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IFRS 15: Revenue from Contracts with Customers

1. Introduction

International Financial Reporting Standard 15 (IFRS,2017, p. 15) is a new accounting standard introduced by the International Accounting Standards Board (IASB) in May 2014. IFRS 15 provides a comprehensive framework for recognizing revenue from contracts with customers, replacing the previous guidance provided by IAS 18 and IAS 11. The new standard aims to improve the consistency and comparability of revenue recognition practices across industries, countries, and capital markets. IFRS 15 establishes a five-step approach for recognizing revenue, which requires companies to identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations, and recognize revenue when (or as) the performance obligations are satisfied. Adopting IFRS 15 has significant implications for companies with contracts with customers, particularly those with complex arrangements or long-term contracts. The standard requires companies to exercise judgment, make estimates in applying the five-step approach, and introduce new disclosure requirements.

Overall, IFRS 15 represents a significant change in revenue recognition practices and has important implications for financial reporting, performance measurement, and investor decision-making.

2. Literature review

The goal of IFRS 15 is to "establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer" (IFRS 15, para. 1). In order to accomplish this, IFRS 15 introduces a five-step process for the recognition and measurement of revenues. The principles are intended to bring the revenue reporting practices of firms closer to economic reality. Identifying the contract with customers, identifying performance obligations, figuring out the transaction price, dividing it among the performance obligations, and figuring out when the performance obligations are satisfied are all steps in this process. Compared to IAS 18, IFRS 15 is much more prescriptive and offers extensive guidance to promote greater consistency and comparability across various industries and entities. There is also specific mention of the customer obtaining legal title, which is probably highly deterministic of when revenue is recognized for the sale of goods.

For businesses that sell combinations (packages) of goods and services, it was anticipated that identifying performance obligations and requiring the distribution of the transaction price among the various performance obligations would have the biggest effects. For instance, a physical mobile phone and mobile service are frequently combined by telecommunications companies. The contract was frequently regarded as a single performance obligation under IAS 18, and revenue was recorded each month as payments came in. According to IFRS 15, the mobile phone

is now seen as a separate performance obligation, and the anticipated revenue from the sale of the phone is recorded right away after it is transferred to the customer. Every month, the mobile service is honored. Recurring revenue agreements for cloud software affect software companies that are similar but different. Businesses can bring forward revenue for software contracts to the time the customer takes possession of the software license, instead of recognizing revenue monthly. The big accounting firms' articles highlighting the changes brought about by IFRS 15 identify sectors dependent on long-term contracts as more likely to be impacted. IFRS 15.5 mandates more thorough disclosures of revenue contracts, even in sectors where long-term contracts are uncommon.

The role of regulation in financial reporting has been extensively discussed in the literature, with attention given to fundamental questions like whether market incentives can be relied upon to ensure disclosure of information or whether regulatory intervention is necessary (e. g. , Benston, and others. Cooper and Keim (1983), Tinker (1984), Jeanjean & Stolowy (2008), and Tinker (2006). Certain aspects of financial reporting regulation, such as the organizations in charge of establishing accounting standards, the procedures used to do so, and the nature of those standards, have undoubtedly been impacted by this. The focus of this study is on evaluating the impact of a standard accounting change on the relevance of information in financial reports, which is a more practical issue. It is not concerned with the overall effectiveness of financial reporting regulation. This is significant because the provision of information to users to support decision-making is the objective of financial reporting, as stated in the Conceptual Framework for Financial Reporting (paragraph 1.2).

The switch to IFRS, which took place in many nations in 2005 (e.g., the United States), is the standard accounting change that has garnered the most attention in the literature to date. g. According to Ashbaugh and Pincus (2002), Carmona and Trombetta (2008), De George et al. 2016; Horton et al. (2012), and Soderstrom & Sun (2007)). The evidence that the adoption of IFRS improved accounting quality generally was largely concentrated in Europe (Barth et al., 2008), and based on stock price reactions, investors realized this (Armstrong et al., 2010). Additionally, there is proof that after adoption, earnings and book values became more significant (Barth et al., 2014) and grew more in line with earnings and book value calculated in accordance with US GAAP (Barth et al., 2012). These results were most likely influenced by the size of the changes, which included the breadth of their effects on financial reports and the number of accounting standards that changed. Simply put, the effects were substantial and widespread.

Studies looking at the effects of IFRS adoption in Australia (Chalmers et al. 2011; Clarkson and colleagues. 2011; Cotter and colleagues. (Jeanjean & Stolowy, 2008; Jeanjean, 2012). While there is evidence that the relevance of earnings increased with the switch to IFRS, this was not the case for the book value of equity (Chalmers et al., 2011). This result was likely influenced by several important elements to the current investigation. First, Australia had a policy of

harmonization that reduced the effects of transition (Cotter et al., 2012). Second, financial reports were not always affected uniformly by the changes. When it comes to identifiable intangible assets, for instance, there have been significant changes in accounting procedures. Evidence suggests that after the transition, pertinent data about these assets were left out of financial reports. , 2008). Thus, the significance of the impact on financial reports, the range of companies affected, and the consistency of the impacts will all influence the outcomes of any evaluation of the effect of the accounting standard change.

3. Conclusion

In conclusion, commercial contracts can have significant implications for corporate balance sheets and cash flows under IFRS 15. The terms of the contract may affect the recognition of revenue and the timing and amount of cash inflows, which may have important implications for financial reporting, performance measurement, and investor decision-making. Therefore, companies need to carefully evaluate the impact of commercial contracts on their financial statements and cash flows under IFRS 15 and ensure compliance with the standard's requirements.

4. Resources:

Accounting Standards Board, 1994. Financial reporting standard 5 (FRS 5). Reporting the substance of transactions.

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