings process is complete (IASB, 2007). This occurs when payment or promise of payment in exchange for transferring goods and services is realized or realizable, one of the core principles of the income-expense approach. Although the earnings process model is more prevalent in US GAAP, it is also highly present within IFRS. For example, §18 of IAS 18 states that in some cases, it may not be probable that the economic benefits associated with a transaction will flow to the entity until consideration is received or until an uncertainty is removed. IAS 11 is even more based on the earnings process model in the way that the percentage of completion method dictates that revenue accrues throughout the earnings process (IAS 11.22). Furthermore, both standards prescribe the use of the matching principle, which also is a core principle of the income-expense approach.

Several issues are linked to the earnings process model. Firstly, when the earnings process model is complete is not clearly defined in any accounting literature, which makes the determination dependent

upon subjective judgment (IASB, 2007, §4). It is not based on a single economic phenomenon, such as a contract, receivement of cash or delivery of goods. The ambiguity surrounding the earnings process model has lead to the occurrence of inconsistencies in revenue recognition, with negative effects on comparability. An example of a situation where confusion arises is when a good and a service that are interrelated are sold together. It must then be determined whether there are one or two earnings processes. For these types of situations, the FASB has opted to develop industry-specific guidelines that define when the earnings process is complete. This has lead to US GAAP containing over 100 industry-specific definitions of the earnings process model, some of which are prescribing conflicting solutions (DP, 2008, 1.13). The earnings process model is thus dependent on the specific business model and its characteristics when determining its completion. Although the IASB has not resorted to industry-specific regulations, when issues arise for which IFRS does not offer satisfactory guidance, IFRS-reporting entities tend to turn to US GAAP and its specific guidance (CESR CL DP). Thus, IFRS suffers to a large extent from the same problems with conflicting requirements for similar transactions as US GAAP does (IASB, 2007, §9). Firm A mentioned this as well in relation to the lack of guidance in IAS 18. In certain situations, they have turned to US GAAP industry specific regulations to receive guidance.

Another issue with the earnings process model is that it may lead to accounting treatments that conflict with the definitions of assets and liabilities (IASB, 2007, §10). Through the application of the accrual, matching and realization principles, deferred debits and credits may be recognized in the statement of financial position that do not represent assets or liabilities according to the definitions (Wüstemann & Kierzek, 2005). That is because they do not represent resources or obligations. For example, under IAS 18, if an entity make a sale of goods for which related expenses cannot be measured reliably, any consideration received from the customer must be recognized as a liability, or deferred revenue (IAS 18.19). However, this does not represent an obligation towards the customer. In fact, the earnings process model is more focused on measuring revenue and expenses directly and treating assets and liabilities as residuals of the matching process. In IAS 18 revenue is defined as the residual of increases in assets or decreases liabilities (that is, "increases in equity") (IAS 18.7). Yet, the recognition criteria of IAS 18 prescribe a different treatment. There is thus an inconsistency between how revenue is defined, and how revenue is recognized and measured. This conflicts with the asset-liability approach prescribed by the IASB's Conceptual Framework. In the DP, the Boards argued that a focus on assets and liabilities lead to more consistent practice as there is more agreement on whether an asset has increased or a liability has decreased than on when an earnings process is completed (DP, 2008, 1.19).

6.1.3 Problems with Risks and Rewards

The concept of risks and rewards of ownership, one of the recognition criteria of IAS 18 in the case of sale of goods, has been problematized by the Boards in the DP for various reasons. Firstly, a focus on risks and rewards may sometimes lead to an entity not recognizing revenue and continue to recognize a good as inventory, even after the customer has received the good and obtained control over it (DP, 2008, 1.10). This may happen, for instance "[...] if the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions" in accordance with §16(a). However, recognizing the good as an asset in the entity's accounts does not meet the definition of an asset in the Conceptual Framework as the entity no longer controls the good. Thus, there is a conflict with both the asset-liability view as well as the qualitative characteristic of faithful representation.

Secondly, the application of risks and rewards may also conflict with faithful representation in cases where goods and services are bundled. Entities often recognize all of the revenue when the good is delivered to the customer, ignoring that they may have remaining obligations to fulfill towards the customer, such as warranties or installation services (DP, 2008, 1.11). This fails to reflect the whole substance of the transaction. Situations when refund or return rights are granted to the customer are further examples of when applying the concept of risks and rewards is complex. While the rewards associated with the good are transferred to the customer, the risks are shared by the customer and the entity until the right to return has expired (DP, 2008, 4.11-4.16). Thus, it may lead to some entities recognizing revenue at the time of delivery of the good to the customer, while others defer revenue recognition until expiration of the right. With no clear understanding of when risks and rewards are transferred, inconsistencies arise in practice due to differing interpretations of the concept, which reduces comparability. PwC and Nokia, among others, addressed risk and rewards in their comment letters to DP. Nokia stated "We believe that the transfer of control approach generally results in more representationally faithful outcomes than the risks and rewards of ownership approach", and that it is better aligned with the Conceptual Framework.

6.1.4 Inconsistencies across Current Standards

Current revenue recognition requirements sometimes demand entities to make a decision about whether to apply IAS 11 or IAS 18. The decision may be difficult and becomes problematic for entities with construction contracts, as little guidance concerning which to apply is offered within the standards. It may seem straightforward as IAS 11 only deals with construction contracts, but there are situations when the decision becomes more complicated. For example, real estate construction contracts may fall

either under IAS 11 or IAS 18, depending on the specifics of the contract and the situation. It can either be seen as a construction contract, rendering of construction services or delivery of a completed construction. To provide clarifications on which standard to apply in specific circumstances, IFRIC 15 was issued. However, the decision remains a complex task. The review of several comment letters show that there is a strong support for a single revenue recognition principle which will eliminate the issues related to the decision between IAS 11 and IAS 18 (Alcatel Lucent CL DP; Balfour Beatty CL DP; CESR CL DP; Cisco CL DP; Fujitsu CL DP; IOSCO CL DP; Nokia CL DP; PwC CL DP; Deloitte CL ED1; Norwegian Accounting Standards Board CL ED1). While the IASB themselves has not explicitly stated this as a reason for why a single new revenue recognition was developed, it is evident that there are issues connected to having two separate revenue recognition standards that could be resolved by having one standard for all contracts with customers.

IAS 11 and IAS 18 are furthermore based on two different underlying models (DP, 2008, 1.16). When applying IAS 11, revenue is recognized primarily based on the percentage of completion method and thus revenue is linked to the activities performed. In other words, the activities performed by the entity drive the recognition of revenue, and an assessment of transfer of control and the risks and rewards of ownership is not required to be made. Under IAS 18, on the other hand, the transfer of risk and rewards is the primary criteria determining the timing of revenue.

6.1.5 Lack of Disclosures

The lack of disclosures required by the current standards is an area that the IASB identified to be a weakness. They state in the Basis for Conclusions for ED1 that “some of the main criticisms by regulators and users of existing revenue disclosures are that the disclosures are inadequate and lack cohesion with the disclosure of other items in the financial statement” (ED1, 2010, BC167). In the Project Summary of IFRS 15, the IASB further stated that the lack of disclosures has resulted in a reduced understandability for users of the judgments and estimates made in relation to reporting of revenue (IASB, 2014b).

When deliberating what disclosure requirements to include in the new Standard, the Boards consulted various groups representing the views of both users and preparers; the Capital Markets Advisory Committee (previously Analyst Representative Group), the Corporate Reporting Users Forum, the Investor Advisory Committee, members of the joint Analyst Representative Group and Global Preparers Forum (IASB & FASB, 2009b). These groups addressed the issue of materiality. Issues arise both if a

standard requires the inclusion of immaterial information, which makes the financial statement unnecessarily cluttered; and conversely, if a standard does not specifically require disclosures of material information, which lead to an omission of such information. Materiality is contained in the Conceptual Framework as a part of the qualitative characteristic relevance, and it is therefore an important aspect to consider regarding disclosure requirements. Several comment letters are in favor of the increased disclosures requirements as well (Norwegian Accounting Standards Board CL ED1; IOSCO CL ED1; Deloitte CL ED1; CESR CL ED1; SFAF CL DP).

Important to note is the polarized positions of users and preparers towards this subject. Throughout the development of IFRS 15 and the various hearing rounds, users tend to agree with the IASB that there is a lack of disclosures in the current standards and support the increased requirements of the new standard; while preparers are opposed to increasing the disclosure requirements, arguing they are "excessive, overly prescriptive, and would require disclosure of information that is not needed by management in the running of the business and, therefore, of questionable benefit to investors" (IASB, 2014b, p. 19). The responses from the interviewed firms painted a similar picture regarding the upcoming increased disclosure requirements, stating that the new disclosure requirements most likely will be one of the largest challenges with the implementation.

6.2 How does IFRS 15 Harmonize with the IASB's Conceptual Framework Compared to Current Revenue Recognition Requirements?

In order to answer the main research question, this section will assess the accounting changes between IFRS 15 and current revenue recognition requirements in IAS 18 and IAS 11, as presented in Chapter 5, with respect to the IASB's Conceptual Framework. This will provide a basis to discuss and determine whether IFRS 15 will lead to a higher accounting quality in terms of the qualitative characteristics; that is, if it will lead to a greater decision-usefulness of financial reporting to the primary users. The accounting changes will be analyzed with support from examples obtained from interviews as well as from the comment letters submitted throughout the development process of IFRS 15. When no specific examples were found, the accounting change is assessed in a more general manner.

6.2.1 Scope

The change in scope between current revenue recognition requirements and IFRS 15 is centered on the unit of account. Current standards prescribe different criteria and methods for revenue recognition depending on the type of transaction, while IFRS 15 only focuses on the contract with a customer. Additionally, two standards and several related interpretations will be replaced with one. All of the case companies said that this will be beneficial. In their view, it will be easier to deal with a single standard as the same rules apply to all types of transactions. For example, Firm E said:

"[...] I see it as an advantage of having one standard, you don't need to switch from one standard to another and be uncertain of whether everything has been covered. So that's a good thing, that you have everything in one place."

Furthermore, IFRS 15 introduces a five-step model common for all types of contracts. In this sense, IFRS 15 has the potential to increase general consistency in revenue recognition, as all firms will follow the same model. Consistency in financial reporting was highlighted in all of the interviews with the analysts, which indicates its importance for their work. As stated in the Conceptual Framework, consistency is not a goal in itself, but it is an important part of the process of achieving comparability across time within a single entity and across entities (CF, 2010, QC22). As such, by improving the level of consistency, the comparability among firms may improve as well. However, there are also parties that are apprehensive of having a single revenue recognition standard. Analyst 5 acknowledged that a single standard in theory is a good idea, but that there needs to be some leeway in it to account for anomalies that may arise in certain sectors. Analyst 1 questioned the feasibility of having a single standard due to the vast number of business models that exist today. This indicates that a single standard may not faithfully depict revenue equally well in all in industries.

The introduction of the five-step model can also have a positive effect on understandability and verifiability. By knowing that there is a comprehensive model with more guidance underlying the revenue figure, there will be less confusion about and more faith in how revenue is recognized. Analyst 6 expressed this in his interview by saying that understandability may increase due to the knowledge that entities will have decreased freedom in their revenue recognition, and that they have to follow a model that to the majority seems logical. Moreover, the steps taken by entities in the process of revenue recognition will be easier to trace, thus it may become easier for users to verify reported revenue.

6.2.2 Step 1 – Identification of the Contract(s) with a Customer

As the first step in IFRS 15, entities need to identify the contracts with customers in order for any revenue to be recognized. This differs from current standards, in which the existence of a contract with a customer is not an explicit necessity for revenue to arise. In order to establish the existence of a contract with a customer the five criteria of §9 are evaluated.

One of the criteria for a contract to exist in IFRS 15 relates to collectability: it must be "[...] probable that the entity will collect the consideration to which it will be entitled [...]" (IFRS 15.9(e)). This is consistent with one of the recognition criteria in the existing standards; "it is probable that the economic benefits associated with the transaction will flow to the entity" (IAS 18.14(d); IAS 18.20(b); IAS 11.23(b) & IAS 11.24(a)). However, the difference is that while the criterion is often applied to the entire stated contractual price under current practice, it can be applied to only a part of contract price under IFRS 15. That is because the consideration may be variable if the entity intends to offer a price concession to the customer. If that is the case, the entity also considers the regulation under Step 3 regarding variable consideration. The effect is that revenue may be recognized earlier than under current practice if there is only a part of the contract price that is at risk. In the light of the qualitative characteristics, this will improve the faithful representation of revenue because it will reflect the actual amount that the entity expects to receive. Under current practice, entities may need to conclude that the contract price does not meet the collectability criterion, although the entire contract price is not uncollectable, and therefore defer revenue recognition. Additionally, allowing entities to apply the collectability criterion to parts of the contract price enables them to account for the part of the consideration that is more or less certain sooner. Thus, it will also lead to a more timely recognition of revenue.

The collectability criterion may, however, undermine the criterion that contracts shall have a commercial substance in §9(d) if entities are allowed to account for contracts for which they expect to collect only a limited amount of the contract price. On the other hand, it must be said that entities most often are reluctant to enter into contracts where they do not expect to collect the majority of the stated price. The assessment of commercial substance and collectability may, however, require significant judgment, allowing for inconsistencies among firms. Inconsistencies may in turn lead to reduced comparability.

Derived from the interviews with the case companies, no major accounting implications are expected in practice in relation to identification of contracts. All of the case companies stated that contracts already are an underlying factor of any transaction between them and their customers, and a majority of these are written in some form, which simplifies the identification of contracts. The five criteria for a contract to exist do furthermore not seem to result in any changes from current practice for the case companies. This suggest that either it is too early for the firms to have identified cases which will be affected after implementation, or that the process of identifying contracts is consistent with their current practice.

Combination of Contracts

The criteria for combining contracts in IFRS 15 are fairly similar to the ones presented in IAS 11 (IAS 11.9). IFRS 15, however, differs in the way that the second criteria makes a more explicit reference to price interdependence, and that the last criteria states that the goods or services promised in the contracts must be a single performance obligation in order for the contracts to be treated as one (IFRS 15.17(b)-(c)). The guidance related to identification of performance obligations is new to current practice, and relates to which goods or services promised in a contract are distinct. This will be dealt with in greater detail under Step 2 of the model. Firm C said that they will be more challenged on which contracts can be combined under IFRS 15, because current regulation allows greater leeway on this matter. Currently most contracts that relate to the same project are combined and accounted for together. However, under IFRS 15 they may have to treat some contracts separately or formulate the contracts in such a way that combining them is warranted. The essential idea of combining contracts is to ensure that the treatment of similar transactions, for the same customer and with the same economic substance, is treated consistently and revenue is recognized at the same time. This will result in a more faithful representation, as it will ensure that the substance of the arrangement is accounted for, rather than the mere contractual terms and conditions.

IAS 18 provides little guidance on how to combine contracts. It only prescribes that "[...] the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole" (IAS 18.13). This leaves preparers with much freedom with respect to which transactions or contracts to combine. IFRS 15 may therefore lead to a more consistent practice, with a potential positive effect on comparability.

Contract Modifications

Parties in a contract may frequently agree to make changes or modifications in an existing contract so that the scope and/or the price of the contract are changed. The issue in accounting for such contract modifications is whether they should be treated as separate contracts. That is, if a modification give rise to new enforceable rights and obligations, distinguishable from the rights and obligations in the original contract. Under IFRS 15 that occurs if the scope of the contract increases to the extent that the additional promised goods or services are distinct, *and* if the price of the contract increases by an amount that reflects the entity's stand-alone selling prices of the additional goods or services (IFRS 15.20). The first criterion is consistent with the new guidance on contract modifications that the Exposure Draft to the revised Conceptual Framework is proposing to include.

IAS 11 provides explicit guidance with respect to contract variations, but the issue here is not whether they should be treated as separate contracts, but whether they should be included in contract revenue (IAS 11.13). Thus, it is implicit that variations belong to the original contract. Under IFRS 15, entities will be more challenged on this. Firm C, for example, explained that they currently account for most change orders together with the existing contract by updating the percentage of completion calculation accordingly. However, under IFRS 15 it may be that they will have to account for some change orders as separate contracts, which will change the pattern of revenue recognition. For example, if change orders are completed before the original project, revenue arising from the change order will be recognized sooner rather than being subjected to the percentage of completion of the original project. By acknowledging that such changes give rise to new enforceable rights and obligations, distinct from the original contract, it will provide a more faithful representation of when revenue actually is earned. It will also lead to a more timely recognition of revenue, as modifications that are distinct are not subjected to the same percentage of completion as the existing project.

IFRS 15 also states that modifications need to be approved by the parties in the contract before they can be accounted for (IFRS 15.18). This differs from current guidance in IAS 11, which states that it must be probable that the customer will approve it (IAS 11.13(a)). IFRS 15, thus, introduces a higher threshold for accounting for contract modifications, which may be appreciated by users of financial statements. For example, Analyst 3 said that they often detect aggressive revenue recognition through the recognition of margins on contracts. When change orders are received, entities may judge that they will be compensated for the increased costs by the customer, so they continue to recognize a margin on the contract even though they have absorbed higher costs. However, disputes regarding the increased costs may arise with the customer, and occasionally the customer wins the argument so that the entity

needs to cover the costs itself. In such cases, the margin recognized will not be reflective of the costs incurred and the entity must reverse part of the profit recognition. By requiring that contract modifications are approved before being accounted for, IFRS 15 can avoid that such situations arise. Consequently, IFRS 15 can be said to be more prudent on this matter.

When it comes to IAS 18, the standard contains no specific guidance with respect to contract modifications. Thus, practice can be expected to become more consistent under IFRS 15, which may lead to higher comparability across entities.

6.2.3 Step 2 – Identification of Performance Obligations in the Contract

The second step in the model concerns the identification of separate performance obligations within a contract. A separate performance obligation consists of goods and services that are distinct, and IFRS 15 introduces criteria for how to establish this distinctiveness. These are that the customer is able to benefit from a good or service on its own or together with readily available resources, *and* the promise to transfer that good or service to the customer is separately identifiable from other promises in the contract (IFRS 15.27). This represents a significant change from current revenue recognition requirements, which contains little guidance on how to unbundle contracts into its different components. As explained in Section 6.1.1, this has lead to varying practice with respect to multi-element transactions.

Revenue related to distinct goods or services is recognized when those goods or services have been transferred to the customer. This provides a more faithful representation of revenue generation as the goods or services provide value to the customer on its own. Additionally, it will lead to a more timely recognition of revenue, if revenue currently is deferred until the last element is transferred. Thus, IFRS 15 is likely to increase decision-usefulness to users when it comes to many bundles of goods and services. This is supported by Analyst 6, who said that IFRS 15 will have a positive effect on the depiction of entities' revenue pattern arising from bundled goods and services:

"My impression is that it will give a better picture of revenue development. By dividing a combined product and service sale into its main components, it will give a better picture of, how do I put this, the activity in the firm."

In the case where goods and services promised in a contract are not distinct from each other, revenue needs to be deferred until the entire performance obligation is satisfied. This will provide a more faithful representation of revenue earned because the delivery of the first of the elements cannot provide value to the customer until the last of the elements is transferred. Firm B gave an example of this, in which they will have to change their revenue recognition. A contract to deliver a video conference room consists of two elements; delivery of equipment and delivery of services to install the equipment. Currently, they view these two as separately identifiable components, and they recognize revenue for the equipment when it is delivered to the customer and revenue for the installation services over time as they are performed. Under IFRS 15, however, they will have to see these two elements as one performance obligation as the customer cannot benefit from the video conference room until the equipment is fully installed. The change in revenue recognition is illustrated in the example below:

Example 1: Step 2 - Identification of performance obligations in a contract

Example of change in revenue recognition from IAS 18 to IFRS 15 due to the new criteria for identifying separate performance obligations

On March 14th, an entity enters into a contract with a customer regarding providing a video conference room. The contract is as follows:

Video equipment	10.000
Software license installation	5.000
Installation of equipment	7.000
Total contract price	**22.000**

The video equipment is delivered on March 25th.

<u>Revenue recognition under IAS 18</u>

The revenue for the video equipment is recognized when delivered according to the criterion that the significant risks and rewards of ownership of the equipment have been transferred to the customer at the time of delivery (IAS 18.14(a)).

Revenue recognized on March 25th:

Video equipment	10.000

The software license installation is provided and installation of equipment is performed during 10 days; March 28th-April 8th. On March 31st, the entity must assess the percentage of completion of the services according to §21 of IAS 18. The entity assesses that 40% of the services is completed at the end of the month according to §24(b) of IAS 18, and thus recognizes 40% of the service revenue.

Revenue recognized on March 31st:

Software license installation	5.000
Installation of equipment	7.000
In total	**12.000**
Revenue recognized	4.800

The stage of completion will be reassessed at the next end-of-month, and the remaining revenue will then be recognized provided that the service is completed.

Total revenue recognized on March 31st:

Video equipment	10.000
Services provided to date	4.800
In total	**14.800**

Revenue recognition under IFRS 15

After evaluating the criteria regarding distinct goods and services provided in §27, the entity concludes that the video equipment can no longer be seen as a distinct good. It needs to be bundled with the installation services as one performance obligation to fulfill the distinct criteria. Furthermore, the revenue for the entire contract is recognized over time according to §35(b) and (c).

The software license installation is provided and installation of equipment is performed during 10 days; March 28th-April 8th. On March 31st, the entity must assess the progress towards complete satisfaction of the performance obligation to be 40% based on time elapsed (an output method described in §B15 of the Application Guidance in Appendix B of IFRS 15), and 40% of the revenue is thus recognized.

Revenue recognized on March 31st:

Video equipment	10.000
Software license installation	5.000
Installation of equipment	7.000
In total	**22.000**
Revenue recognized	8.800

The progress towards complete satisfaction of the performance obligation will be reassessed at the next end-of-month, and the remaining revenue will then be recognized provided that the performance obligation is completed.

Revenue recognized on March 31st under the respective standards

IAS 18	IFRS 15	Difference
14.800	8.800	6.000

Due to the new regulation on identifying separate performance obligations, the entire contractual price for the video conference room is recognized over time as the service is performed. This means that less revenue is recognized by the end of the month. The representation is more faithful by taking into account that the company has remaining obligations to fulfill towards the customer. It can also be said to be more prudent.

The new regulation can also mitigate some forms of earnings management, which lead to more neutrality and thus a more faithful representation. As IAS 18 allows revenue to be recognized when goods are delivered, when risks and rewards are transferred to the customer, it presents an opportunity for entities to boost revenue and earnings by scheduling deliveries of goods, without actually having fulfilled all contractual obligations in the contract. Vice versa, as pointed out by Analyst 6, entities that want to save revenue to later periods can bundle goods and services into yet a contract that extends over a longer period of time to be able to defer revenue recognition. IFRS 15 can limit these abuses by introducing stricter regulation for how to identify separate performance obligations.

IFRS 15 may also result in improved comparability due to stricter regulation on this matter. Furthermore, the concept of distinct also applies in several specific arrangements for which the Application Guidance in Appendix B of the Standard provides separate guidance. For example, very limited guidance exists in current standards with regards to distinguishing between customer options and marketing offers, how to account for licenses, how to distinguish between assurance-type and service-type warranties and whether non-refundable upfront fees relate to the transfer of goods or services. By providing specific guidance for when to account for such arrangements as separate performance obligations, IFRS 15 will restrict preparers' discretion in how to account for them and consequently further improve comparability across entities.

The introduction of new concepts such as distinct goods and services can, however, also result in an increased need for management judgment. This was highlighted by the respondents from Firm C and Firm E, who believes that, despite more regulation, it will still require a great deal of judgment when determining if a good or service is distinct, and that the concept may be interpreted differently across entities. There may also be a possibility of exploiting the concept, as expressed by the respondent from Firm C: "[...] I think that some will use it to, sort of, turn it to their own advantage, and get it [unbundling] like they want to have it." This will undermine the positive effects on comparability presented above.

6.2.4 Step 3 – Determination of the Transaction Price

The third step deals with measurement of the transaction price of the contract. The transaction price is "[...] the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer [...]" (IFRS 15.47). This implies a historical cost measurement. IAS 18 and IAS 11 prescribe fair value measurement (IAS 18.9; IAS 11.12). Fair value is a market-based measure that reflects the perspective of market participants (ED CF, 2015, 6.22). It can therefore be viewed as a more objective measure. In addition, fair value bases often have higher predictive value and are more in line with the asset-liability approach. However, a problem with fair value measurement is that usually no market prices for customer contracts exist (Wagenhofer, 2014). Thus, they need to be estimated which leaves them prone to error and subjective judgment. Measurement based on customer consideration is less complex and more verifiable. Some also argue that it gives a more faithful representation of entities' own specific future costs and expectations of reward than market-based measures (IASB, 2008a). Despite these theoretical differences, the change in measurement approach will likely not result in any significant changes in practice.

Estimating Variable Consideration and Constraining the Estimates of Variable Consideration

A difference from current revenue recognition requirements is that IFRS 15 requires that variable consideration is estimated upfront (IFRS 15.50). Additionally, it introduces a new way of assessing whether estimates of variable consideration can be included in the transaction price. Estimates of variable consideration can only be included in the transaction price after being subjected to the constraint of variable consideration, which is to the extent that it is highly probable that accumulated revenue recognized will not be significantly reversed (IFRS 15.56). Under current revenue recognition standards, variable consideration is included in revenue when it can be reliably measured and it is probable that the economic benefits will flow to the entity. IAS 18 adds that the latter may not be the case until consideration is received or until uncertainty is removed (IAS 18.18). Thus, some entities today might not recognize any revenue at all before this occurs, or leave variable consideration out of the accounting until the recognition criteria are satisfied. Those entities may now be required to recognize a minimum amount or include estimations of variable consideration earlier as long as it is warranted by the constraint. This is illustrated in the following example:

Example 2: Step 3 - Determination of the transaction price

Example of determination of the transaction price

An entity is considering entering into a contract to sell an industrial generator to a newly started manufacturing company for a promised consideration of CU50 000. The entity acknowledges that the customer is in the startup phase and thus may have limited liquidity. However, it expects that the company will grow rapidly in the next two years and hopes that this initial sale will result in continued business. Consequently, it accepts the contract with the customer, but does not expect that the full amount of promised consideration is collectable.

Under IAS 18, collectability is assessed for the entire contractual amount. Thus, the entity may come to the conclusion that no revenue can be recognized until the outcome is certain, which may be when consideration is received. Under IFRS 15, when assessing whether the collectability criterion in §9(e) is met the entity simultaneously considers Step 3 of the five-step model of determining the transaction price. Based on §52(b), the entity decides that it expects to offer a price concession to the customer. Thus, the promised consideration includes a variable component that needs to be estimated. After applying one of the specified estimation methods prescribed by IFRS 15 in §53, the entity expects to be entitled to CU20 000 of the promised consideration. When assessing the CU20 000 against the collectability criterion, it determines that it is highly probable it will collect that amount. Subsequently, the entity recognizes CU20 000 in revenue when the control of the industrial generator is transferred to the customer.

On a general note, the fact that entities will be required to estimate variable consideration upfront and include it in the transaction price means that such conditions are taken into consideration earlier than under current requirements. This can be said to be in line with the qualitative characteristics of relevance and faithful representation, as depicting the true size of the amount to which an entity is entitled is of great value to users of financial statements as revenue is an important input into their decisions models. The fact that the amount of consideration may be higher or lower than the one explicitly stated in the contractual arrangement, is of relevance to users when making predictions about future revenue levels. IFRS 15 emphasizes this information need by dictating that entities need to consider their customary business practices, published policies or specific statements as well as other facts and circumstances when determining if a variable component exists that needs to be estimated (IFRS 15.52). This ensures that all relevant information is taken into account when determining the

transaction price. It means that a complete assessment of variability is performed and that the substance of the arrangement is considered, rather than the mere form of the contractual arrangement.

The constraint on the estimates serves an important function in maintaining relevance as well as ensuring neutrality. Estimations naturally include a level of measurement uncertainty, which may adversely affect relevance. However, the fact that estimations need to be within the constraint will ensure that the level of uncertainty does not negatively affect relevance. Furthermore, the Conceptual Framework says that a neutral depiction is not "[...] manipulated to increase probability that financial information will be received favorably or unfavorably by users" (CF, 2010, QC14). Without the constraint, there would be a risk of entities including variable consideration that increases the transaction price to show a more favorable picture of their revenue. The constraint limits over-recognition of revenue when uncertainty is present and limits reversals of revenue. Thus, it can also be said that it contains an element of prudence. Two of the case companies expressed appreciation for the inclusion of the constraint, which emphasizes its importance in maintaining a neutral depiction of revenue. For example, one of them said:

"[...] and then you have to assess all of these [estimates] against the constraint, which I think is great, that this exists, otherwise one can spin off into some sort of guessing game. If you look at the first draft of IFRS 15, there were quite many estimations, which feels pretty scary."

With respect to comparability, one can argue that consistency in the treatment of variable consideration may improve under IFRS 15 as current standards provide limited guidance in this area. Currently, the extent to which such amounts are included in revenue largely depends on entities' judgment of their ability to reliably measure variable consideration, which may differ across entities. This is supported by one of the respondents who said that determining the transaction price may be easier than currently due to the firmer regulations in IFRS 15. On the other hand, the process of estimating variable consideration and applying the constraint will require judgment. Despite that IFRS 15 specifies which methods to apply, judgment is required to determine the probability of outcomes. Furthermore, the Standard does not specify when a significant revenue reversal is to be judged as highly probable, but rather includes a list of factors that can be considered (IFRS 15.57). Consequently, it may be that entities that currently defer accounting for variable consideration because they conclude that they are unable to measure it reliably, can come to the same conclusion under IFRS 15 after having considered the constraint. This can be supported with findings from the interviews with the case companies; none of them anticipates that the practice of determining the transaction price will change or be a great challenge under IFRS 15.

Significant Financing Component

The main difference between IFRS 15 and current revenue standards on this matter is that IFRS 15 requires that promised consideration is adjusted for the time value of money only when a financing component is significant (IFRS 15.60). This may impair faithful representation of revenue generated from contracts where financing components exist but are insignificant, as the effects of the financing (interest revenue or interest expense) will not be included in revenue recognized. On the other hand, small financing effects may not be relevant to users in the big picture. This is consistent with the materiality argument of relevance in the Conceptual Framework. It also eases the burden for preparers in the processes of on-going accounting and preparing financial statements. Many of the respondents, including users, agreed with this requirement in their comment letter to ED2 (IASB & FASB, 2012). CESR, representing the user perspective, wrote the following in its comment letter to ED1:

"But in many cases the time difference between sale and payment is such that the interest income that would be deferred is not material. CESR believes that when the interest income is material the entity should adjust the amount of promised consideration in order to provide relevant information to users."

IFRS 15 further includes a practical expedient in §63, which states that accounting for a financing component is optional when the financing period is less than a year. This may not only hurt faithful representation, but also make financial information less relevant by allowing entities to omit information that otherwise could have affected users' decisions. It may be that even though the time period between the payment and the transfer of a good or service to the customer is less than one year, a significant financing component exists, and vice versa. What is interesting to note is that the Boards initially did not intend to include the practical expedient precisely for this reason, but rather require entities to assess whether a significant financing component exist (ED1, 2010, BC105). The Boards later added the practical expedient in ED2, presumably to ease the burden for preparers. In the feedback to ED2, the Boards received mixed response (IASB & FASB, 2012). Preparers naturally supported the practical expedient, but other constituent groups (standard setters and professional bodies) argued that the practical expedient is arbitrary.

Furthermore, determining if a financing component is significant may require judgment. In the feedback to ED2, many respondents requested more specific guidance on the matter because they felt the proposals were not detailed enough. The requirements have been amended slightly since ED2; for example, §62 of IFRS 15 has been added, which tells entities when a significant financing component does not exist. However, as pointed out by audit companies significant judgment is still likely to be

required (EY, 2014; PwC, 2015). Moreover, several respondents to ED2 raised concerns regarding the complexities that would arise when accounting for a significant financing component in long-term contracts, contracts with variable consideration and contracts with several performance obligations where goods or services are transferred and payment received at various points in time throughout the contract period (IASB & FASB, 2012). IFRS 15 is not clear on how accounting for financing components will interact with these conditions. With a potential for increased significant judgment and complexity, there is a risk that different accounting solutions and interpretations are applied in practice, which may hurt comparability.

6.2.5 Step 4 – Allocation of the Transaction Price to the Performance Obligations in the Contract

After determining the transaction price, an entity must allocate the transaction price to each performance obligation identified in Step 2. Allocation to each performance obligation shall occur "[...] in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer" (IFRS 15.73). In order to achieve this, the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling prices of the goods and services underlying those performance obligations (IFRS 15.74).

Allocation of the transaction price to separate performance obligations on a relative standalone selling price basis is a new requirement and will represent a change in practice for entities that currently apply other allocation methodologies or that make no attempt of estimating standalone selling prices. IAS 18 contains no specific guidance on how to allocate consideration received or receivable to different components of a transaction, so practice today may vary. IFRS 15 introduces one common allocation methodology with more specific guidance, and can therefore lead to a more consistent practice among entities. This can lead to increased comparability, as well as understandability as the rationale behind the allocation is better known. However, as allocation will be based on the identification of performance obligations, the extent to which comparability will be improved will also depend on entities identifying separate performance obligations consistently. Furthermore, consistent allocation across entities will also depend on the standalone selling prices used. IFRS 15 prescribes that the standalone selling price is the price an entity would sell a good or service for separately (IFRS 15.77). This may differ from entity to entity. Additionally, comparability may also suffer when entities have to estimate standalone selling prices, which will be dealt with in the next subsection.

Allocation of the transaction price to the separate performance obligations is important because it is the allocated amounts that subsequently are recognized as revenue when (or as) the performance obligations are satisfied. Whether the relative standalone selling price allocation methodology is the best to depict this can be discussed. In principle, it is a reasonable method because each performance obligation is weighted with a portion relative to what the underlying goods and services would sell for separately by the entity. Thus, it is reflective of the entity's costs and margin required to satisfy each performance obligation, which provides a faithful representation of value generated. When the allocation methodology first was proposed in the DP and submitted for hearing, a majority of the respondents in comment letters agreed with the proposal in principle (IASB & FASB, 2009a). However, throughout the development process, both preparers and users in the telecom sector expressed great resistance towards the methodology and argued for its adverse effects on revenue recognition within the industry (Verizon CL DP; Vodafone CL DP; Deutsche Telekom CL DP; Vodafone CL ED1; AT&T, Sprint & Verizon CL ED2; Deutsche Telekom CL ED2; Telecom companies in group CL ED2).

Regarding telecom entities, the basis for allocation will change for contracts containing handsets subsidized by subscription on network services. These two components are viewed as two separate performance obligations according to IFRS 15 because they are both capable of providing benefit on their own, and they are separately identifiable from each other within the contract. Currently, the basis for allocation of the transaction price between the handset and the subscription that almost all telecom entities apply is referred to as "contingent cap", which implies that the amount of the transaction price allocated to the handset is limited to the amount that is not contingent on the entity's fulfillment of the remaining performance obligations in the contract (IASB & FASB, 2012). This means that when an entity transfers the handset to the customer, it recognizes the amount that the customer pays for that handset as revenue at contract inception. The subscription revenue is recognized monthly after the network services have been provided. Thus, revenue recognition follows the customer billings. Example 3 below illustrates the change in revenue recognition for such arrangements due to the new allocation methodology.

Example 3: Step 4 - Allocation of the transaction price to performance obligations in a contract

Example of change in recognition of revenue from handsets bundled with subscription for network services due to the new allocation methodology of IFRS 15

A telecom entity offers two different contracts for the sale of handsets with subscription on network services to its customers. Both contracts are offered under the subsidy model in which the customers pay for the handset at a reduced price in return for commitment to a 24-month subscription. Below is the price information for the two contracts:

Contract 1		**Contract 2**	
Price for Handset 1 in contract:	0	Price for Handset 2 in contract:	500
Standalone selling price for handset:	2.000	Standalone selling price for handset:	7.000
Monthly subscription fee:	200	Monthly subscription fee:	200
Standalone selling price for subscription fee:	200	Standalone selling price for subscription fee:	200
Total transaction price:	4.800	Total transaction price:	5.300

In April 20x6, Customer A enters into Contract 1 and Customer B enters into Contract 2. The table below shows the differences in allocation methodology between the entity's current practice and under IFRS 15. For simplicity, there are no forms of variable consideration or sales incentives, and the time value of money is not been considered.

Allocation of the transaction price	**Contract 1, Customer A**		**Contract 1, Customer B**	
	Current practice	IFRS 15	Current practice	IFRS 15
Handset revenue	0	1.412	500	3.144
Subscription revenue	4.800	3.388	4.800	2.156
Total revenue	4.800	4.800	5.300	5.300

Calculations of allocations under IFRS 15:

- Handset revenue from Contract 1: $\frac{2000}{4800+2000} \times 4800 \approx 1412$
- Subscription revenue from Contract 1: $\frac{4800}{4800+2000} \times 4800 \approx 3388$

- Handset revenue from Contract 2: $\frac{7000}{4800+7000} \times 5300 \approx 3144$
- Subscription revenue from Contract 2: $\frac{4800}{4800+2000} \times 5300 \approx 2156$

The following table shows the differences between current practice and IFRS 15 in the amounts of revenue recognized for the two contracts in the two years for which the contracts are valid:

Allocation of revenue recognized at year end	**Contract 1, Customer A**		**Contract 1, Customer B**	
	Current practice	IFRS 15	Current practice	IFRS 15
Year 1	2.400	3.106	2.900	4.222
Year 2	2.400	1.694	2.400	1.078
Total revenue	4.800	4.800	5.300	5.300

As can be seen in the example, the effects of the new allocation methodology will result in telecom entities recognizing more revenue upfront. The sale of the handset is weighted with a portion of the transaction price that is equal to the portion of what the handset's standalone selling price constitutes of the sum of all of the standalone selling prices in the arrangement. For example, in the case of Contract 2 above, the handset is allocated circa 60% (7000/(4800+7000)) of the transaction price due to its relatively high standalone selling price compared to the total price for the 24-month subscription, even though the price for the handset only constitutes circa 9% of the contract price. In one sense, it can be argued that the new allocation methodology provides a more faithful representation of revenue recognized for such arrangements as the handset constitute a material part of the value of the contract, and the customer obtains control of it at contract inception. Furthermore, entities incur a cost of sales when providing the customer with the handset as it has procured the handset from a third-party. Recognizing zero revenue, as in Contract 1, at the transfer of control of the handset to the customer, will thus not give a faithful representation of the transaction as a loss will be recognized upfront for an overall profitable contract. Revenue and profits are thus misstated in each period. This is supported by Firm E, who said that from an accounting perspective, the allocation methodology proposed by IFRS 15 is more correct than the current contingent cap method, and confirmed that it will reflect the company's revenue streams better:

"Yes, definitively, so that's a positive thing, because what you deliver of products and services is what you actually get in revenue. Because, when one has sold a telephone and it is in the customer's possession, the risk is not on us any more. Then, that is revenue that we should and must recognize, which we don't really do today."

The respondent further indicated that the new allocation methodology will result in a better distinction between handset revenue and subscription revenue, as part of the handset revenue is recognized together with subscription revenue today.

However, faithful representation may also depend on different stakeholders' views of how value is created in companies. From the interviews with analysts and review of comment letters from the telecom sector, it became clear that the subscription services are regarded as the true value driver in telecom entities. According to Analyst 4, the subscription revenue, something he referred to as the "hard revenue" is of greatest relevance in his work as it is there the greatest margins lie. Consequently, a high sale of handsets in a given quarter is not as relevant for assessing the growth and profitability of telecom entities. In this view, one can question whether the new allocation methodology will provide a faithful representation of recognized revenue, as well as the relevance of the new revenue figure for users, as revenue will be higher in periods with high handset sales. It can also be argued to be less prudent, as part of the handset is paid for by the customer through subsequent subscription fees, which is contingent on entities providing those services. Analyst 5 was very discontent with the new allocation methodology due to EBITDA margins becoming overstated at the time of the transfer of handsets to customers. He indicated that this is not reflective of the "massive" upfront costs of selling handsets due to provision of handsets subsidies or dealer commissions. Rather, EBITDA margins should be dilutive and be caught up by the higher margined subscription revenue:

"You see situations when companies bring on millions of subscribers and their EBITDA margin goes up, which is a bizarre scenario."

Another result of the new allocation methodology is a higher amount of accruals, which results in a greater discrepancy between revenue recognized and cash received. Several of the analysts emphasized the importance of the cash flow for valuing companies, and one of them said that if the new revenue recognition Standard will result in a better alignment between earnings and the cash flow, it would be positive for his line of work. In fact, the way telecom entities allocate the transaction price between the handset and the subscription today is in line with cash-based accounting. Under IFRS 15, the amounts

recognized, as revenue will differ from cash received. Consequently, EBITDA, which is a common proxy for the cash flow, will no longer provide a good reflection of the cash flow generated. This will incur a lower level of relevance, as expressed by Analyst 5:

"In terms of overall understanding in the market, and amongst investors themselves, a lot of people don't really have a full grip of it, so EBITDA itself suddenly becomes less useful, the parts to look at are sort of adjustments to EBITDA and try to fix that. So in terms of analysis, it becomes a lot more difficult, even though it probably makes sense from an accounting point of view, in terms of how we actually look at cash impacts, it is becoming far more opaque."

In conclusion, it can be said that from an accounting perspective, it makes sense to allocate the transaction price on a relative standalone selling price basis. However, the decision usefulness for the primary users may be impaired as revenue and earnings figures will be less reflective of how they view value is generated in telecom entities.

Allocation of Transaction Price to Warranties

According to IFRS 15, service-type warranties represent separate performance obligations (IFRS 15.B29 & 31(c)). Hence, the transaction price needs to be allocated to the warranty based on its relative standalone selling price. Firm A said their current practice will change in cases where they give customers an extended warranty "for free" together with sale of goods. Currently, they do not allocate part of the revenue to the warranty, but rather recognize revenue in full at the time of transfer of the goods to the customers. Under IFRS 15, they have to allocate part of the transaction price to the warranty and recognize it as revenue as the underlying services are provided. This will provide a more faithful representation of revenue recognized as it takes into account the fact that the entity may have remaining obligations to fulfill. It will also be more prudent.

Estimating Standalone Selling Prices

The requirement to estimate standalone selling prices for unobservable prices is a change from current practice. The act of estimation is prone to error, and thus IFRS 15 may introduce a higher level of measurement uncertainty in the reporting of revenue, with a negative effect on relevance. Furthermore, in estimating standalone selling prices, especially for goods and services that are never sold separately or goods and services for which little available information exists, entities will have to apply judgment. This may result in subjective estimates for standalone selling prices, which reduce comparability and making it harder for users to assess revenue trends across entities, as it will largely depend on the

judgment made when estimating standalone selling price. Many of the comment letters reviewed for this thesis support this concern. However, the comparability costs of increased use of judgment for certain hard-to-estimate selling prices may be outweighed by the fact that IFRS 15 introduces one common allocation methodology to be used for all customer contracts in all industries. That may be better, in terms of comparability, than current practice, which provides little guidance on allocating revenue between performance obligations.

One of the comment letters reviewed in relation to DP raised a concern that estimations of standalone selling prices would introduce a speculative element into the financial statements (Fujitsu CL DP). There may be a risk that entities bias their estimates to achieve a favorable allocation of revenue. This would not result in a faithful representation of revenue reported to users, as it would not be a neutral depiction of revenue. Furthermore, as the process may be highly subjective and require significant judgment, it may be hard to verify the standalone selling prices used for allocation of revenue, thus further undermining faithful representation. However, as entities are required to allocate the transaction price in accordance with the allocation objective in paragraph 73 as well as following the requirements for estimating standalone selling prices in paragraph 78, that may restrain entities leeway for manipulating the allocation of revenue.

Allocation of Discounts and Variable Consideration

Under IFRS 15, entities are required to allocate discounts and variable consideration proportionately to each performance obligation in a contract based on the relative standalone selling prices of the goods and services underlying each performance obligation. However, when it is evident that a discount relates to a specific performance obligations in a contract, entities are required to allocate the discount to only those if the criteria in §82 is met. The same methodology is used to allocate an amount of variable consideration that only relates to a specific performance obligation or distinct good or service that form part of a single performance obligation in accordance with §22(b). This is done when the criteria in §85 is met.

Requiring entities to allocate a discount or an amount of variable consideration to only those performance obligations to which they relate will properly reflect the economic substance of the transaction and contribute to make a faithful representation of revenue recognized. This is supported by two of the comment letters reviewed in relation to ED1, which did not include such requirements with respect to allocation of discounts and variable consideration (Deloitte CL ED1; Boeing CL ED1). For example, Deloitte wrote that in situations where high- and low-margin items are combined into a single

profitable contract and a significant discount is granted on the high-margin item, not allocating the entire discount to the high-margin item would result in too little of the discount being allocated to the high-margin item and too much to the low-margin item. This might result in the low-margin item showing a loss.

Changes in the Transaction Price

If a change in the transaction price is caused by a specific performance obligation or distinct good or service promised in a series that form part of a single performance obligation in accordance with §22(b), the allocation will be made in the same manner as allocation of variable consideration described above (15.89). The effect on the decision-usefulness of reported revenue to users will be the same as the argument presented in the previous subsection.

Entities shall not reallocate the transaction price to reflect changes in standalone selling prices after contract inception (IFRS 15.88). This may impair faithful representation of revenue recognized for longer-term contracts if standalone selling prices significantly change during the contract term. The allocated revenue to each performance obligation will then not be based on the most recent information which can impair relevance. On the other hand, it would be fairly resource-consuming for entities to constantly update or re-estimate the standalone selling prices of each performance obligation throughout the contract period, especially for entities with thousands or millions of contracts like telecom entities. It would also lead to frequent adjustments in revenue recognized for satisfied performance obligations. As long as an assessment of standalone selling prices are made at the contract inception of every contract, it may be sufficient to ensure that recent circumstances are taken into account.

6.2.6 Step 5 – Recognition of Revenue when or (as) Performance Obligations are Satisfied

The final step of the model in IFRS 15 relates to when to recognize revenue, which is when, or as, a performance obligation identified in Step 2 is satisfied. The criteria for when to recognize revenue is a change from current revenue standards. Currently, there are several recognition criteria depending on the type of transaction. Two of them are common to all types of transactions: it must be probable that the future economic benefits associated with the transaction will flow to the entity, and the revenue and costs associated with the transaction can be measured reliably (IAS 18.14(c)-(e); IAS 18.20(a)-(b) & (d); IAS 18.29(a)-(b); IAS 11.23(a)-(d); IAS 11.24(a)-(b)). Furthermore, for the sale of goods, the entity must have transferred the significant risks and rewards of ownership of the goods to the customer (IAS

18.14(a)). Under IFRS 15, all of these will be replaced with one recognition criteria: when the customer obtains control over the goods or services underlying a performance obligation (IFRS 15.31). Control is defined as "[...] the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset" as well as "[...] prevent other entities from directing the use of, and obtaining the benefits from, an asset" (IFRS 15.33). Furthermore, entities must determine at contract inception whether performance obligations are satisfied over time or at a point in time, and recognize revenue accordingly (IFRS 15.32).

The current revenue recognition criteria common for all types of transactions are consistent with the recognition criteria of the CF (CF, 2010, 4.38). Thus, in this sense, the change to the concept of control will deviate from the existing Conceptual Framework. However, the Conceptual Framework also dictates that an item must meet the definition of an element in order for it to be recognized. The Conceptual Framework favors an asset-liability approach in which income (including revenue) and expenses arise due to changes in assets and liabilities. As we established in section 6.1, current revenue recognition standards sometimes lead to a revenue recognition that is not derived from changes in assets and liabilities, but rather from an income-expense view. In order to force entities to account for revenue from an asset-liability view, IFRS 15 requires that entities first measure and recognize a contract asset or liability in relation to each customer contract, reflecting the entities' net position in contracts depending on the relationship between the entities' performance under the contract and the customers' payments (IFRS 15.105). Revenue will be recognized when the net contract position changes; either when a contract asset is recognized or increases, or when a contract liability is derecognized or decreases. In this sense, it can be argued that IFRS 15 is more in line with the Conceptual Framework in the way that revenue is recognized from changes in contract assets or contract liabilities recognized in the statement of financial position.

What furthermore can contribute to increased focus on the asset-liability approach is the fact that control is introduced in IFRS 15 to guide when goods or services are transferred to the customer and revenue should be recognized. This is more in line with the Conceptual Framework as an asset is defined as "(...) a resource *controlled* by the entity [...]" (CF, 2010, 4.4). It may therefore become more apparent when an asset is in an entity's possession and when it is in a customer's possession. This will solve one of the weaknesses of IAS 18 with respect to sale of goods and the application of the criterion of risks and rewards, as presented in section 6.1.3. Under IFRS 15, entities are to make an overall assessment of what point in time control over the good has passed to the customer by considering several indicators of transfer of control (IFRS 15.38). Transfer of the significant risks and rewards of ownership represents

only one of these indicators. Furthermore, the Standard explicitly states that when considering the risks and rewards of ownership, entities shall exclude any risks that arise from a separate performance obligation in addition to the performance obligation to transfer the asset, such as an obligation to provide service to rectify unsatisfactory performance of the good (IFRS 15.38(d)).

Having one single trigger for revenue recognition as opposed to several as of now reduces some of the judgment entities need to make when considering all of the specific recognition criteria. The concept of control is more definite than concepts like reliably measurable, probable that economic benefits will flow to the entity and transfer of risks and rewards. This may result in a more consistent practice, which may improve comparability. This was supported by, for example, PwC in its comment letter to DP. On the other hand, the concept of control can be applied in two ways; transfer over time or at a point in time. Deciding between the two may require judgment, and thus the positive effect on comparability of having one single trigger will be diminished. The two ways of transferring control are dealt with separately below.

Satisfaction of Performance Obligations Over time

Entities that currently recognize revenue according to IAS 11 and IAS 18 (rendering of services) will in many cases continue to be able to recognize revenue progressively under IFRS 15, if they already today fulfill the criteria set out it §35. This became evident in the interviews with the case companies, in which it was said that they do not anticipate that they need to change revenue recognition from over time to point in time. For pure services, for instance, §35(a) applies as the customer simultaneously receives and consumes benefits as the entity performs. For construction contracts the two remaining criteria in §35 are considered. For example, Firm C anticipates that revenue from their fixed price contracts related to projects will be recognized over time. In a project of constructing a subsea structure to an oil rig from the customer's specifications, for instance, the company creates an asset that the customer controls as the asset is created in accordance with §35(b). It can also be argued that the asset under construction does not have an alternative use for the subsea company in accordance with §35(c) as the asset is customized to the customer's specifications and cannot be easily redirected to another use without incurring significant costs (IFRS 15.36; IFRS 15.B8). Currently, entities active in the construction of real estate need to consult IFRIC 15 in order to decide whether a construction of real estate is to be seen as a construction contract under IAS 11, a service under IAS 18 or a good under IAS 18. The decision, as mentioned previously, often involves judgment. Under IFRS 15, entities will not have to consider the nature of the construction, but only if it fulfills the criteria for recognition of revenue over time. If not, revenue will be recognized at a point in time.

What may change from current practice is that more care needs to be taken when measuring the stage of completion that determines the amount of revenue to be recognized. Current stage of completion methods is oriented towards measuring the activities required to fulfill the contract. Both IAS 11 and IAS 18 dictate that entities apply a method that reliably measures the work or services performed (IAS 11.30; IAS 18.24). IFRS 15, on the other hand, requires entities to measure the progress that best depicts the transfer of control of the promised goods and services to the customer (IFRS 15.39). This will provide a more faithful representation because the amount of revenue recognized will be reflective of only those resources that were expended in order to satisfy a performance obligation and of the transfer of control of the underlying goods or services to the customer. For example, when using an input method based on costs, entities shall exclude any costs that do not contribute to the progress of satisfying a performance obligation, such as the costs of unexpected amounts of wasted materials or other resources (IFRS 15.B19 (a)). This requirement does not exist in current revenue recognition standards, so it may be that entities currently do not take such careful consideration, and consequently include such costs into the measurement. This overstates revenue in the period such costs incur, which will not reflect the true progress towards complete satisfaction of a performance obligation. IFRS 15 will be more prudent in this respect. Furthermore, the Standard also requires entities to make adjustments in cost-based measures of progress when a cost incurred is not proportionate to the progress towards satisfaction of a performance obligation (IFRS 15.B19 (b)). That would typically be when an entity procures inputs from a third-party to be installed in a larger construction, and for which the customer obtains control significantly before they are being installed. If the inputs are not distinct and their acquisition cost is significant relative to the total expected costs, the entity is advised to recognize revenue only to the extent of that cost. IAS 11 contains a similar requirement in §31(a) for uninstalled goods, but require entities to completely exclude their cost from the percentage of completion method until they are installed. IFRS 15 will give a more faithful representation of the underlying economics in this case, because the entity has in fact transferred goods to the customer so some revenue should be recognized. Under IAS 11 this is ignored and revenue becomes overstated in the period in which the installation takes place.

Another change from current revenue recognition requirements is that entities need to apply the same method of measuring progress to similar performance obligations and in similar circumstances (IFRS 15.40). The respondent from Firm C said that this might result in a change for them as they currently apply both milestones and percentage of completion based on costs incurred. Under IFRS 15 they will be required to choose one method and apply that consistently. This will lead to a more consistent

practice within entities, which may make it easier for the users to understand how the revenue figure in financial statements is made up, as well as compare an entity's revenue over time. Analyst 1 expressed a desire for entities to use the stage of completion methods so that he "[...] can compare apples with apples". However, as IFRS 15 does not specify which methods should be applied in specific circumstances, entities may select different methods, so comparability across entities may ultimately not be improved.

Satisfaction of Performance Obligations at a Point in Time

For transactions that do not meet the criteria to be recognized over time, the revenue will be recognized at a point in time (IFRS 15.38).

When contrasting the concept of risks and rewards with the concept of control, transfer of control appears to require less judgment, which the Boards also implied in the DP. The issues with risks and rewards were addressed in section 6.1.3. It was established that there is no clear manner to assess whether risks and rewards have been transferred that can apply to all situations, and thus, it is up to the discretion of entities to decide when risks and rewards transfer to the customer. With control, on the other hand, it is clearer when it is transferred to the customer. This is supported by the respondent from Firm B who said that the control criterion provides clearer guidelines for when to recognize revenue than risks and rewards. To further assist the assessment of which point in time control is transferred, IFRS 15 includes a range of indicators. In this sense, IFRS 15 will result in more consistency among entities, and potentially increase comparability. It can also be easier for users to understand when revenue is recognized, as well as easier to audit, which speaks in favor of higher verifiability.

Because IFRS 15 provides better guidance as to when assets are transferred to the customer, it will also lead to a more faithful representation of the underlying economics of transactions. The reason for this is that assets and liabilities are not recognized without meeting the definitions in the Conceptual Framework. However, what may oppose a more faithful representation is that the concept of control may be interpreted from a strictly legal view, by only considering a transfer of legal title, rather than its economic substance. This concern was brought up by several comment letters (PwC CL DP; Balfour Beatty CL DP; Swedish Listed Construction Companies CL DP; Swedish Financial Reporting Board CL ED1 & ED2). Reporting the economic substance of a transaction rather than its mere legal form is essential to faithful representation. Some also pointed out that jurisdictions may vary with respect to when legal title transfers, which can reduce comparability.

Lastly, in some specific circumstances it may be difficult to assess whether and how revenue can be recognized. This may be for contracts with principal-agent considerations, repurchase agreements, bill-and-hold or consignment arrangements. Under these circumstances, IFRS 15 prescribes that the control principle must be considered. For example, when assessing whether an entity is acting as a principal or agent in a contract where a third-party is involved in delivery to a customer, it considers who controls the goods or services before transfer to the customer (IFRS 15.B35). Thus, the control criterion is an overarching principle that shall guide transfers in all kinds of arrangements, which makes IFRS 15 more coherent. Current revenue recognition standards contain limited guidance on the above-mentioned specific circumstances. IFRS 15 contains specific guidance on these in its Application Guidance (Appendix B of the Standard), which will facilitate revenue recognition under such conditions and likely lead to a more consistent practice among entities.

6.2.7 Recognition of Costs

IFRS 15 contains guidance on which costs related to a contract can be capitalized and which are expensed as incurred (IFRS 15.91 & 95). While IAS 18 does not include specific guidance on this, IAS 11 provides similar guidance as IFRS 15. Therefore, the regulations on contract costs in IFRS 15 seem to be directed towards entities that have longer types of projects and contracts, as IAS 11 strictly deals with construction contracts. As the cost guidance in IFRS 15 will apply to all customer contracts, it is possible that entities following IAS 18 that currently are not capitalizing contract costs, will have to when IFRS 15 is implemented. This will depend on the type of cost and their current treatment.

Incremental Costs of Obtaining a Contract

The fact that only the costs that are incremental to obtain a contract warrant capitalization under IFRS 15, will lead to entities having to be more attentive to which costs in fact are incremental and which costs occur regardless of whether the contract is obtained. According KPMG (2014), IAS 11 permits capitalization of a broader range of pre-contract costs than IFRS 15. Capitalizing only the incremental costs will provide a more faithful representation of contract costs, as these are the costs entities incur extra due to the obtention of a new contract. It will also portray a more faithful representation of contract profits, as profits are not overstated by capitalizing more costs than those that relate to obtaining a specific contract. However, determining which costs are incremental may require judgment in some situations, which may result in inconsistent treatment.

Sales commissions are considered incremental cost of obtaining contracts, and will thus be affected by the new Standard. Currently, practice differs across entities with respect to their treatment; some expense them as incurred, other capitalize them. For example, Firm A said they probably will have to capitalize some bonuses granted to sales personnel for contracts that run over one year, which they currently expense. Firm E, on the other hand, currently capitalizes sales commissions. The new cost guidance in IFRS 15 will thus lead to a more consistent practice with respect to treatment of sales commissions and hence improve comparability.

Costs to Fulfill a Contract

Treatment of costs to fulfill a contract is also specified under IFRS 15, given that they are not within the scope of another standard. The guidance on which costs can be capitalized and which are expensed as incurred is fairly similar to IAS 11. Hence, accounting treatment is not expected to result in any major changes. The new guidance will also apply to companies currently following IAS 18. As IAS 18 contains no guidance with respect to capitalization of costs, practice may change. However, shorter contracts are not expected to be affected by the regulation. Again, as IFRS 15 introduces explicit guidance on the matter, it may lead to more consistent practice for all types of customer contracts.

Amortization and Impairment

When costs are capitalized, and thus recognized as an asset, they will need to be amortized. IAS 11 does not prescribe a treatment for amortization, but states that contract costs are to be recognized as expenses by reference to the stage of completion at the end of reporting period (IAS 11.22). In IFRS 15, the recognized asset shall be amortized "[...] on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates" (IFRS 15.99). In practice, that will be fairly similar to the requirement prescribed by IAS 11, as well as the process of matching prescribed by IAS 18 (IAS 18.19).

Impairment losses shall be recognized under IFRS 15 when the carrying amounts of the assets recognized in relation to costs exceed the remaining amount of consideration expected to be received for the goods or services to which the assets relates, less the costs that directly relates to providing those goods and services and that have not yet been expensed (IFRS 15.101). Impairment testing is important in order to ensure that assets are worth its carrying amount and that capitalized costs continue to be recoverable. Consequently, it serves an important function in preserving the quality of financial statements. The fact that guidance on impairment testing is explicitly included in IFRS 15, which is not

the case with current revenue standards, may lead to increased focus on continuous impairment testing and a more consistent treatment. Accordingly, decision-usefulness will be positively affected.

6.2.8 Onerous Contracts

IFRS 15 contains no specific guidance on how to treat onerous contracts or contract losses. Onerous contracts will be covered by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IFRS 15, Appendix D). IAS 11, on the other hand, contains specific guidance with respect to contract losses. The wording in these two standards differs, and there are mixed views on whether the timing and measurement of losses will change after IFRS 15 is implemented. According to IAS 37, "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" (IAS 37, p. 2). IAS 11 prescribes that "when it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognized as an expense immediately" (IAS 11.36). Firm C expects that they will have to recognize contract losses earlier, and if that is the case, the introduction of IFRS 15 will lead to a more prudent treatment of losses. EY (2015), conversely, says that the timing of recognition of an onerous contract under IAS 37 will likely be similar as under IAS 11. KPMG (2014) argue that the timing may change depending on how total expected costs in IAS 11 compare with unavoidable costs under IAS 37. According to them, IAS 37 does not specify which costs are to be considered unavoidable or not, while under IAS 11 total expected costs are generally interpreted as the full costs of fulfilling a contract, including attributable overheads. Both EY (2015) and KPMG (2014) write that it is unclear whether the measurement for contract losses will change after IFRS 15 is implemented. Firm D said that the current presentation of contract losses is less transparent for users. Today, it is not visible whether or not any losses are included in gross amount due from customers or in gross amount due to customers. After the introduction of IFRS 15, they will have to show unrealized contract losses as a separate provision in the statement of financial position. This will make them more visible to users, which increases decision-usefulness as clearer information is provided regarding the magnitude of contract losses in the company.

Summing up, due to the mixed and unclear effects of the change in regulation for how to account for loss-making contracts it is hard to make any general conclusions on whether accounting quality will be improved on this matter.

6.2.9 Disclosures

IFRS 15 introduces a range of new disclosure requirements, which is one of the most prominent changes from current revenue standards. This is also one of the most debated parts of the new Standard, with two easily identifiable groups with distinct views: the users and the preparers. While the users tend to be strong supporters of the increased disclosure requirements, preparers are generally opposed to them.

IFRS 15 contains an overall objective for disclosure requirements, which is that entities shall "[...] disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers" (IFRS 15.110). The Exposure Draft to the revised Conceptual Framework says that using disclosure objectives instead of rules can improve communication. However, IFRS 15 contains fairly specific disclosure requirements.

Disclosures on Accounting Policies and Significant Judgments

A present issue regarding disclosures is that firms tend to give the required information in rather general terms. While they are obliged to disclose information about revenue recognition policies and judgments, the disclosed information is often merely recited in a form that is very close to what is stated in the accounting standards and thus does not provide much specific information. This issue was highlighted by the IASB, stating that "[...] investors were concerned that the revenue information disclosed was often 'boilerplate' in nature [...]" (IASB, 2014b, p.3). After reviewing the annual reports of the interviewed firms, this weakness became apparent in the case companies as well. IFRS 15 requires entities to include more specific information about accounting policies and significant judgments. Information about significant judgments used in relation to determining the transaction price, amounts allocated to performance obligations, and when performance obligations are satisfied will now be required from entities (IFRS 15.123). These are areas where judgment and estimations are frequent. An example is the requirement to disclose not only the methods used to recognize revenue over time, but also disclose "an explanation of *why* the methods used provide a faithful depiction of the transfer of goods ands services" (IFRS 15.124(b)). SFAF specifically addressed the percentage of completion method labeling it a "black box" with little insight into how revenue is recognized (SFAF CL DP). The new requirements will require more explanations, and may provide more insight into areas that previously were not very transparent.

The increased disclosure requirements on methods, inputs and assumptions will force entities to include more entity-specific information not as easy to recite from a standard, and furthermore require them to

justify the choices made. It will provide a higher level of transparency, something that the interviewed analysts expressed a desire for. In relation to the qualitative characteristics, it will increase the users' understandability of revenue recognized and make it easier to verify if the presented numbers are faithfully represented, as more knowledge about how the entities have reached them will be included.

Disaggregation of Revenue

IAS 18 and IAS 11 require entities to disaggregate revenue in relation to each significant category of revenue (IAS 18.35(b); IAS.39 (a)). This requirement is expanded under IFRS 15. It does not prescribe specifically how an entity should disaggregate revenue, but states that it should be done in a way that supports the objective of the disclosure requirements (IFRS 15.114). Additionally it provides examples of categories that might be appropriate to include in the Application Guidance. The list suggests that disaggregation can be based on major product lines, geographical region, type of contracts and contract durations among others (IFRS 15.B89). An expedient disaggregation of revenue was highlighted as very important to the interviewed analysts. Analyst 2 stated that "basically, we prefer as much detail as possible", and most of them argued that disaggregating revenue as much as possible provides them with more decision-useful information, as they are able to assess the revenue streams and the mix more easily, identify the true value drivers, and create better estimates for future performance. However, it is questionable how much this will improve after implementation. Since IFRS 15 allows for entities to decide in what way the revenue should be disaggregated, it is possible that entities argue that their current disaggregation is sufficient. Furthermore, many firms already disclose disaggregation of revenue based on major product lines and geographic regions, and thus already comply with the new requirements. Another important aspect for analysts is that the disaggregation is appropriate and valuable with respect to the business activities of the company. For example, one analyst talked about firms in the shipping industry that report revenue based on geographic location. He continued by arguing that it gives absolutely no additional value as ships continuously move and change location. Although IFRS 15 is more specific that the disaggregation should be made in an expedient manner, it is hard to assess when a firm has reached this goal, as there is no universal definition.

Disclosures on Contract Balances and Performance Obligations

IAS 11 currently requires more disclosures than IAS 18. With the change to IFRS 15, all entities will be subject to the same type of requirements. IFRS 15 includes new requirements related to the introduction of the concepts of contract asset and contract liability. Entities are to give information about revenue recognized in a reporting period that was contained in the opening balance of contract liabilities (IFRS 15.116(b)). Furthermore, IFRS 15 requires disclosure on opening and closing balances of contract assets

and liabilities, as well as providing an explanation for any significant changes in the contract balances that have happened during the period (IFRS 15.116(a); IFRS 15.118). This will provide users with more understanding of revenue recognized and how it relates to the statement of financial position. It will also provide users with better possibilities to verify the revenue figure. For entities following IAS 11 today, contract assets and contract liabilities are similar to gross amount due from and to customers (IAS 11.42). Firm D supported this, and said that they most likely will not have to change the way they disclose this today. However, they stated that the inclusion of opening and closing balances is new and will require some extra work.

IFRS 15 also requires disclosure on performance obligations; including when they are typically satisfied and the significant payment terms (IFRS 15.119). §117 states that the relationship between the timing of satisfaction and the typical timing of payment shall be explained, which will give users valuable information about how recognized revenue relates to cash receipts from customers. Furthermore, the Standard requires that information is given on the amount of the transaction price allocated to performance obligations that remains to be satisfied, as well as when it is expected that they will be satisfied (IFRS 15.120). This information will have a predictive value in the way that it can serve as inputs into users' assessments of future performance, thus a positive effect on relevance. One of the interviewed analysts said that such backlog information is desirable for industries with large projects.

Disclosures on Assets Recognized from the Costs to Obtain or Fulfill a Contract

According to IFRS 15, entities shall describe the judgments made in decisions regarding amounts capitalized as costs to obtain or fulfill a contract and how they are amortized (IFRS 15.127). Furthermore, the closing balances of these assets as well as the amount of amortization and impairment losses recognized during a reporting period shall be disclosed (IFRS 15.128). This is not a requirement in IAS 11 or IAS 18 and will provide the user with a greater understanding and better possibilities to verify contract profits.

Decision-usefulness of the New Disclosure Requirements

An issue raised by one of the case companies was that IFRS 15 requires disclosure of information that the firm currently does not have readily available. Not only will the new requirements demand that the firm collects this information manually, but they raised the question of how decision-useful the information would be to users:

"I don't know what conclusions to draw from it. [...] Since we don't even have this information ourselves, who are actually managing the company, one can wonder how important it is for decision-making."

This statement questions the relevance of some of the disclosures. If irrelevant information is included, it can cloud or hide relevant information. Vodafone also addressed this and wrote that not all required disclosures might not be useful in all industries (Vodafone CL ED1). They further suggested that this could be solved by a disclosure principle stating that information should be disclosed if the chief operating decision-maker reviews and uses the information. They argued that this would align the information used internally with what is provided to users and external parties, and not subject the firm to excessive work. Overall, a majority of the comment letters sent by preparers are calling the disclosure requirements "excessive" and very costly in terms of collecting the needed information, as well as questioning the relevance of the information (Swedish Construction Companies CL ED2; Swedish Financial Reporting Board CL ED2; Siemens CL ED2; Deutsche Telekom CL ED2; Boeing CL ED2).

The timeliness, and in extension relevance, of the new disclosures was addressed by Analyst 6: "the problem with disclosures is that they only exist in the annual report, and this comes out sometime in April, when you since a long time, so to speak, have stopped to care about the figures". This indicates that while the information in the disclosures might be of value, the lack of timeliness of the information makes it less useful for decision-making. Only disaggregation of revenue is required in the interim financial reports (due to consequential amendments of IAS 34 *Interim Financial Reporting;* Appendix D of IFRS 15). However, many of the new disclosures contain information that might be of value when assessing the reported figures in interim reports as well, as they are explanations of processes and more descriptive of how entities have applied the Standard. On the other hand, even though the quantitative disclosures in the annual reports lack timeliness and might reduce its value to users, the qualitative data will increase the general understanding of the reported figures as they are less likely to change frequently. That will have a positive impact on understandability.

Lastly, the interviewed analysts expressed that some entities provides more informative disclosures than others. As such, a conclusion can be drawn that it is currently a lack of guidance on which disclosures to include, as entities even in the same industry tend to include different aspects. IFRS 15 is more prescriptive in nature and specific in regards to disclosure requirements than current standards, which can contribute to a better consistency among entities and thus have a positive effect on comparability.

Summing up, the increased disclosure requirements of IFRS 15 may have positive effects of the qualitative characteristics of understandability and comparability. It may also be easier for users to assess whether or not the reported figures are reported in a faithful manner. However, there are some concerns regarding the decision-usefulness of some of the new disclosures, as well as timeliness, and thus a negative effect on relevance.

6.3 What are the Implications of the Implementation of IFRS 15 for Companies Beyond Pure Accounting Changes?

When new standards are introduced, it is common that they will not only result in new accounting treatments but also entail other effects on companies. From the empirical data, it has become evident that the implementation of IFRS 15 will lead to a number of other changes beyond actual accounting. These will be elaborated on below.

6.3.1 Effects on IT systems

IFRS 15 demands that entities enclose more information due to the new disclosure requirements. It also requires entities to estimate variable consideration upfront, allocate transaction prices in a way that was not required before and recognize revenue when performance obligations are satisfied rather than when the entire contract is completed, among others. These are some of the changes with which preparers have expressed concerns in relation to the inability of their current IT and reporting systems to handle the new requirements. All of our case companies expect that an addition or a change of their current IT systems is necessary. This issue was also raised in comment letters (Alcatel Lucent CL ED1; Deutsche Telekom CL ED2; Vodafone CL ED1).

Firm A, for example, expressed concerns about the amount of manual reporting necessary in order to satisfy the disclosure requirements. While "splitting items between the balance sheet and the income statement" can satisfy some requirements, data for some disclosures will need to be manually collected, at least the first time. They further said that they wish to avoid this to the largest extent possible, one reason being that the information collected directly from the balance sheet or income statement often have higher quality. If the manually collected information is of lower quality, the decision-usefulness of it can be impaired.

Alcatel Lucent (CL ED2) addressed the issue of contracts with multiple performance obligations that are transferred at different times. For each of these, the recognition and measurement criteria must be applied and it will require them to manipulate their systems manually as this is not required under the current Standards. The same situation will arise when standalone selling prices are to be assigned to each performance obligation, and they questioned whether the benefits will exceed the costs in these cases. Deutsche Telekom (CL ED2) raised similar concerns and stated that the implementation of IFRS 15 will force them to build a new, highly complex IT system that can connect several databases with different information regarding performance obligations, standalone selling prices and how to determine the transaction price with an estimated cost of hundreds of millions of Euros.

6.3.2 Effects on Contract Formulation

The underlying economic phenomenon driving revenue recognition in IFRS 15 is the contract with a customer. The way the contract is formulated may subsequently have an impact on how and when revenue is recognized. Three out of the five case companies highlighted this as an area in which they may make changes due to IFRS 15. Firm B will actively work towards standardizing their contract in order for the new Standard not to affect the way they recognize revenue today. Sales personnel will not have the complete freedom to agree to any terms they find suitable for the customer, without approval from a higher level of the organization to consider the implications on accounting. They also named the process of standardizing contracts as the largest challenge with the upcoming implementation. Furthermore, Firm A and Firm C also touched upon the subject and will assess whether or not contracts will need to be modified in order to reach the result they want, which is to continue with their current way of recognizing revenue. Firm E in the telecom industry has a high volume of low-value customer contracts, which to a large extent are individualized. This makes it hard for them to standardize contracts without impairing their customer focus, although it would simplify the accounting. Firm D also said that they will not make any changes to their contracts and stated that the way of doing business with customers should not change, if anything only the accounting. This represents two views: one that adjust current business practices to the new Standard in order to affect revenue recognition as little as possible, and one that does not adjust current business practices to facilitate implementation. The first view thus lets accounting dominate business practice in a sense, which results in no real changes in accounting treatment. Modifications of contract formulations in order to maintain the same accounting treatment as currently were probably not what the Boards intended when they developed the Standard. If an entity changes its formulation of contracts in a way so that it does not have to account for, for

example, performance obligations separately, when it would have been more decision-useful to do so, the value of IFRS 15 can be questioned.

6.3.3 Effect on KPIs

Changes in the timing and/or amount of recognized revenue will eventually lead to changes in KPIs into which revenue serves as input. KPIs are also widely used by analysts to compare firms and assess performance and trends.

Analyst 5 and Firm E from telecom, both addressed the adverse effect of IFRS 15 on the most widely used KPI for the industry, average revenue per user (ARPU). Both argued that it will be substantially affected by the accounting changes presented in section 6.2.5. ARPU will no longer be comparable before and after the implementation, which directly relates to the qualitative characteristic of comparability. This can make it harder for users to assess future trends in the industry, and they will have to learn how to interpret ARPU in a new way. Analyst 5 continued by arguing that the measure also will become less relevant due to it becoming overstated when entities bring on more subscribers through selling handsets subsidized by network services, and therefore it will be less useful in measuring the health of the industry and making predictions about future revenue trends. He further stated that "[...] where it used to be a common standard for ARPU, without a common standard it is going to be more difficult going forward, trying to assess the impact on these companies". Clearly, the loss of a crucial KPI will have a detrimental effect on the industry, both internally for firms in terms of measuring the efficiency of the business and externally for users. Firm E did, however, highlight that if the implementation among firms in the industry is consistent, the KPI should be affected in the same way and the firms should still be comparable to each other, which according to them is more important than that the measure being comparable over time. However, as there still is judgment and subjectivity involved in many areas of IFRS 15, it is hard to state as of now if IFRS 15 will be implemented in a consistent manner across all firms in the industry. AT&T, Sprint and Verizon (CL ED2) also raised the same issue of reduced comparability across firms in the industry with respect to KPIs.

6.3.4 Effects on Internal Management Processes

The changes following the implementation of IFRS 15 does not have affect the external financial reporting, but the regulations will often demand that firms make changes in the internal reporting systems and routines as well. Given the nature of IFRS 15, with new concepts and a new approach to revenue recognition, the case companies reported that routines regarding revenue recognition are and have been investigated, which can be a positive thing. Firm C stated that IFRS 15 will force them to

become better acquainted with the different components in large contracts and gain new insight into what drives costs, rather than just make an overall price assessment for them. This may lead to improved internal accounting with respect to managing profitability of contracts. Firm E spoke about a similar positive effect that IFRS 15 can have on internal reporting, if they find a way to exploit it. Not only did they state that it will provide a better depiction of their revenue streams, but also that it will be easier for them to analyze profitability on single components within a contract. The respondent said that it may be easier for them to see which campaigns are good business and which are incurring losses: "[...] we can easier follow up if we are doing a good business or not. So I think that… That is very positive". This may be an advantage that firms in the telecom industry can exploit, as it is characterized by using high handset subsidies and free products or services as sales incentives. Analyst 6 also highlighted this as a positive aspect of IFRS 15. It may thus compensate to an extent for the costs associated with the implementation, such as the needed changes in IT systems.

However, the benefits of IFRS 15 to internal reporting and management accounting seem to be rather industry-dependent. Firm D already operates with two separate reporting processes for one of their business areas in which IFRIC 15 dictates that revenue from the construction of real estate is recognized at the time of handover to the customer according to IAS 18 sale of goods, rather than progressively throughout the construction process. This is not something that the management appreciates;

"[...] then we feel that we see how the market looks like far too late, possibly 2 years later, and then the market may have changed completely. So we have dual reporting just because it [IAS 18] does not really follow what the management wants to see."

To fulfill this information need, they display one report showing progressive revenue recognition and one that complies with IFRS. As they expect that their revenue recognition will not be affected by IFRS 15 in this business area, they will continue with this dual reporting. Thus, the implementation of IFRS 15 is not expected to result in more decision-useful information. The German Construction Industry Association (CL ED1) addressed this as well. They argued that project controlling and internal reporting are activity-oriented through the percentage of completion method, and that IFRS 15 will lead to an even larger discrepancy between financial and managerial accounting. As a result, there will be an increase in costs and efforts with no additional benefits. The Conceptual Framework does however address these types of situations, when the cost constraint applied to individual entities or industries shows conflicting results. It states "… the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities"(CF, 2010, QC39),

and continues by acknowledging that the assessment may not always justify all accounting requirements in all industries or firms.

7. Discussion of Findings

The introductory chapter of the thesis highlighted the importance of revenue to both preparers and users of financial statements, as well as the importance of having robust revenue recognition rules to ensure high quality revenue reporting across industries and markets. In the previous chapter, the consequences of the introduction of IFRS 15 was accounted for, both in terms of how the accounting changes likely will affect the qualitative characteristics and other implications. In this chapter, further explorations of the effects on accounting quality will be made by incorporating differing views of the concept.

The chapter will start by summarizing and discussing the findings with respect to each of the qualitative characteristics of the Conceptual Framework. Then, the implications of having one revenue recognition standard for all types of ordinary revenue will be addressed. The chapter will culminate in an assessment of to which extent the Boards' stated objectives for their revenue recognition project will be achieved by drawing on the findings from the previous chapter as well as the new understanding gained from preceding discussions in this chapter.

7.1 Relevance

The findings shows that for many industries, revenue recognition will largely be the same as under current practice which implies that relevance of reported revenue is limitedly affected. However, the increased disclosures requirements in IFRS 15 may increase the relevance of reported revenue by containing information of predictive and confirmatory value.

In telecom, revenue recognition will be significantly affected by IFRS 15. This will affect the relevance of the recognized revenue and earnings. Findings suggest that in the view of analysts, the relevance increases when earnings approximate the cash flow. It can be derived from the interviews that they are fairly preoccupied with deviations between earnings and the cash flow, and it seems like they view nearness between these as a signal of high quality because cash flows are viewed as more objective and harder to manipulate. Furthermore, if revenue and related earnings figures are closer to cash, fewer adjustments are necessary in order to value companies and make predictions about future prospects of companies. The analysis indicates that, due to the new allocation methodology of IFRS 15, revenue recognized for the services provided by telecom entities will deviate from the cash receipts. This indicates that the relevance of revenue and other important metrics will be reduced and be less useful to

make predictions about future earnings capacity. Users are more concerned with analyzing the service revenue on a standalone basis, and it is the predicted future service revenue that forms the basis for their analysis (Telecom companies in group CL ED2). They currently regard service revenue as fairly predictable from period to period, and that IFRS 15 will reduce the predictive value of service revenue. This leads to a discussion of the value of the Standard for the stated primary users of financial statements. If users desire a certain type of accounting, and a new standard produces effects that are closer to the opposite, perhaps it cannot be deemed to produce more decision-useful information.

On the other hand, it can also be argued that cash flow figures can be found in the cash flow statement. In the opinion of Cooper (2010) "the purpose of the income statement is not to report cash (for which we have the cash flow statement) but to report revenues earned and cost incurred through application of the accruals concept." Furthermore, the ability of cash flow-based measures in predicting future earnings capacity can also be questioned. The Conceptual Framework states that accrual accounting provides information that is better for "assessing the entity's past and future performance than information solely about cash receipts and payments during that period" (CF, 2010, OB17). This is supported by several studies contrasting the information content of accrual-based versus cash-flow based performance measures with respect to measuring earnings capacity (Dechow, 1994; Ali & Pope, 1995; Plenborg, 1999). One of the main problems with cash-flow based measures is that they fail to account for uncompleted transactions (Petersen & Plenborg, 2012). Cash receipts and payments may be random and arbitrary, and thus not reflective of underlying value creation. According to the Conceptual Framework, value is generated from increases in assets or reductions in liabilities. In this view, relevance of reported revenue may increase if the new accrual accounting prescribed by IFRS 15 better reflects the underlying values in entities. However, as the findings shows, analysts do not think IFRS 15 better reflects the underlying value of telecom entities as it shifts value from services to handsets. From the interviews with analysts and the review of comment letters from the telecom sector, it became clear that they regard the subscription services as the true value driver in telecom entities.

7.2 Faithful Representation

The analysis in section 6.2 suggests that IFRS 15 can be expected to result in a more faithful representation of the underlying economics of many multi-element transactions. Part of the criticism of IAS 18 concerns the limited guidance on this matter. IFRS 15, with regulations on how to identify separate performance obligations and allocate the transaction price to them, will portray a more faithful representation of the economics of the transaction by forcing entities to consider all obligations and

avoid that revenue is recognized before they are satisfied. This will provide a better reflection of the revenue stream from business models where goods and services are bundled together, which is becoming increasingly common. In such business models, value is generated through the combination of both a good and a service, rather than the deliverance or fulfillment of the separate components.

For bundles of goods and services within the telecom industry, on the other hand, findings shows that a majority of both preparers and users of financial statements object to the new allocation methodology. Although it may provide a more faithful representation from an accounting perspective, it can be argued that is not a better depiction from the user perspective. In their view, the network services are the main value driver of telecom entities. Therefore they find it misleading that these are allocated a smaller portion of the transaction price. As pointed out by Analyst 5, EBITDA will increase under IFRS 15 at the time of transfer of handsets to customers, which he thinks is illogical as telecom entities incur great costs when acquiring new customers due to the subsidy provided on the handset. On the other hand, customers are in fact paying for the handset through the monthly subscription fees, so it makes sense that part of the revenue from the arrangement is allocated back to the handset. Also, an increased EBITDA at contract inception may not be a complete misrepresentation if one considers that telecom entities have in fact acquired a new customer with a commitment to pay throughout the length of the contract period, thus representing a more or less certain source of revenue. Currently, telecom entities recognize an upfront loss at the time of the transfer of the handset to a customer due to the subsidy provided. However, this is misleading, as in reality it is not a loss, but merely a consequence of the agreed payment terms. IFRS 15 will better reflect that the contract in its entirety is profitable as no loss is registered at contract inception. It can be concluded that, on this matter, there is a trade-off between relevance and faithful representation; although more faithful representation from accounting perspective, the revenue, earnings figures and KPIs will become less relevant for users of financial statements.

It can also be debated whether a handset even should be identified as a separate performance obligation in the contract. Many telecom entities do not see themselves as in the business of selling handsets, but to provide network services. They rather use subsidized handsets as marketing devices in order to attract customers to their main business of providing network services. Thus, it can be argued whether the cost of free or subsidized handsets should rather be seen as a marketing expense or a cost to obtain a contract (Cooper, 2010; Telecom companies in group CL ED2). However, the Boards' view is that all goods and services promised in contract give rise to performance obligations (IFRS 15.22). Furthermore, it can also be argued that such commercial views should not affect accounting. Nevertheless, several users are

strongly opposing the consequences on revenue recognition in the telecom industry, and therefore it can be questioned whether the objective for financial reporting stated in the Conceptual Framework will be fulfilled.

Regarding construction contracts for which revenue currently is recognized successively according to percentage of completion, the findings show that IFRS 15 is not expected to result in much change. Entities will in most cases be able to account for these contracts as one performance obligation and revenue will be recognized over time. Thus, no further unbundling of the contracts will occur. Initially, the Boards intended to require entities to identify separate performance obligations in the contracts at a more granular level than in the final version of IFRS 15. They stated that "the objective of identifying separate performance obligations is to represent faithfully the pattern of the transfer of goods and services to the customer" (DP, 2008, 3.25). In ED1, the criteria for distinct goods and services that would constitute a separate performance obligation, were that the entity or another entity sells a similar good or service separately, or the entity could sell the good or service separately; that is, if it has a distinct function and a distinct profit margin (ED1, 2010, 23). In theory, that could apply to all components within a construction contract. In response to this exposure draft, the Boards received almost 500 comment letters from the construction industry criticizing the proposal (IASB & FASB, 2012). They feared that they would have to allocate the transaction price to each individual component of a construction project; such as the roof, floors and walls in the construction of a building (Balfour Beatty CL ED1; Swedish Listed Construction Companies CL ED1; German Construction Industry Association CL ED1). With respect to faithful representation, one must consider how such entities create value; through delivery of each individual good or service that go into the construction of an asset or through performing and managing the entire process as a whole. In the comment letters there were strong arguments towards the latter. This is supported by Firm C:

"It's a challenge when you have a fixed price contract to be able to say: okay, just that amount relates to this and this and that. Because it's, in a way, a judgment, it's a complete assessment that is done when setting up the contract. So I think it can be a challenge for at least major types of contracts."

The Boards later changed the criteria, which allow entities to account for such contracts much in the same way as they currently do. Consequently, there will be limited effect on faithful representation.

Earnings Management

Earnings management is linked to neutrality, which is an important aspect of faithful representation. With a revenue recognition standard based on contracts, identification of separate performance obligations in the contract and recognizing revenue based on the transfer of control, several of the respondents in comment letters raised a concern for the possibility for entities to structure their contracts in a certain way to achieve a desired revenue and profit recognition (SFAF CL DP: Balfour Beatty CL DP; CESR CL DP; IOSCO CL DP). This may still be a valid concern as the findings show that some of the case companies will attempt to modify their contracts in order to avoid changes in their accounting after implementation. Although we do not suggest that these companies will try to deliberately manage revenue and earnings, it indicates that there is a possibility for entities to exploit the contract-based model to show a more favorable picture of their revenue pattern. On the other hand, IFRS 15 provides more guidance and regulation than current revenue recognition standards do. This will make it more difficult for entities to manipulate revenue recognition, which is supported by Analyst 6. He argued that the possibilities for manipulation will be reduced under IFRS 15 due to a more thorough and established model underlying the revenue figure. However, findings show that there is still room for judgment within several areas under IFRS 15. Managerial discretion and judgment can further be linked to reduced accounting quality (Ahmed et al., 2013). Furthermore, one analyst said that it would be positive if the new revenue recognition standard resulted in less use of subjective judgments, further emphasizing the importance of a decreased level of discretion.

Regarding revenue recognition over time, the new requirements states that it should depict the transfer of control of the promised goods or services to the customer, for which we argued will provide a more faithful representation of revenue. Two of the analysts expressed that it can be hard to assess the truthfulness of the percentage of completion methods entities apply for longer-term construction and service contracts, because current revenue recognition standards do not specify how the percentage of completion shall be calculated. Thus, the method is subject to a lot of discretion, and the methods, inputs and judgments applied are not transparent to analysts. Analyst 1 said that entities can "massage" the numbers on a quarterly basis to report a better result or save up for upcoming quarters as it is at their discretion to say that they are at 45% completion and not 50%. IFRS 15 contains some more guidance on how to measure progress towards complete satisfaction of performance obligations which may reduce some flexibility. However, the assessment related to continuous transfer of control will still be based on a great deal of judgment, which implies that there will still be a risk that entities can manage the measure of progress to their own benefit. As reported, the case companies who use the percentage of

completion method currently do not anticipate that they will have to change this practice. The new disclosure requirements, however, dictate that firms shall disclose the methods used and when judgment is applied, which could improve transparency towards users.

All in all, as IFRS 15 generally contains more guidance and regulation it may reduce some of the flexibility of entities to adopt accounting solutions to their own advantage and reduce the extent of earnings management. However, there is still room for judgment within several steps of the five-step model, which allows for some latitude in the accounting. Also, there is a possibility to define contracts and their terms and conditions in ways that leads to a desired accounting solution. With that said, IFRS 15 will force entities to go through their contracts and accounting processes to check if they comply with the new regulations. Analyst 1 said that introducing a new revenue recognition standard will be "[...] a good refresher for people to have a look at it again and maybe spot more easily the cheats."

Prudence

The existing Conceptual Framework does not include the concept prudence explicitly. Despite this, IFRS 15 contains regulations with implicit reference to prudence. This is rather peculiar since the Conceptual Framework favors neutrality and regards prudence to be in conflict with neutrality (CF, 2010, BC3.27). However, the IASB is proposing to reinstate the concept of prudence in the new version of the Conceptual Framework. In a sense, it seems like IFRS 15 is ahead of the development on the Conceptual Framework.

One regulation in IFRS 15 for which it can be argued that prepares are required to act with prudence is the determination of the transaction price when variable consideration exists. When determining whether estimates of variable consideration should be included in the transaction price or not, the constraint that it should be highly probable that the amount of cumulative revenue recognized will not be significantly reversed needs to be considered. "Highly probable" represent a higher threshold than "probable" that is used in current revenue recognition standards and can be said to be more prudent. However, whether the constraint will result in more prudent practices can be disputed. In current revenue recognition standards there is no requirement to estimate variable consideration. Thus, entities need to rely on the general criteria of reliable measurement and probable that economic benefits will flow to the entity. It may be that entities therefore defer measurement of variable consideration until it can be reliably estimated, which can be when payment is received or uncertainty is removed. Under IFRS 15, entities will be required to estimate variable consideration and apply the constraint, which may lead to entities having to recognize a minimum amount rather than wait until uncertainties or

contingencies are completely resolved. On the other hand, it can also be argued that the assessment of highly probable is one of which may require judgment; thus, entities may end up with the same conclusion as they arrive at today by judging that it is highly probable that a significant revenue reversal will occur if the estimates of variable consideration are included.

7.3 Comparability

The Conceptual Framework identifies consistency as an aspect of comparability. While consistency is not the same as comparability, consistency in the application of methods across entities and across time is a step towards achieving comparability. IFRS 15 contains significantly more guidance than current revenue recognition standards, especially IAS 18. Furthermore, it provides guidance on aspects that currently are not addressed at all. This should logically lead to a more consistent application of the Standard and ideally result in a situation where revenue is recognized in a more similar and consistent manner than it is now. Furthermore, the Conceptual Framework states that " [...] permitting alternative accounting methods for the same economic phenomenon diminishes comparability" (CF, 2010, GQ25). Since two standards will be replaced with one, the same recognition criteria will apply to all revenue and all entities need to follow the same five-step model. This should reduce the use of alternative accounting methods and have a positive effect on comparability. Analyst 6 further expects that comparability will be improved both within and across industries, especially with respect to bundles of goods and services.

IFRS 15 introduces several new concepts and regulations in relation to revenue recognition, which entities need to interpret and apply accordingly. Two of the case companies expect that entities will interpret some of these differently; for example, identification of which goods or services are distinct. This may in turn lead to inconsistent application of the Standard. Additionally, there is a possibility for entities to interpret the new Standard in a way that allows them to continue with their current accounting. A principles-based approach naturally leaves room for judgment, which can be seen from the responses of the case companies. Four out of five case companies reported that no major changes in the actual accounting of revenue are expected, indicating that IFRS 15 may not have an effect on comparability at all. When asked whether IFRS 15 will lead to higher comparability between entities, one of the case companies responded: "Yes, in one way, since the rules are clearer and such things, but again, since most of companies say that they won't change so much, you end up at the same point". This may be one of the pitfalls of principles-based approaches, which do not force firms to report in a certain

way, but merely regulate practice at a higher level. In this view, full comparability can be hard to achieve.

7.4 Verifiability and Understandability

Although verifiability and understandability represent separate qualitative characteristics, they will be discussed together as many of the same arguments apply to both.

In one sense, verifiability and understandability can be expected to increase under IFRS 15 due to two factors. Firstly, all entities are required to follow the five-step model to account for ordinary revenue. By making themselves acquainted with the model, they can get a better understanding of how revenue is recognized and also be able to directly verify the revenue figure by following the same procedure. This will mostly apply to simple contracts and arrangements where contract terms are reasonably visible, for example on the company website. With IAS 18 this is harder, because limited guidance has resulted in various accounting treatments in practice. Also, the knowledge that there is a more solid model underlying the revenue figure can give users more faith in the number, as expressed by Analyst 6. He further added that it may be easier to audit revenue, which results in higher trust in the figures. Secondly, the increased disclosures requirements can provide users with information about the judgments made and the inputs used in revenue recognition. The new disclosure requirements can be seen as a summary of how the five-step model has been applied. This will not only give a better understanding and more transparency, but also allow users to indirectly verify the revenue figure and assess how judgments are made.

With that said, it remains to be seen whether the financial statements will contain the degree of specificity that users need to verify and better understand recognized revenue. Although the disclosures under IFRS 15 have potential to provide more specific and detailed information, it cannot be said with certainty that this will happen after its introduction. Generally, companies are reluctant to release too much information, especially information that may impair competitiveness. Thus, it is a possibility that disclosures will not be specific enough in order for users to be able to verify and understand the revenue figure. Furthermore, as the full list of disclosure requirements is only required to be disclosed with the annual report, it can leave users with limited information to better verify and understand revenue throughout the year.

An aspect that may reduce verifiability from an analyst view is the previously mentioned issue that IFRS 15 in some instances leads to more accruals and a greater deviation between cash flow and earnings. Hence, it will be more difficult for them to verify earnings as the link between them will be less direct, and they will have to make more adjustments to revenue and earnings. However, according to §117 of IFRS 15, entities are to explain the relationship between satisfaction of performance obligations and timing of payments in the disclosures, which may ease the burden.

7.5 Timeliness

Timeliness is often related to relevance, and there is often a trade-off between them. For financial information to be relevant, it needs to be reported in a timely manner so that users can exploit it to make informed decisions. On the other hand, information tends to be more uncertain in very early stages, which decreases relevance. Thus, revenue should be reported when the importance of timeliness has been weighed against the importance of certainty in order to achieve the highest relevance. In IFRS 15, when variable consideration is required to be estimated upfront, the IASB has included the constraint of "highly probable". By including this constraint, they try to find the balance where information is included in a more timely manner than under IAS 18, but still in an amount that is certain enough to be relevant for users.

The timeliness of reported revenue may become better in certain circumstances under IFRS 15 due to the unbundling of contracts into distinct performance obligations. Revenue will be recognized as each performance obligation is satisfied, rather than when the entire contract is fulfilled. Analysts typically want information that is reflective of the activities in the firm, which IFRS 15 can help to deliver through the recognition of revenue per performance obligation in a contract.

7.6 The Cost Constraint on Useful Financial Reporting

In the Conceptual Framework, a cost constraint is placed on reporting financial information (CF, 2010, QC35). In order to justify the costs associated with reporting and making financial statements, they must be outweighed by the benefits of reporting that information. The benefits can be understood through the qualitative characteristics. The costs relate to efforts that prepares need to expend when gathering data and prepare financial reports as well as the costs incurred by users when analyzing and interpreting financial reports.

Throughout the development of IFRS 15, preparers have repeatedly addressed the issue of cost. The increased disclosure requirements have been especially criticized for not resulting in improved decision-usefulness, while requiring costly system changes for the preparers to obtain this information (Swedish Listed Construction Firms CL ED2; Siemens CL ED2; Deutsche Telekom CL ED2, etc.). This is also supported by findings from the case companies. However, the costs related to complying with the new disclosure requirements are likely to be a one-time cost. Once systems are changed and are up and running, there may not be any increased costs of obtaining the required data for the disclosures. On the other hand, due to the extensiveness of the new disclosure requirements it is fair to assume that preparing them will require more time and effort, especially if some data needs to be collected manually as one of the case companies indicated. Whether these costs will outweigh the benefits of the increased disclosures is hard to assess. As previously explained, the new disclosures have the potential to make users better understand and verify the recognized revenue. Findings show that users always want more information in order to make more informed decisions. The information must, however, be relevant in order for it to be useful. The relevance of some of the new disclosure requirements can be questioned, as mentioned previously. Furthermore, it may be that the disclosures that users value most, such as disaggregation of revenue, will not be improved. In light of this, it remains to see whether the benefits of the new disclosures will outweigh the cost of reporting them.

The cost related to applying the Standard on a continuous basis is also unclear. Findings shows that IFRS 15 may be easier to apply due to clearer guidelines, which means that less time needs to be spent on contemplating how to treat different aspects. However, there are also more regulations to comply with, which may increase the required effort. For the telecom industry, the costs of reporting after IFRS 15 are likely to increase. According to Firm E, more resources are needed to report after IFRS 15 as they have a great amount of contracts with bundles of different goods and services. These need to be analyzed in detail to determine, for example, which goods and services are distinct and which are not. The increased costs will ultimately affect the investors through lower returns. The respondent further added that whether the benefits to the user will outweigh the costs of implementing and applying IFRS 15, will depend on whether they will be able to exploit the accounting effects of IFRS 15 to their own advantage internally. On the other hand, as many users are very negative towards the accounting changes in the telecom industry, it can also be argued that the cost constraint will be exceeded.

The findings show that the revenue figure in many industries will not be highly affected by the new Standard, so it can be hard to justify the costs of reporting. In such cases, increased benefits to the users

will depend on the quality of the new disclosure requirements. At this stage, it is hard to conclude whether the benefits of IFRS 15 will justify its costs.

7.7 One Revenue Recognition Standard

7.7.1 Contracts as the Unit of Account

The unit of account that needs to exist for the possibility to recognize revenue under IFRS 15 is a contract with a customer. As there is a way for entities to avoid the changes arising from the new Standard by reformulating contracts, the effects that the Boards had intended for the revenue recognition project can be hard to achieve. While it might be completely lawful to make changes in contracts, the entire project can be undermined. If firms do not change their accounting, for which the Standard was created, it is questionable if it will have a great impact on accounting quality. Furthermore, one can also pose the question of whether accounting should dictate the way companies conduct business with their customer. On the other hand, the focus on contracts might unravel inconsistencies that exist in current treatment of contracts today. IFRS 15 forces entities to examine their current contracts, and thus it might be found that similar contracts or revenue streams are treated differently. This was evident in one of the case companies, and IFRS 15 will thus provide them with a chance to correct the inconsistency in treatment within the company.

7.7.2 Alleged Asset-Liability Approach

In section 6.2.6 it was argued that IFRS 15 is more based on an asset-liability approach than current revenue standards due to revenue arising from changes in entities' net contract position in the statement of financial position. Initially, the IASB proposed a stricter application of this approach and of the concept of control. However, it can be argued that this approach has become diluted since the propositions in the DP, as addressed by Haugnes and Malmelund (2012) and Wagenhofer (2014).

When the control principle first was introduced in the DP, many companies with continuous delivery contracts were concerned that they would not be able to recognize any revenue progressively. The DP did not clearly define control or give any concrete guidance on when control was transferred to the customer. Nor was there mention of criteria that would allow for continuous transfer of control. The main principle was that revenue recognition should reflect the transfer of promised goods or services to customers and not the activities of the entity in producing those goods or services (DP, 2008, 4.8). Many respondents in comment letters thus assumed that the transfer of control coincided with the passing of

legal title or when the customer gained physical possession of the good (IASB & FASB, 2009a). In the case of construction contracts, for example, it would mean that revenue could not be recognized until the asset under construction was completed and the customer had the physical possession of the asset, which could take several years. Some respondents in the comment letters to the DP instead argued for an activity-based approach in which revenue is recognized according to revenue-generating activities (Nokia CL DP; Norwegian Accounting Standards Board CL DP; CESR CL DP; Fujitsu CL DP; Alcatel Lucent CL DP; Cisco CL DP; ISOCO CL DP). This would be fairly similar to current requirements in IAS 11 and IAS 18 in the case of rendering of services. If the control principle was to be applied in its strict sense, it would result in significant increases in revenue in those reporting periods where assets under construction are completed and transferred to the customer, which would only be dependent on the time of completion and not on how well entities have expended resources to generate that revenue. As exemplified by Nokia, an entity at an 80% stage of completion in a long-term contract would report the same financial performance as an entity at a zero stage of completion, even though the former is clearly closer to completion than the latter (Nokia CL DP). The Boards received harsh criticism for this initial proposal in the comment letters, and they later modified the control principle.

In each hearing round for IFRS 15, the control concept and the asset-liability approach has become increasingly diluted. Thus, IFRS 15 cannot be said to be completely based on an asset-liability approach, as it will be possible for firms to recognize revenue based on the performance of activities even though no assets has been transferred to the customer. Although it is stated, as mentioned previously, that there should be a continuous transfer of control in order for revenue to be recognized over time, and that the recognition of revenue should depict this transfer, the indications from both case companies and comment letters related to ED2 are that firms currently following IAS 11 will not have to change their current revenue recognition. Wagenhofer (2014) also support this and argues that the two last criteria for recognizing revenue over time, added in ED2, does not signify a transfer of control and subsequently widened the concept of control to an extent where revenue recognition over time is no longer dependent on the continuous transfer of control. He further states that it is especially these two criteria that will allow entities to continue their current accounting for recognizing revenue over time. The asset-liability approach is the foundation of the Conceptual Framework, and it would seem as IFRS 15 is not as consistent with it. With this in mind, IFRS 15 may have become more of a Standard that incorporates two principles for revenue recognition, rather than one principle as the Boards intended to. While IFRS 15 requires all entities to follow the same five-step model, the actual criteria for recognition cannot be said to be equal to all transactions.

The reason why the Boards chose to include criteria that makes accounting treatment disharmonize with the asset-liability approach is interesting to discuss. It seems like the extensive criticism received from both preparers, users and other accounting regulators following the DP and ED1 regarding the control concept and its potential effect on revenue recognition for long-term projects was the primary reason. It influenced the Boards to make changes that allowed for a less strict application of the transfer of control, with the consequence of IFRS 15 granting recognition of revenue over time before any transfer of control.

From the interviews with analysts, it became evident that the revenue figure of companies' financial statements is very important to their work as it serves as the starting point for their analysis in predicting future earnings potential and cash flows. In light of this, recognizing revenue only upon completion of construction projects would not have provided them with relevant nor timely information for making decisions. Consequently, if the Boards had not widened the concept of control to allow for revenue recognition over time, it would have been hard to argue that IFRS 15 would fulfill the objective of providing decision-useful information to the primary users of financial statements. Although it would have been fully based on an asset-liability approach, users are often more concerned with assessing financial performance. This is more in line with the income-expense view, and it can thus be argued that for some types of revenue streams the asset-liability approach does not provide the most decision-useful information. This is supported by several comment letters, from which it can be derived that the income-expense approach is more preferable (Swedish Financial Reporting Board CL ED1; Cisco CL DP; Norwegian Accounting Standards Board CL ED1). Cisco stated that the current practice to recognize revenue according to the earnings process model is superior: "We believe this fundamental principle should not change and should be maintained as it is the primary way users of financial statements view the economic substance of a transaction today." This illustrates that there is a divide between what the IASB believes to be the superior model for revenue recognition and what other stakeholders believe.

7.8 One Size Fits All?

IFRS 15 is principles-based, similarly to how IAS 18 and IAS 11 are formulated. Principles-based approaches are broader in context and nature than rules-based approaches, which make them more applicable to many types of firms and business models. By using a principles-based approach, less specific situations and issues are addressed. For a standard such as IFRS 15, which shall be applied by all entities in accounting for all revenue arising from transactions with customers, a principles-approach is thus the best option. However, as previously explained, this approach also leaves room for

interpretation on how it should be implemented and applied at firm level. The interviews with the case companies suggest that many firms will not have to make major changes to current revenue recognition, which questions the value of IFRS 15 with respect to accounting quality. On the other hand, since IFRS 15 is based on principles, as IAS 18 and IAS 11 are, it was perhaps not the intention that it would lead to major changes.

As touched upon several times previously, the telecom industry will experience significant changes due to IFRS 15 compared to other industries. Most of these changes are viewed as negative according to many preparers and users. Additionally, IFRS 15 will affect telecom entities beyond pure accounting effects. The respondent from Firm E gave the impression that IFRS 15 will require a lot of effort, both in terms of implementation and continuous reporting thereafter. These effects might be an indication that it is very hard to find a single standard that is equally suitable for all industries or sectors. This has been addressed by both analysts in interviews and by firms in comment letters throughout the revenue recognition project. This can be linked to Barth et al. (2008) and their example that accounting quality can be reduced in situations where entities are forced to switch from one accounting alternative to another, due to a new standard. This is evident for the telecom industry in the case of IFRS 15. Analyst 1 questioned whether a single revenue recognition can handle the vast amount of business models that exist today, and their differences in terms of scope and complexity:

"You can buy something directly from the manufacturer, a consumer product, you get it immediately, it can be made in-house, let's say like a bakery. Then you have Boeing and you order now and you pay a little deposit and you get it in five years, that's a whole different ballgame in terms of complexity and in the way the product is manufactured, so sometimes I wonder if we can re-harmonize everything."

Analyst 5 further highlighted that anomalies are likely to arise, due to the specific nature of certain sectors. Boeing (CL DP) further addressed the implications for long-term contracts and suggested a separate principle for these, similar to the current divide between IAS 18 and IAS 11. They stated that "while this may result in some inconsistency, we believe the benefits of providing more decision-useful information outweigh the disadvantages of having more than one revenue recognition model." This was, however, during the hearing round for the DP, before the concept of control was loosened and continuous transfer of control was permitted. Still, it points towards the difficulties of having one single revenue standard to all types of revenue, while still ensuring that it provides the same level of decision-useful information in all industries.

Regarding IFRS 15, there are inconsistencies both within it and in relation to the Conceptual Framework. However, these inconsistencies perhaps do not need to be viewed as an issue, but as necessary ways to provide the information that users seek. PwC highlighted this as an issue with a single approach in their comment letter to DP: “we recognise it is difficult to create an all-encompassing principle that would provide the transparency and decision-useful information users require.” This has proven to be true to an extent, considering both the adverse effects on the telecom industry and the extended concept of control for recognition over time.

7.9 Will IFRS 15 Meet its Stated Objectives?

The Boards stated five objectives for the revenue recognition project, as presented in Chapter 2. These five objectives represent the outcomes that the Boards hope IFRS 15 will result in; in essence, in what aspects IFRS 15 will be better than the current revenue recognition standards.

Remove Inconsistencies and Weaknesses in Previous Revenue Requirements

The first objective of the revenue recognition project is to “remove inconsistencies and weaknesses in previous revenue requirements” (IFRS 15.IN5). In section 6.1, five main inconsistencies or weaknesses were identified with respect to IAS 18 and IAS 11. The first four will be addressed here, while the weakness with respect to lack of disclosures will be addressed below.

The analysis and discussion show that some of the weaknesses and inconsistencies in current revenue recognition requirements will largely be resolved. With respect to lack of guidance on how to account for multi-element arrangements, IFRS 15 provides clearer guidance both on how to identify the multiple elements in contracts as well as on how to measure them. Furthermore, IFRS 15 will solve the problems with risks and rewards due the adoption of the control principle, which makes it easier to determine when revenue should be recognized for sale of goods when there are remaining obligations to fulfill, such as warranties, as described in previous examples.

Other identified inconsistencies within current revenue recognition requirements cannot be said to be fully resolved. Current revenue standards are based on different approaches to revenue recognition. While revenue recognition under IAS 11 is primarily based on the activity that an entity performs during a period and thus resembles more an income-expense approach, IAS 18 is closer to an asset-liability approach with respect to revenue from sale of goods. Drawing on the discussion from the section above, IFRS 15 will not completely remove this inconsistency. Due to the dilution of the control criterion,

revenue from certain contracts will still be able to be based on activities performed in entities, rather than a strict transfer of control. While the inconsistency, the gap between the approaches, may become smaller as recognition criteria are based around a transfer of control, in practice it will not result in any significant changes for revenue recognition for many entities. In one sense, IFRS 15 can be said to have incorporated the previous standards with their respective principles for revenue recognition into a single standard, but not merged them fully to become based on one principle. Thus, there will still be two critical events in relation to the completion of earnings processes in IFRS 15; during production for recognition over time and at transfer of control for recognition at a point in time. For recognition over time, the decision of when the earnings process is complete, and thus when revenue should be recognized, will still be subject to management discretion which can result in different interpretations of when it is complete.

Provide a More Robust Framework for Addressing Revenue Issues

The second objective stated in IFRS 15 is to "provide a more robust framework for addressing revenue issues" (IFRS 15.IN5(b)). The IASB does not define what they mean with a robust framework, which makes it challenging to determine whether or not IFRS 15 will result in this. In this thesis, a more robust framework is interpreted to have clear requirements, that are easy to understand and does not create confusion or spark additional questions. It should ideally be based upon the same principle, and provide firm guidance through concepts that are understandable. Furthermore, a robust framework needs to be readily applicable for all that are compelled to use it.

Throughout the revenue recognition project, preparers, users and other accounting bodies have continuously requested clarifications and more explanations of new concepts. While a continuous development of new concepts might be the normal due course during the development of new standards, some comment letters raised this as a fact to highlight that IFRS 15 might not be the robust framework the Boards intended it to be (Norwegian Accounting Standards Board CL ED1; Swedish Financial Reporting Board CL ED1; Fujitsu CL ED1; Deloitte CL ED1). The Norwegian Accounting Standards Board argued that the need for extensive guidance of when control has been transferred to a customer indicates that the concept is not operational enough or not properly formulated for its purpose to guide revenue recognition. The Swedish Financial Reporting Board indicated that the Boards' "repeated changes" to indicators of control throughout the project "is a result of an inherent absence of robust criteria, which indicates a weakness of the Board's approach." Deloitte argued that even the need for an extensive Application Guide signifies that the new framework is not sufficiently robust. The Swedish Financial Reporting Board further argued that the extensive guidance results in IFRS 15 becoming more

rules-based than principles-based, which can result in it being hard to apply in situations where specific guidance does not exist. This was essentially what happened to US GAAP, when they continued to issue industry and transaction specific guidance, ultimately resulting in conflicting requirements for similar transactions (DP, 2008, 1.3).

From another perspective, it could be argued that the Boards have simply taken the views of the affected parties into consideration and continuously adjusted their proposal in response to their concerns. As such, continuous development of accounting concepts does not necessarily imply a weakness in the concepts. Furthermore, a lack of guidance was one of the reasons for why a new revenue recognition standard was developed, and this can thus be the reason why the Boards opted to develop a Standard with more specific guidance than the previous ones. It is also logical that a standard that contains new terms and concepts, as IFRS 15 does, needs additional guidance throughout the development phase. However, there are indications that IFRS 15 can be interpreted and applied differently. If this proves to be true, it is a sign of the framework not being robust enough and that inconsistencies may arise between entities that have interpreted new concepts differently. One of the case companies said that when only reading the Standard, the concepts and principles were hard to understand, but after having read audit reports it became more understandable. Furthermore, as presented in Chapter 2, clarifications have been made to IFRS 15 after its release, leading to a deferral of its effective date. This also points towards that IFRS 15 can be hard to understand and apply. As of now, before IFRS 15 has been implemented, it is hard to conclude whether it will provide a more robust framework for addressing revenue issues in practice.

Improve Comparability of Revenue Recognition Across Entities, Industries, Jurisdictions and Capital Markets

The third objective is to "improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets" (IFRS 15.IN5). As explained throughout the thesis, IFRS 15 is more prescriptive in nature and offers more guidance than current standards. However, the extent to which extent it will lead to a more consistent reporting by entities depends on how the entities interpret the standard, and what changes they believe is necessary to make in order to comply with it. The level of consistency is what both case companies and analysts based their expectation of future comparability on. The findings indicate that despite the increased guidance, many entities will be able to continue with their current way of recognizing revenue, with the exception of entities in for example the telecom industry. If this expectation proves itself to be true, IFRS 15 will most likely not lead to an increased level of comparability. Furthermore, both the case company and the analysts active in the

telecom industry expects the comparability to decrease after the implementation of IFRS 15, due to the new allocation method between the handset and the subscription. It may thus be that the effect will differ in different industries, which makes it difficult to determine whether or not the stated objective will be achieved.

The objective identifies entities, industries, jurisdictions and capital markets as areas in which comparability should be improved. Comparability between entities, is to a large part dependent on entities using the same treatment of similar transactions, and can be obtained if a standard limits the use of alternative accounting methods. Comparability across industries is harder to achieve. Analyst 1 addressed this and stated "I think that you really need to compare companies in the same industry, it is very difficult to compare across industries because the business models are so different [...]", and then continued by questioning the importance of it as well; "[...] I don't think it matters that much, everybody has their degree of analysis for each industry, and for each industry you are looking at different points to justify analysis […]". Perhaps comparability across industries is not of importance to users, as they primarily are focused on one or a few industries and are interested in the comparability between entities in the same industry. Analyst 5 also indicated that differing business models make it hard to compare firms, even within the same industry. He stated that US and European telecom companies rarely are comparable, due to different types of tariff and handset plans, and he does not expect this to change with the implementation of IFRS 15 or its US GAAP equivalent.

In conclusion, if IFRS 15 will result in increased comparability is still uncertain. It is dependent on if the level of consistency in accounting treatment will increase or not. This will be possible to assess after implementation.

Provide more Useful Information to users of Financial Statements through Improved Disclosure Requirements

The fourth objective that the Boards intend IFRS 15 to fulfill is to "provide more useful information to users of financial statements through improved disclosure requirements" (IFRS 15.IN5). One of the most prominent changes from current Standards and IFRS 15 is the amount of disclosures requirements needed, as stated previously throughout the thesis. IFRS 15 requires an extensive amount of disclosures, which has caused a rift between preparers and users. Preparers tend to argue that the requirements are excessive and that the cost of preparing these will outweigh the benefits provided to users. Users, on the other hand, always want more information. A quote from Analyst 2 can be used to illustrate their view.

When asked whether he wants more information, he said: “Now you’re asking a bit of a dumb question. Much wants more. I will never have enough information. I always want more.”

One reason why preparers in general are opposed to the new disclosure requirements is that they feel that it will not provide the users with decision-useful information, and thus question the relevance of them. An argument presented earlier is that IFRS 15 requires entities to disclose information that they do not have or even use internally today. This suggests that it is not useful for decision-making. Analyst 3, however, said that he would rather have too much information provided by entities, and then be able to decide himself what is central for decision-making and what can be ignored. In line with the Conceptual Framework and the cost constraint, this line of thinking could result in effort and cost being spent on providing information that is of no benefit to users. Thus, it is important that the required disclosures are viable from a cost-benefit perspective.

Overall, users appreciate more information in order to make more informed decisions. As IFRS 15 requires entities to disclose information about how they have applied the Standard, it can be expected that understandability and verifiability will increase. Furthermore, comparability can be increased as well when users receive more specific information about entities and can compare these to each other. This indicates that the objective will be achieved. However, decision usefulness may be limited due to the issues identified previously in regards to timeliness of the full amount of disclosures.

Simplify the Preparation of Financial Statements by Reducing the Number of Requirements to which an Entity must Refer

The fifth and final objective is to “simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer” (IFRS 15.IN5). This objective seems to be more directed towards entities following US GAAP, as it contains over 100 industry specific requirements and guidelines. However, it can also apply IFRS, but to a lesser extent. Currently, there are two standards. By only having one standard, entities will not have to make the choice between IAS 11 and IAS 18. On the other hand, entities following IFRS will have to comply with the increased guidance which in turn can lead to them having to consider more requirements than currently, which further indicates that this fifth objective is more directed towards current US GAAP rather than IFRS.

Although the increased guidance force entities to comply with more requirements, it can simplify the accounting process. Most of the case companies expressed that more guidance could in fact be helpful, despite new or increased requirements, because it removes some factors of uncertainty. In situations

where they before had to make judgments, IFRS 15 can provide guidance and through that facilitate in situations where there currently is difficult to determine the correct accounting treatment. However, for telecom it will be more requirements to comply with than currently.

7.10 Study Limitations

The thesis concerns an accounting standard yet to be implemented. Therefore, some of the effects on accounting quality of IFRS 15 are based upon expectations and preliminary assessments from various stakeholders. The preparations for the implementation of IFRS 15 in the case companies are still being conducted, implying that further changes and effects can be discovered after the time of the interviews. Furthermore, some changes and effects may only be detectable after its implementation.

Furthermore, interviews with financial analysts have been used to represent the views of the user perspective. These views may not be representative of all primary users. Furthermore, the thesis is based on a multiple-case study approach with one company serving as the representative of the selected industry. Consequently, there is a possibility that other companies from the same industries expect other changes and effects than those detected in this thesis.

8. Conclusion

This thesis has investigated the effects of IFRS 15 on accounting quality based on the IASB's Conceptual Framework. Although revenue can seem like a simple concept, the findings of this thesis show the opposite in terms of how to measure and recognize it. What contribute to the complexity are the different views on what constitute accounting quality and decision-useful information. Thus, what is viewed as an improvement by one group of stakeholders can be viewed as a negative affect in the views of another.

To some extent, it can be concluded that IFRS 15 harmonizes better with the Conceptual Framework than current revenue standards by being more based on an asset-liability approach through emphasizing that revenue arise due to changes in contract assets and contract liabilities. However, during the development of IFRS 15, it is apparent that the Boards have compromised with various stakeholders at the expense of the asset-liability approach and thus its harmonization with the Conceptual Framework. Strong opposite views between the Boards and preparers and users on how to best depict financial performance and value generation were evident in the hearing rounds. As a result, the initial intention for IFRS 15 to be fully based on an asset-liability approach was diluted. Consequently, IFRS 15 ultimately incorporates two approaches to revenue recognition, one which is based on the transfer of control and one that primarily is based upon the activities performed in an entity during a reporting period. The conclusion is thus that while IFRS 15 is more based upon an asset-liability approach than current revenue recognition standards are, it does not fully harmonize with the underlying model of the Conceptual Framework. Accordingly, IFRS 15 does not fully solve the existing inconsistency that the current revenue recognition standards are based upon different underlying models. It is more or less the same set of principles in a different disguise.

The level of accounting quality is determined to the extent that the qualitative characteristics of the IASB's Conceptual Framework are maximized. To determine how IFRS 15 will affect accounting quality, the expected changes in accounting for revenue have been identified and analyzed with respect to the qualitative characteristics. One of our main findings is that many industries will not be significantly affected by the introduction of IFRS 15 in terms of revenue recognition. This applies to four of the five industries. The reason for this can largely be explained with the fact that IFRS 15 is principles-based, thus there is naturally room for judgment. If there is limited change in the measurement and recognition of revenue, the conclusion is that accounting quality in terms of the

qualitative characteristics will also be limitedly affected. Then, increased accounting quality of IFRS 15 will then depend on the degree of increased decision-usefulness of the new disclosures. As we argued in the previous chapters, the increased disclosure requirements have potential to improve understanding, verifiability and comparability.

An aspect for which it can be concluded that IFRS 15 will lead to higher accounting quality is the guidance for identifying separate performance obligations in a contract. It will lead to a more faithful representation of the recognition of revenue from many multi-element arrangements. Due to clearer guidance on how to identify the different revenue generating components of contracts, recognized revenue will be more reflective of the value generated to the customer by considering whether different elements in a contract provides standalone value to the customer. This is an aspect that was lacking in current revenue requirements, especially IAS 18, and will thus solve one weakness of current revenue standards.

The findings show that the telecom industry will be significantly affected by IFRS 15. The effects will be both in terms of revenue recognition and the level of complexity of implementing and adopting the Standard. Although the new allocation methodology provides a more faithful representation of revenue recognized from bundles of subsidized handsets and network services from a theoretical perspective, findings indicate that the decision-useful information provided by financial statements concerning revenue is reduced in terms of relevance, faithful representation, understandability, comparability and verifiability from a user perspective. It has further been questioned whether the handsets even should be viewed as a separate performance obligation. This is linked to the specific financing structure of such transactions, where handsets are rather used as a tool to attract customers to the main business of providing network services. In extension, these findings indicate that having one revenue recognition standard applicable to all revenue and all industries may not be optimal. Industries with very unique business models may require specific regulation, and for these IFRS 15 can result in adverse effects. The findings also show that the Boards compromised with some industries, but neglected the views of others, which is especially evident for the telecom industry.

Beyond pure accounting changes, the implementation of IFRS 15 is expected to have positive side effects in the way it forces entities to examine their contracts and routines thoroughly in order to ensure compliance with the new Standard. Examples from the case companies show that it may lead to a more standardized and consistent accounting practice internally, which ultimately can affect accounting

quality positively. It can also contribute to better management accounting in the way that companies may get a better picture of the value-generating components in a contract.

Relating back to the main research question, the study demonstrates the importance of revenue and the difficulty of developing common revenue recognition rules that satisfy the views of accounting quality of all stakeholders. IFRS 15 was developed with the qualitative characteristics in mind, and according to the Conceptual Framework it may be better than previous standards in principle. In practice, however, due to different views on what constitutes accounting quality and decision-useful information, all preparers and users in all industries may not regard the changes as increasing accounting quality. This emphasizes the elusiveness of the accounting quality concept, thus it is hard to tell whether IFRS 15 will overall improve accounting quality or not. It will depend on the qualitative characteristic being considered, as well as the specific industry and business model under question.

8.1 Suggestions for Further Research

As IFRS 15 is not yet implemented and adopted, an obvious suggestion for further studies is thus to investigate the effects of Standard after its implementation to see if the expectations are fulfilled and potentially detect other effects. It will then also be possible to quantitatively assess the effects of IFRS 15 on accounting quality through statistical techniques and various operational metrics measuring accounting quality.

Throughout the thesis, it has become evident that telecom is the industry that is expected to be most affected. Thus, further studies focusing solely on the telecom industry could be of interest. For example, it could be interesting to quantitatively investigate the predictive value of the new revenue figure. Furthermore, telecom is an industry with business models that are continuously changing and experimented with in order to attract and tie customers to the business. Therefore, it would be interesting to explore how IFRS 15 will cope with the continuously changing business models.

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10. Appendices

Appendix A

Interview Guide, Analysts

The purpose of the thesis is to explore the consequences of implementing IFRS 15 *Revenue from Contracts with Customers*, which is effective from January 1, 2018. The focus of the thesis will be its effects on accounting quality, as defined by the IASB's Conceptual Framework.

According to this framework, the objective of general purpose financial reporting is to provide financial information that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. In order to achieve this objective, information provided by the financial statements must first and foremost be relevant and faithfully represent the phenomena it purports to represent. Furthermore, the decision-usefulness may be enhanced by making the information comparable to other entities and across time, verifiable, timely and understandable.

Questions

- What is your professional position and what are your main work responsibilities/tasks?
- Is the revenue post in companies' financial statements important for your work? What do you use this information for?
- What kind of additional information do you want to know about the revenue of a company?
- Are there currently sufficient disclosures attached to the revenue item in your opinion?
- Are there any issues with the current way that companies report revenue?
- How do you find the process of comparing companies with respect to revenue?
- In order to perform analyses involving revenue, would you say the financial statements currently provide you with all the necessary information to perform those analyses? If not, which information is lacking?
- What is your view on having one revenue recognition standard for all revenue related to contracts with customers?
- Do you believe that IFRS 15 will provide a better reflection of revenue streams or patterns?
- Will the introduction of IFRS 15 affect your work? How?
- How do you think the market will react to IFRS 15?
- In your opinion, is there a need for a new revenue recognition standard? Why/why not?

Brief Overview over IFRS 15 and Prominent Changes sent to Analysts together with Interview Questions

IFRS 15 *Revenue from Contracts with Customers* supersedes the two current revenue standards, IAS 18 *Revenue* and IAS 11 *Construction Contracts*. While the previous standards provided separate regulations on how to account for revenue from different sources, such as sale of goods, rendering of services or construction contracts, IFRS 15 focuses on any contract with customers contracting to obtain the output of an entity's ordinary activities. This means that independent of whether revenue is arising from sale of goods, rendering of services, or construction contracts, companies will follow the same requirements; the five-step model that IFRS 15 is built around. The model is as follows:

1. Identify the contract(s) with a customer to establish its/their existence
2. Identify the performance obligations in the contract by identifying distinct goods and services
3. Determine the transaction price, which is the amount of consideration the entity is entitled to in exchange for the promised goods and services specified in the contract
4. Allocate the transaction price to each performance obligation in the contract based on the stand-alone selling price of each distinct good or service in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The current revenue recognition criteria are based on whether revenue can be measured reliably and whether it is probable that the economic benefits will flow to the entity. For sale of goods, the significant risks and rewards of ownership must be transferred to the customer as well. In IFRS 15, revenue is prescribed to be recognized when or as the customer obtains control over the asset (good or service). The entity needs to determine whether control is transferred over time or at a point in time and recognize revenue accordingly. Recognition over time is conducted when the customer simultaneously receives and consumes the asset during the entity's performance; *or* an asset in the control of the customer is being enhanced or created; *or* the entity has no alternative use of the asset and has enforceable rights to payment for performance completed to date.

IFRS 15 also specifies a wider range of disclosures that needs to be included than the previous standards dictated. Examples of disclosures include disaggregation of revenue in areas that describe type, amount, timing for recognition, uncertainty and cash flows that arise; reconciliation of the contracts (opening and closing balances, contract assets and liabilities that arises in relation to the contract, etc.); information

about the performance obligations in the contract; information about costs incurred to obtain or fulfill the contracts.

Furthermore, IFRS 15 presents more requirements in areas where there is currently exercised much discretion, such as: how to unbundle contracts into distinct performance obligations; how to allocate the transaction price to the distinct performance obligations and how to estimate stand-alone selling price on performance obligations where no price is observable; how to account for uncertain or contingent revenue arising from variable elements in the consideration; and how to deal with contract modifications. All in all, the change from IAS 18 and 11 to IFRS 15 represents a move from having very few rules and little guidance to having more extensive and detailed requirements.

Appendix B

Interview Guide, Case Companies

Background Information

What is your position in the company and what are your main work responsibilities/tasks?

How involved are you in the work concerning the implementation of IFRS 15?

Current Revenue Recognition

How do you recognize and measure revenue currently?

How do you find the process of applying the current revenue recognition standards?

Accounting Changes due to IFRS 15

What type of customer contracts does the firm have?

How will the treatment of the following accounting aspects change due to IFRS 15?

- Identification of contracts with customer
  - Combination of contracts
  - Contract modifications
- Identification of performance obligations in the contract
  - Unbundling of contracts into distinct goods and services
  - Customer options for additional goods or services
  - Non-refundable upfront fees
- Determination of transaction price
  - Variable consideration
  - Significant financing component
  - Non-cash consideration
  - Consideration payable to a customer

- Allocation of the transaction price to performance obligations
    - Stand-alone selling prices

- Recognition of revenue when or as performance obligations are satisfied
    - Recognition criteria (over time or point in time)
    - Measuring progress towards complete satisfaction of a performance obligation

How will the treatment of costs related to contracts differ when IFRS 15 is implemented?

How will the treatment of contract losses change due to IFRS 15?

How will the increased disclosure requirements in IFRS 15 affect the company?

How will the treatment of warranties or right to returns change under IFRS 15?

Implementation of IFRS 15 in Your Company

When did the company start to plan for the implementation of IFRS 15?

How far are you in the work with investigating the consequences of IFRS 15 in your company? Have you started implementing it yet, or parts of it?

Have you already chosen which of the transition methods you will use (retrospective or cumulative effect)? If yes, which one and why?

If any, what changes are needed to be made to other aspects of business, such as:

- Financial reporting processes and accounting systems
- Accounting policies
- Internal control systems
- IT systems
- Data collection methods
- Business practices
- Formulation of contracts and contract terms
- Compensation
- Loan agreement

How will the introduction of contract assets and contract liabilities work in practice?

Are there any types of contracts you offer to which IFRS 15 will be more challenging to apply? If yes, which type?

Will the new Standard demand more effort when preparing financial statements, or during the ongoing accounting?

What do you believe will be the largest challenges for the company with the upcoming Standard?

Your Views on IFRS 15 in the Company

Do you feel that you will get increased guidance on how to recognize revenue with the new Standard compared to the previous standards?

Do you believe that the new standard will provide a better reflection of your company's revenue streams/patterns? Does it reflect the company's business model?

Do you believe that the new standard will improve comparability across firms in the same industry? Why, or why not?

What is your view on having one revenue recognition standard for all revenue related to contracts with customers?

Do you believe that the new standard will give users of your financial statements more decision-useful information? Why, or why not?

In your opinion, is there a need for a new revenue recognition standard? Why, or why not?

Specific Questions to the Telecom Case Company:

How will the accounting of treatment of sales through indirect sales channels be affected by IFRS 15?

How have you decided whether IFRS 15 shall be applied to individual contracts or to a portfolio of similar contracts?

How will the portfolio approach work in practice and what challenges are related to it?

Appendix C

Overview of Comment Letters Reviewed for the Thesis:

Company	Number in List on the FASB website	Date of Letter	Submitted by	Industry	Type of Stakeholder	In-text Reference
Comment letters to DP						
Verizon Communications Inc.	31	June 17, 2009	Robert J. Barish	Telecom	Preparer	Verizon CL DP
Vodafone Group Plc	57	June 18, 2009	Andy Halford	Telecom	Preparer	Vodafone CL DP
Deutsche Telekom AG	24	June 9, 2009	Michael Brucks	Telecom	Preparer	Deutsche Telekom CL DP
Alcatel Lucent	164	June 8, 2009	Paul Tufano	Telecom	Preparer	Alcatel Lucent CL DP
Balfour Beatty plc	169	June 19, 2009	Duncan Magrath	Construction	Preparer	Balfour Beatty CL DP
The Boeing Company	132	June 19, 2009	Robert J. Pasterick	Construction /Engineering	Preparer	Boeing CL DP
Committe of European Securities Regulators (CESR)	217	July 27, 2009	Fernando Restoy	N.A	User	CESR CL DP
Cisco Systems,	177	June 22,	Russel	IT	Preparer	Cisco CL DP

Inc		2009	Golden			
Fujitsu Limited	20	June 12, 2009	Kazuo Yuasa	IT	Preparer	Fujitsu CL DP
German Construction Industry Association	40	June 17, 2009	Ralf-Peter Oepen	Construction	Preparer	German Construction Industry Association CL DP
International Organisation of Securities Commissions (IOSCO)	213	July 21, 2009	Julie A. Erhardt	N.A	User	IOSCO CL DP
Nokia	62	June 18, 2009	Anja Korhonen	Telecom	Preparer	Nokia CL DP
PwC LLP	68	June 18, 2009		N.A	Auditor	PwC CL DP
French Society of Financial Analysts (SFAF)	212	June 19, 2009	Jacques de Greling & Bertrand Allard	N.A	User	SFAF CL DP
Swedish Listed Construction Companies: JM AB, NCC AB, Peab AB & SKANSKA AB	191	June 26, 2009	Claes Magnus Åkesson, Ann-Sofie Danielsson , Mats Leifland & Hans Biörck	Construction	Preparer	Swedish Listed Construction Companies CL DP

Comment Letters to ED1						
Alcatel Lucent	325	October 20, 2010	Paul Tufano	Telecom	Preparer	Alcatel Lucent CL ED1
The Boeing Company	311	October 21, 2010	Greg Smith	Construction/ Engineering	Preparer	Boeing CL ED1
Committee of European Securities Regulators (CESR)	598	Septemb er 24, 2010	Fernando Restoy	N.A	User	CESR CL ED1
Deloitte Touche Tohmatsu Limited	393	October 22, 2010	Veronica Poole	N.A	Auditor	Deloitte CL ED1
Fujitsu Limited	330	October 22, 2010	Kazuo Yuasa	IT	Preparer	Fujitsu CL ED1
German Construction Industry Association	352	October 21, 2010	Prof. Dr. Ralf-Peter Oepen	Construction	Preparer	German Construction Industry Association CL ED1
International Organisation of Securities Commissions (IOSCO)	968	Decemb er 7, 2010	Julie A. Erhardt	N.A	User	IOSCO CL ED1
Norwegian Accounting Standards Board	583	October 22, 2010	Erlend Kvaal	N.A	National standard setter	Norwegian Accounting Standards Board CL ED1
Swedish Financial Reporting Board	940	Novemb er 1, 2010	Anders Ullberg	N.A	National standard setter	Swedish Financial Reporting

						Board CL ED1
Vodafone	573	October 20, 2010	Andy Halford	Telecom	Preparer	Vodafone CL ED1
Swedish Listed Construction Companies: JM AB, NCC AB, Peab AB & SKANSKA AB	185	October 19, 2010	Claes Magnus Akesson	Construction	Preparer	Swedish Listed Construction Companies CL ED1
Balfour Beatty plc	572	October 22, 2010	Duncan Magrath	Construction	Preparer	Balfour Beatty CL ED1
Comment Letters to Revised ED2						
AT&T, Sprint & Verizon	38	March 7, 2012	John Stephens, Joseph J. Euteneuer & Francis J. Shammo	Telecom	Prepaper	AT&T, Sprint & Verizon CL ED2
BDO IFR Advisory Limited	259	March 13, 2012	Andrew Buchanan	N.A	Auditor	BDO CL ED2
The Boeing Company	125	March 13, 2012	Diana L. Sands	Construction/ Engineering	Preparer	Boeing CL ED2
Deutsche Telekom AG	215	March 2, 2012	Dr. Guillaume Maisondieu & Michael Brücks	Telecom	Preparer	Deutsche Telekom CL ED2
European Securities and Markets Authority	288	March 14, 2012	Steven Maijoor	N.A	User	ESMA CL ED2

(ESMA)						
Norwegian Accounting Standards Board	203	March 13, 2012	Erlend Kvaal	N.A	National standard setter	Norwegian Accounting Standards Board CL ED2
Siemens AG	270	March 13, 2012	Dr. Jochen Schmitz	Electronics & Industrial Products	Preparer	Siemens CL ED2
Swedish Financial Reporting Board	309	March 16, 2012	Anders Ullberg	N.A	National standard setter	Swedish Financial Reporting Board CL ED2
Swedish Listed Construction Companies: JM AB, Peab AB & SKANSKA AB	292	March 15, 2012	Claes Magnus Åkesson, Jesper Göransson & Peter Wallin	Construction	Preparer	Swedish Listed Construction Companies CL ED2
Vodafone Group Plc, France Telekom S.A., Deutsche Telekom AG, Telefónica S.A., Belgacom S.A., Cable and Wireless Communications Plc, JT Group Limited, KDDI Corporation, Royal KPN N.V., Millicom S.A. (Tigo), NTT DOCOMO	332	Februar y 29, 2012	Andy Halford, Gervais Pellissier, Timotheus Höttges, Miguel Escrig Meliá, Roy Stewart, Tim Pennington, John Kent, Nanae Saishoji, Eric Hageman,	Telecom	Preparer	Telecom Companies in Group CL ED2

INC, SOFTBANK CORP, Telecom Italia			Francois-Xavier Roger, Kazuto Tsubouchi, Kazuhiko Kasai, Andrea Mangoni			

Comment Letters to Discussion Paper can be retrieved from:
http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage%26cid=1218220137090%26project_id=1660-100

Comment Letters to Exposure Draft can be retrieved from:
http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage%26cid=1218220137090%26project_id=1820-100

Comment Letters to Revised Exposure Draft can be retrieved from:
http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage%26cid=1218220137090%26project_id=2011-230