The real effects of the new revenue accounting standard

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Details of the publication

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Napier, C.J. and Stadler, C. (2020): "The real effects of a new accounting standard: the case of IFRS 15 Revenue from Contracts with Customers", *Accounting and Business Research*, 50(5): 474-503.

Aims of this presentation

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- To outline a framework for studying the effects and consequences of new, and amended, accounting regulations and standards

- To apply the framework to examine a specific accounting change – the implementation of IFRS 15 *Revenue from Contracts with Customers*

- To discuss future directions for research into accounting for revenues from contracts with customers

Our framework

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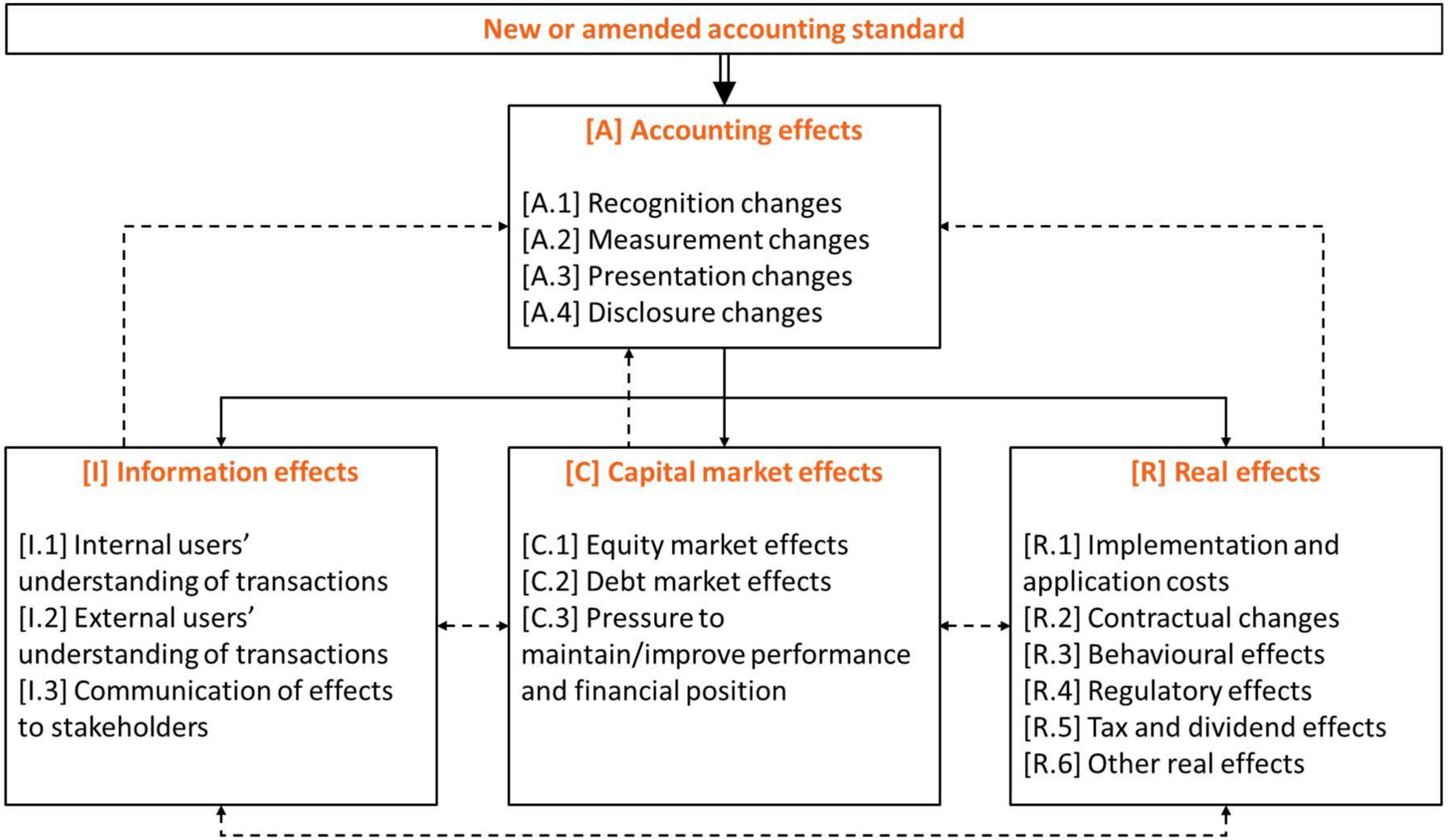

direct accounting effects

additional effects (including indirect accounting effects)

Sources for empirical material

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- **Annual reports** of constituent companies of the STOXX Europe 50 index as at 31 December 2018
- **Comment letters** of STOXX Europe 50 companies relating to the IASB's 2011 revenue exposure draft (ED/2011/6)
- **Interviews** with:
  - A preparer
  - An advisor on implementing IFRS 15
  - An auditor

Our sample – STOXX Europe 50

ABInBev
Air Liquide
AIRBUS
Allianz
ASML
AstraZeneca
AXA
Santander
BARCLAYS
BASF We create chemistry
British American Tobacco
BAYER
BBVA
SAP
BNP PARIBAS
bp
DAIMLER
Deutsche Telekom
DIAGEO
eni
GLENCORE
gsk
SANOFI
HSBC
LLOYDS BANKING GROUP
L'ORÉAL
LVMH MOËT HENNESSY . LOUIS VUITTON
Nestlé
INTESA SANPAOLO
ING
novo nordisk
PRUDENTIAL
RioTinto
Roche
SAFRAN
nationalgrid
NOVARTIS
Reckitt Benckiser
Schneider Electric
SIEMENS
Telefónica
TOTAL
UBS
Unilever
VINCI
vodafone
ZURICH

Recognition and measurement changes – I

- Recognition and measurement changes were analysed by reference to changes in reported numbers:
  - Change in **retained earnings** as a percentage of shareholders’ equity (ΔRE – absolute value ignoring sign)
  - Change in **reported revenue** from IAS 11/18 to IFRS 15, as a percentage of the 2018 reported revenue on IFRS 15 basis (ΔR – absolute value ignoring sign)
  - Change in **reported profit** from IAS 11/18 to IFRS 15, as a percentage of the 2018 reported profit on IFRS 15 basis (ΔP – absolute value ignoring sign)

Recognition and measurement changes – II

	Mean	Median	Min	Max	#Δ>0	#Δ=0	#Δ<0
Company reports that effect is not material	48%						
Δ retained earnings / shareholders' equity [ΔRE]	1.88%	0.05%	0%	57.31%	11	17	20
ΔRE excluding the company Airbus	0.70%	0.05%	0%	11.55%	11	17	19
Effect (ΔRE) >1%	13%						
Δ revenue / revenue [ΔR]	0.72%	0%	0%	13.12%	5	33	10
Effect (ΔR) >1%	13%						
Δ profit / revenue [ΔP]	0.16%	0%	0%	1.61%	4	38	6
Effect (ΔP) >1%	8%						

Disclosure changes – I

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- Only 38% of companies provided a separate revenue note:
  - This was an increase on the prior year, when only 25% of companies included a separate note on revenue
  - IFRS 15 disclosures often included in the segment reporting note
  - On average, the revenue note for 2018 took up ¾ of a page, compared to ¼ of a page in the prior year
  - Longest revenue note took up 6 pages
  - Only 1 company – Reckitt Benckiser – reduced disclosure, but this was the effect of a change in definition of operating segments

Disclosure changes – II

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- Some comment letters criticised the increase in disclosure:
  - BP raised the issue of how IFRS 15 disclosures interacted with segment information disclosed under IFRS 8
- Interviewees had mixed views about the increase in disclosure:
  - 'Most people would say that revenue disclosures were generally poor. The intention was that IFRS 15 would give users a lot more information. I think we're probably only about 60% of the way there in year one and I think year two should show some further improvement.' [Auditor]
  - 'Some of the additional disclosures are a waste of time' [Preparer]

Information effects – External

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- EADS (now Airbus) saw the additional IFRS 15 disclosures as:
  - 'An "accounting-only" exercise that will divert our limited internal resources away from other financial reporting areas that we consider to be of more interest to users.'

Real effects – Implementation costs

- **Implementation costs** involved both internal staff resources and external advisory services, often as a three-stage process:
  - Initial impact assessment
  - Technical implementation (detailed study of how IFRS 15 affected the recognition and measurement of the business's revenue)
  - Practical implementation (updating existing accounting information systems and developing new systems to provide the information required by IFRS 15)
- In its comment letter, Deutsche Telekom claimed that the costs would be 'at least hundreds of millions of Euros'

Real effects – Contractual & Behavioural

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- **Contractual changes:**
  Interviewees thought that any changes to contracts would be marginal: if contracts made commercial sense, it would not be appropriate to change them dramatically merely to make it easier to apply IFRS 15
- **Behavioural effects:**
  Interviewees thought that marketing departments would have to change their practices regarding sales incentives that would give rise to additional performance obligations

Directions for future research – I

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- Revenue is an under-researched area in accounting
- Number of papers in "accounting" journals that include:

	revenue	earnings
in the title	139	2,919
in the keywords	129	2,447
in the abstract	890	5,156

- Source: Scopus (19 October 2020)
- "accounting" journals are journals that include "accounting" in the title

Directions for future research – II

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Area	Our research	Possible future research
Accounting effects: recognition & measurement	48 firms and one year	Analyse whether changes have capital market effects, focusing on industries that were more affected
Accounting effects: disclosure	Quantity of 48 firms in two years	- Quantity using a larger sample, more years and more detailed scoring - Quality
Information effects & real effects	Three interviews (preparer, advisor and auditor)	Interviews with users (e.g. analysts)
Capital market effects	Not investigated	Effect on analyst forecasts