Compliance with IFRS 15 mandatory disclosures: an exploratory study in telecom and construction sectors

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Abstract

Purpose – The purpose of this study is to explore the degree of compliance of a sample of European Union (EU) listed groups with the International Financial Reporting Standard 15 (IFRS 15) mandatory disclosures in two specific sectors, namely, telecommunication and construction.

Design/methodology/approach – To carry out this research, the authors selected 22 annual reports for the year 2018. The authors created and completed a datasheet based on a close review of the IFRS 15 disclosure requirements. A content analysis of the selected annual reports was then performed.

Findings – The results show that the sampled groups do not fully comply with the IFRS 15 mandatory disclosures and the degree of compliance differs between the two investigated sectors.

Originality/value – To the best of the authors' knowledge, this study explores, for the first-time, the degree of compliance with the IFRS 15 mandatory disclosures, by focusing on a cross-country sample of EU listed groups.

Keywords Disclosure, Compliance, Revenue recognition, Contract with customers, IFRS 15

Paper type Research paper

1. Introduction

In May 2014, as part of the ongoing convergence project between the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), the International Financial Reporting Standard 15 (IFRS 15) "Revenue from contracts with customers" was issued to supersede a number of standards, and became mandatory for annual periods beginning on or after 1 January 2018.

The IFRS 15 issuance has gained much attention given that it will affect the amount, timing and recognition of revenue. It will also have a follow-on impact to financial reporting and disclosures (KPMG, 2016). By discussing challenges of ASC606 [1], Hepp (2018) stated that "financial reporting is entering a period of almost unprecedented change".

The Big-Four (Big4) auditors raised concerns regarding companies' compliance with the new standard, and urged companies to assess their practices and modify their accounting information systems accordingly (Wang *et al.*, 2019). Similarly, the European Securities and Market Authority (ESMA) public statement (ESMA 32–63-503, 2018) highlighted specific issues related to the first-time IFRS 15 application, especially the importance of disclosing the transition method applied and sufficient information to enable users of financial

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statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ESMA (2018) reported that the IFRS 15 disclosure requirements articulated by its paragraph (hereafter, §) 110 might require entities to provide more granular information in the financial statements than disclosed previously. Therefore, the purpose of this research is to explore the degree of compliance of a sample of European Union (EU) listed groups with the IFRS 15 mandatory disclosures.

Following IFRS adoption, prior studies investigated compliance with mandatory disclosures. They revealed non-full-compliance and a diversity in disclosure levels (Tsalavoutas and Evans, 2010; Galani *et al.*, 2011; Tsalavoutas, 2011; Glaum *et al.*, 2013a). Other studies also documented a lack of compliance with disclosure requirements of some specific international standards: Glaum *et al.* (2013b) (IFRS 3 and International Accounting Standard [IAS] 36); Tsalavoutas *et al.* (2014) (IFRS 3, IAS 36 and IAS 38); Coste *et al.* (2014) (IAS 16, IAS 38 and IAS 36); Devalle *et al.* (2016) (IAS 38); Kobbi-Fakhfakh (2017) (IAS14/IFRS8); and Mnif and Znazen (2020) (IFRS7).

The present study contributes to the extant IFRS adoption literature in the following ways. Firstly, using data extracted directly from annual reports, it examines compliance with disclosures requirements with a specific focus on a new issued international standard i.e. IFRS 15. Secondly, despite the importance of revenue recognition in financial reporting, there is surprisingly little empirical research examining this issue. Since the introduction of the IFRS 15, some recent studies discussed its expected effects (PriceWaterhouseCoopers, 2014; Deloitte, 2014; Ernst and Young, 2016; KPMG, 2016; Thornton, 2018), provided a review of companies' disclosures of its anticipated impacts and transition reporting choices (Chartered Financial Analyst [CFA] Institute [2]) (CFA Institute, 2017) or analysed the effect of the first-time IFRS 15 adoption (Trabelsi, 2018). Other recent studies proposed a framework and developed a prototype that redesigns revenue cycle business processes to comply with the IFRS 15 (Wang *et al.*, 2019) or focused on the effects of the mandatory IFRS 15 adoption on interim disclosures (Financial Reporting Council [FRC] [3]) (FRC, 2018; KPMG, 2018) which are considered as less extensive than those for full-year accounts. Thus, to the best of our knowledge, apart from the analyses performed by the FRC (2019) and KPMG (2019), which are an extension to their earlier reviews taken on 2018 interim reports, no studies were conducted to examine the first IFRS 15 disclosures in annual reports. Thirdly, while the studies of the FRC (2019) and KPMG (2019) analysed, respectively, 2018 annual reports of British and Dutch listed companies, the current study focuses on a cross-country sample of EU listed companies and provides a first in depth analysis of the IFRS 15 mandatory disclosures. Fourthly, this study considers two specific sectors, telecommunication and construction. The rationale for this choice is that these two sectors are respectively identified, by the Big4 auditors, as high sensitive and medium/high sensitive sector to the introduction of the IFRS 15. Furthermore, these two sectors were, before the IFRS 15 issuance, under the scope of two different accounting rules for revenue recognition i.e. the IAS 18 "Revenue" and the IAS 11 "Construction contracts". In addition, they commonly engage in bundled contracts (telecom sector) and long-term projects (construction sector) that are likely to be deeply affected in terms of accounting treatment under the IFRS 15. According to Ciesielski and Weirich (2011, 2015), industries with long-term contracts and complex transactions using bundled contracts will be likely candidates for significant changes after the IFRS 15 implementation. Thus, focusing on these two sectors would give interesting insights on the nature and the scope of the potential effects of the transition to the IFRS 15, as a unique revenue recognition standard, relative to each of such two sectors.

To carry out this research, we created a datasheet based on a close review of the IFRS 15 disclosure requirements. This datasheet includes disclosure items about the transitional method (IFRS 15, Appendix C), the contracts with customers (IFRS 15, §113–122), the significant judgments made in applying the IFRS 15 (IFRS 15, §123–126) and the information about assets recognized from the costs to obtain or to fulfil a contract with a customer (IFRS 15, §127–128). A content analysis of the 2018 annual reports of 22 EU listed groups was performed and the datasheet was completed. Results show that the groups analysed do not fully comply with the IFRS 15 mandatory disclosures and the degree of compliance differs between the two investigated sectors.

Section 2 provides a brief overview of the standard relevant to the present study i.e. IFRS 15. Section 3 reviews the literature addressing studies on compliance with mandatory disclosures, under IFRS, and studies on revenue recognition, under IFRS 15. Section 4 describes the research design. Section 5 reports and discusses the results. Section 6 concludes the paper.

2. International Financial Reporting Standard 15 – a new standard on revenue recognition: a brief overview

In this study, the analysis of compliance concentrates on a selected area of IFRS i.e. the revenue recognition. Revenue is considered as the most important performance indicator for a given reporting period which informs investors and financial analysts on the potential for value creation of reporting entities (CFA Institute, 2017). Its recognition has been one of the most challenged issues confronting standard setters and accountants (Zhang, 2005).

Within the framework of the ongoing convergence project with the FASB, the IASB issued, in May 2014, the IFRS 15 "Revenue from contracts with customers". This standard contains the accounting principles for all revenue arising from contracts with customers. It supersedes the IAS 18 "Revenue", the IAS 11 "Construction contracts" and a number of revenue-related interpretations, including the International Financial Reporting Interpretations Committee (IFRIC) 13, the IFRIC 15, the IFRIC 18 and the Standing Interpretations Committee 31. It became mandatory for annual periods beginning on or after 1 January 2018 with early adoption allowed.

According to the IASB, the key objective of the IFRS 15 is to give a more comprehensive and robust framework for the recognition, measurement and disclosure of revenue. This standard aims to remove weaknesses and inconsistencies of the set of old revenue rules and to improve comparability of revenue recognition practices across entities and industries (Lemus, 2014). It also aims to secure the potential benefits of increased disclosure.

The implementation of the IFRS 15 is raising a number of challenges for financial users as well as for auditors who need more guidance to deal with its requirements. To recognize revenue from contracts with customers, under the IFRS 15, an entity shall apply the following five steps:

(1) identify the contract(s) with a customer;
(2) identify the performance obligation(s);
(3) determine the transaction price;
(4) allocate the transaction price to the performance obligation(s) in the contract; and
(5) recognize revenue when (or as) the entity satisfies a performance obligation.

According to the Accounting Standard Board (ASB) (2015), the steps 1, 2 and 5 relate, primarily, to the recognition of revenue. The steps 3 and 4, on the other hand, relate closely to the measurement of revenue.

The IFRS 15 provides explicit presentation and disclosure requirements, which are more extensive than under the old standards (FRC, 2018; KPMG, 2019). Specifically, it requires that an entity discloses quantitative and qualitative information about its contracts with customers, the significant judgements and changes in the judgements made to those contracts and any assets recognized from the costs to obtain or fulfil a contract with a customer (IFRS 15, §110) . It should be noted that many of the new requirements involve information that entities did not previously disclose. Furthermore, given the complexity of the IFRS 15 guidelines, the policies to apply to revenues and costs will be more challenging to explain and request more detailed disclosures (Ernst and Young, 2017).

According to the Big4 auditors, the effects of the IFRS 15 implementation will differ between entities adopters because of the specificity of different sectors they are belonging to and the diversity of contracts and type of revenue. The impact on financial statements, business processes and internal controls is expected to be higher or medium in certain sectors, but low or no significant in others.

To understand if the impact of the IFRS 15 implementation on financial statements quality will be the same on all sectors or not, Tutino *et al.* (2018) used the specific sectors guidelines, available on the websites of the Big4 auditors. They drew up a table which summarizes the Big4 auditors' expectations as presented below.

It can be observed from Table 1 that the telecommunication sector is likely to be the most affected by the new guidelines of the IFRS 15, while an average impact is expected for all other sectors, especially the building and construction sector.

3. Literature review

The international accounting harmonization has, always, targeted a better quality of financial reporting. Since the adoption of the international standards i.e. IFRS, several studies investigated the effects of the IFRS adoption on financial reporting. By conducting a meta-analysis, Ahmed *et al.* (2013b) found that countries' adoption and implementation of the IFRS led to higher accounting information quality and more efficient capital markets. In the same vein, Hodgdon *et al.* (2008) found that forecast error is negatively related to the IFRS compliance. Similarly, Armstrong *et al.* (2010) concluded that the IFRS adoption in Europe decreased the information asymmetry and improved the information quality as expected by investors. In contrast, Ahmed *et al.* (2013a) found that accounting quality declined after mandatory IFRS adoption when they examined the effects of mandatory IFRS

	KPMG	Ernst & Young	Deloitte	Pricewater houseCoopers
Insurance	Medium	Medium/low	N/A	N/A
Building and construction	Medium	Medium/high	Medium	Medium
Retail and consumer goods	Medium	Medium	Medium	Medium
Licensors (media, life science and franchisors)	Medium/high	N/A	Medium	Medium
Real estate	Medium	N/A	Medium	Medium
Technology	Medium	N/A	Medium/low	High
Telecommunication	High	High	High	High
Energy (mining, oil and gas)	Medium	Medium	Low	Low
Transport	Medium	N/A	N/A	Low

Source: Tutino *et al.* (2018, p. 9)

Table 1.
Impact of the IFRS 15 on financial statement quality – the Big4 expectations

adoption on accounting quality proxied by the following metrics: income smoothing, reporting aggressiveness, timeliness of loss recognition and meeting earnings targets.

Nowadays, one of the major changes in the IFRS' panorama is represented by the adoption of IFRS 15, mandatory from 1st January 2018. Revenue recognition is particularly thorny and the IFRS 15 mandates substantial increases in disclosure. According to Ernst and Young (2018, p. 2):

> Entities may need to change aspects of their financial statement presentation and significantly expand the volume of their disclosures when they adopt the new revenue recognition standard issued by the IASB, even if they do not expect adoption of the standard to affect the timing or measurement of revenue

Revenue, as the top-line of the income statement, is usually considered as a vital metric for users of financial statements and is used to assess a company's financial performance and prospects. The relevance of revenue is proved, also by the intervention of the ESMA (2018), calling for improvements in disclosure related to revenue recognition, following the IFRS 15 issuance.

The present research addresses compliance with the IFRS 15 required disclosures of 22 listed groups from EU countries. Most closely related to our research are studies focusing on compliance with internationally recognized standards. In the following paragraphs, we report a literature review on compliance with mandatory disclosures under IFRS, in general, and about revenue recognition, under IFRS 15, in particular.

3.1 Compliance with mandatory disclosures under International Financial Reporting Standard

Previous research on compliance with IFRS mandatory disclosures, in the EU context, since their implementation in 2005, is limited. We can cite Verriest *et al.* (2013) (EU context), Tsalavoutas and Evans (2010), Galani *et al.* (2011) and Tsalavoutas, 2011 (Greek market) and Glaum *et al.* (2013a) (German market).

Tsalavoutas (2011), for example, examined 153 Greek listed companies' compliance with all IFRS mandatory disclosures during 2005. They found a relatively low average level of compliance and a considerable variation in the compliance scores identified. Verriest *et al.* (2013) investigated the relationship between companies' corporate governance and their disclosure choices with regard to the first-time adoption of IFRS in 2005. Based on data for a sample of large European companies, they found substantial heterogeneity regarding the level of detail disclosed on companies' restatements from local generally accepted accounting principles to IFRS and for compliance with certain high-level disclosure items (cash flow statement, segment reporting, earnings per share, etc.).

Dealing with specific international standards, some prior studies investigated compliance with their disclosure requirements. Glaum *et al.* (2013b) analysed the compliance with disclosures required by IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" for a large sample of European companies mandatory applying IFRS. They found substantial non-compliance. Furthermore, they showed that company- and country-level variables jointly explain compliance levels. Tsalavoutas *et al.* (2014) found non-compliance with the mandated disclosures of IFRS 3, IAS 36 and IAS 38 across some EU countries during early periods of mandatory IFRS implementation. Particularly, they concluded that the level of enforcement in a country affects the level of compliance. Devalle *et al.* (2016) revealed a low compliance of the Italian listed companies with the intangible assets disclosures, as required by the IAS 38. Coste *et al.* (2014) analysed, for a sample of entities applying IFRS, the information disclosed on the property plant and equipment (IAS 16), intangible assets (IAS 38) and impairment of assets (IAS 36). They concluded that in Romania and Hungary, the entities that prepare financial statements in accordance with IFRS disclose required information in an average proportion. Kobbi-Fakhfakh *et al.* (2018) documented a substantial variation in the degree of compliance of EU listed groups with the IFRS 8 "Operating segments" disclosure requirements.

Ultimately, the aforementioned studies documented a lack of full-compliance with the IFRS disclosure requirements. Furthermore, a great variability in the compliance scores was documented (Tsalavoutas, 2011). To address such variability, previous studies adopted a positive accounting approach (Watts and Zimmerman, 1986) and attempted to identify the determinants of firms' compliance with IFRS mandated disclosures. Drawing on agency, signalling, capital need and proprietary costs theories, they have suggested and tested several variables as explanatory factors for compliance with mandatory disclosures. They perceived disclosure as a discretionary choice that is jointly determined by firm- and country-level characteristics such as firm size, profitability, leverage, ownership structure, audit firm size, internationality, firm- and country-level governance mechanisms (Berger and Hann, 2007; Tsalavoutas, 2011; Verriest *et al.*, 2013; Glaum *et al.*, 2013b; Tsalavoutas *et al.*, 2014; Kobbi-Fakhfakh *et al.*, 2018, 2020).

3.2 International Financial Reporting Standard 15 studies

The IFRS 15 revised the revenue recognition method and the disclosure requirements. The first papers on this new standard have been published by the Big4 auditors and have discussed its expected effects (PriceWaterhouseCoopers, 2014; Deloitte, 2014; Ernst and Young, 2016; KPMG, 2016; Thornton, 2018). A paper published by the CFA Institute, in 2017, provided a review of companies' disclosures of anticipated impacts of the IFRS 15 and transition reporting choices. It highlighted the effects of the changes on selected companies, including Microsoft and Rolls-Royce, two companies that have extensively communicated (quantitative and narrative disclosures) about the expected impact of the IFRS 15 implementation.

By carrying out a literature review on studies dealing with revenue recognition under the IFRS 15, we identified six publications (Trabelsi, 2018; KPMG, 2018, 2019; FRC, 2018, 2019; Wang *et al.*, 2019). Wang *et al.* (2019) proposed a framework and developed a prototype that redesigns revenue cycle business processes to comply with the IFRS 15. Trabelsi (2018) examined the impact of the IFRS 15 early adoption on the quality of accounting information. By analysing 2015 annual reports of real estate listed companies in Dubai financial market, the author identified only three companies which have applied the IFRS 15 earlier. She found that this early adoption had a significant positive effect on two accounting numbers: earnings and stockholders' equity. The FRC (2018) reviewed the interim financial statements of a sample of 17 companies operating, essentially, in telecommunication, aerospace and defence and software sectors. It found a significant impact of the initial IFRS 15 application. But, it highlighted that disclosures for some required information could be improved. Similarly, KPMG (2018) analysed the financial communication of a sample of 47 companies belonging to the CAC 40 and Next 20 indexes on 30 July 2018. It identified the main trends of the IFRS 15 implementation, in terms of the transition method used, the importance and the nature of the key impacts, as well as the first information provided in the notes of the interim financial reports.

As an extension to its earlier review, KPMG (2019) analysed the impacts of the IFRS 15 first-application, as disclosed in the 2018 annual reports, of 69 Dutch listed companies. It concluded that there is a lack of disclosure for some IFRS 15 required information. Also, limited disclosures are mainly observed in those financial statements of companies where the introduction of the IFRS 15 had a limited financial impact. Similarly, the FRC (2019) reviewed the full-year accounts of a sample of 25 entities adopting IFRS 15 for the first time, in 2018. In particular, it focused on disclosures explaining the transition to IFRS 15, accounting policies description, judgements in determining the amount and timing of revenue to be recognized, revenue disaggregation and the impact on the balance sheet. In addition, it identified examples of better practices. Overall, it concluded that there were incomplete disclosures in certain areas and there was room for improvement by all companies examined, in the future.

Finally, this review illustrates that despite the importance of revenue recognition in financial reporting, there is surprisingly little empirical research examining this issue. Furthermore, the IFRS 15 was recently introduced and, therefore, there are few studies dealing with this new standard. Indeed, since the introduction of IFRS 15, most of the published papers about it have discussed its expected effects or have presented its effective impact by analysing interim disclosures for the year 2018. Only, the FRC (2019) and KPMG (2019) studies have analysed the first IFRS 15 disclosures in 2018 annual reports of British and Dutch listed companies, respectively. Thus, there is no study exploring compliance with IFRS 15 disclosure requirements using a cross-country sample of EU companies. The current study addresses this gap in the literature and attempts to give some responses to the concerns raised about the effects of the first-time IFRS 15 implementation on the extent of disclosure.

4. Methodology

4.1 Sample selection

To construct our sample, we initially extracted all listed companies operating in telecommunication and construction sectors from the *World's Largest Public Companies - Forbes 2019 Global 2000 [4]*. We, then, excluded non-EU listed companies. We removed another one company because its annual reports closing date is not December 31. Focusing on a cross-country sample of EU listed companies allowed us to guarantee certain homogeneity of our sample and to avoid certain problems of analysis. Indeed, all the sampled companies prepared their annual reports in accordance with IFRS which became mandatory for fiscal year beginning on or after 1 January 2005.

The final sample consists of 22 listed groups. Table 2 illustrates the sample selection process (Panel A) and shows the distribution of the sample by sector and country (Panel B). The sample is equally divided between the two sectors: telecom and construction and most of the sampled groups are located in France (5) and Germany (5), followed by Sweden (3) and Spain (3).

4.2 Data and research method

To carry out this research, we selected 22 annual reports for the fiscal year 2018 considered as *the first mandatory adoption year of IFRS 15*. We created and completed a datasheet based on a close review of the IFRS 15 disclosure requirements (see Table 3 below). It includes 33 disclosure items related, respectively, to the transition method (3 items), the contracts with customers (10 items), the significant judgments made (14 items) and the contracts costs (6 items). Each item was coded as "disclosed", "not disclosed" or "not applicable". This approach is consistent with Cooke (1989).

A content analysis of the selected annual reports was performed twice by the two co-authors to ensure the reliability of coding. If any discrepancy appears, a discussion takes place to explain it.

Furthermore, we only considered the information included in financial statements and their notes because this type of information constitutes the exclusive subject to IFRS 15.

The current study is exploratory in nature. Thus, our methodology adopts a descriptive approach. It specifically examines the disclosure frequency of the items defined in our datasheet to measure the degree of compliance of the sampled groups with the IFRS 15 disclosure requirements.

5. Findings

5.1 International Financial Reporting Standard 15 transition method

The Appendix C, as an integral part of the IFRS 15, provides two transition options. The entity may choose between the full retrospective method described in paragraph C3a and the simplified retrospective method stated in paragraph C3b. The full retrospective method consists of applying the IFRS 15 requirements to each prior reporting period presented in accordance with previous standards to adjust the comparative data. According to the Big4 auditors, this option ensures more comparability for financial statements users. However, the simplified retrospective method allows the entity to recognize the cumulative effect of the IFRS 15 as an adjustment to the opening balance in equity, at the date of initial application, without restatement of the comparative period amounts, in line with the IFRS 15 requirements. The FRC (2018) stated that financial information preparers perceive this latter option as less difficult to practice and less onerous.

An analysis of the annual reports for the year 2018 revealed that all the sampled groups have applied the IFRS 15, for the first time, in 2018, the mandatory adoption year. This is not surprising given the technical and operational complexity of the IFRS 15 implementation (FRC, 2018).

Table 4 shows that half of the sampled groups have chosen the simplified transition method with cumulative effect. However, ten companies (45.45%) have used the full retrospective method and only one company (4.55%) has not disclosed any information about the applied transition method. Furthermore, there was not a clear preference for a

Panel A: Summary of the sample selection procedure	
Listed companies from the world's largest public companies – Forbes 2019 Global 2000 operating in telecom and construction sectors	102
Non-EU companies	79
Company whose closing date for its annual reports is not December 31	1
Total sample	22

Panel B: Distribution of the sample by sector and country

	Telecom sector		Construction sector		Total	
	N	(%)	*N*	(%)		
France	2	18.18	3	27.27	5	22.73
Germany	3	27.27	2	18.18	5	22.73
The Netherlands	2	18.18	–	–	2	9.09
Sweden	1	9.09	2	18.18	3	13.64
Belgium	1	9.09			1	4.55
Spain	1	9.09	2	18.18	3	13.64
Italy	1	9.09	–	–	1	4.55
Austria	–	–	1	9.09	1	4.55
Finland	–	–	1	9.09	1	4.55
Total	11	100	11	100	22	100

Table 2. Summary of the sample selection procedure and its characteristics

Table 3. The IFRS 15 disclosure requirements datasheet

No.	Information about:	IFRS 15 Reference
	Transition method	
1	Full retrospective method	C3a
2	Simplified method	C3b
3	Information about the use of practical expedients	C5 and C7
	Contracts with customers	
4	Revenue recognized from contracts with customers disclosed separately from other sources of revenue	§113a
5	Impairment losses recognized on any contract assets arising from an entity's contracts with customers disclosed separately from impairment losses from other contracts	§113b
6	Disaggregation of revenue after IFRS 15 adoption Categories used to disaggregate revenue after IFRS 15 adoption: – Type of good and service – Timing of transfer of goods or services (at a point of time and over time) – Matrix presentation – Contract duration (short-term and long-term contracts) – Market or type of customer (government and non-government customer)	§114–115
7	The opening and closing balances of contract assets and contract liabilities	§116–118
8	An explanation of how the timing of satisfaction of the performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances	
9	An explanation of the significant changes in the contract asset and the contract liability balances during the reporting period	
10	Performance obligations description	§119–122
11	The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period	
12	A quantitative or qualitative explanation of when the entity expects to recognize as revenue the amount of unsatisfied performance obligations as of the end of the reporting period	
13	Practical expedient about the unsatisfied performance obligations as of the end of the reporting period	
	Significant judgements made in applying IFRS 15	
14	The timing of satisfaction of performance obligations	§123a
15	The timing of satisfaction of PO is only "Point in time"	
16	The timing of satisfaction of PO is only "over time"	
17	The timing of satisfaction of PO is both "Point in time" and "over time"	
18	The methods used to recognize revenue output/input methods	§124a
19	An explanation of why the methods used provide a faithful depiction of the transfer of goods or services, when the timing is "over time"	§124b
20	An explanation of why the performance obligation is satisfied at "a point in time"	§125
21	Determining the transaction price and the amounts allocated to PO	§123b
22	Allocation of the transaction price	§126
23	Variable consideration	
24	Financing component	
25	Practical expedient about financing component	
26	Discounts	
27	Contract modification	
	Assets recognized from the costs to obtain or fulfil a contract with a customer	
28	Costs to obtain a contract	§127
29	Costs to fulfil a contract	
30	The method of amortization	
31	The amount of amortization	§128
32	Closing balances of contract costs by main category	
33	Practical expedient about the incremental costs of obtaining a contract	§129

Table 4.
Transition method to the IFRS 15

Transition method	Full sample N	(%)	Telecom industry N	(%)	Construction industry N	(%)	Sampled groups
Full retrospective method	10	45.45	5	45.45	–	–	Orange, Vivendi, Telia company, Altice Europe and KPN
			–	–	5	45.45	Bouygue, Skanska, Deusche Whonen, Eiffage and Kone
Simplified retrospective method	11	50	6	54.55	–	–	Proximus, Telecom Italia, Telefonica, Deutsche Telecom, United Internet and Veon
			–	–	5	45.45	Starbag, ASC, Vinci, Venovia and Acciona
Not disclosed	1	4.55	–	–	–	–	–
			–	–	1	9.1	Fabege
Total	22	100	11	100	11	100	

method of transition by the groups belonging to the same sector; while, in its thematic review, FRC (2019) found that all the telecommunication companies applied the simplified retrospective method.

The IFRS 15 also provides entities with certain practical expedients that can facilitate the transition to its new requirements. It gives the opportunity to entities that choose full retrospective method to use one or more of the three practical expedients provided by the Appendix C (C5) of the IFRS 15. The first two ones are related to the completed contracts prior to the date of the first-time IFRS 15 adoption (IFRS 15, C5a and C5b). The third one provides, for all reporting periods presented before the date of the IFRS 15 initial application, an exemption to disclose the transaction price amount allocated to the remaining performance obligations and to explain when the entity expects to recognize this amount as revenue (IFRS 15, C5c). In our analysis, only the telecom French group "Orange" has disclosed explicitly, in its annual report, that it had applied the first (IFRS 15, C5a) and the third (IFRS 15, C5c) practical expedients.

Furthermore, the IFRS 15 gives the opportunity to the entity, which choose the simplified transition method, to apply this standard retrospectively only to contracts that are not completed at the date of initial application (IFRS 15, C7). Our analysis identifies three telecom groups in this context, especially the Belgium group "Proximus", the German group "Deutsche Telecom" and the Spain group "Telefonica". For example, "Proximus" has disclosed in its notes of consolidated financial statements:

> For IFRS 15, the retrospective application applies to those contracts not completed at the date of initial application. The Group opted as a practical expedient according to IFRS 15 for not restating retrospectively the contracts for all contract modifications that occurred before the date of initial application

However, none of the construction groups have disclosed whether they had adopted any of the aforementioned practical expedients. According to Glaum *et al.* (2013b), non-compliance can occur because of unintentional neglect, a misinterpretation of disclosure requirements or an intentional decision to not comply with the rules.

In addition, according to the IFRS 15, C4, the entity that applies the full retrospective method is only required to report the quantitative information for the annual period immediately preceding the first annual period of the standard application. It may also present this information for earlier comparative periods but it is not required to do so. Our analysis identified two telecom groups which have adopted the full retrospective method and have disclosed restated financial information for the year 2016. They are the French group "Orange" and the Swedish group "Telia Company". The "Orange" group has restated, in addition to the year 2017, the 2016 comparative period amounts. However, the "Telia" group has disclosed, for the 2016 annual period, the adjusted information about its assets, liabilities and some of its performance indicators to make these elements compliant with the IFRS 15 requirements. For the construction sector, only the French group "Bouygues" has disclosed a restated consolidated balance sheet for the 2016 annual period.

5.2 Degree of compliance with the new International Financial Reporting Standard 15 disclosure requirements

5.2.1 Information about contracts with customers. According to the §110a of the IFRS 15, an entity shall disclose qualitative and quantitative information about its contracts with customers. The required information is detailed, in the IFRS 15, from §113 to §122. Consequently, we coded this information using the ten items defined in our datasheet above.

Table 5 classifies these items into three sections. We discuss, respectively, the degree of compliance of the annual reports with the disclosure requirements about revenue recognized from contracts with customers, contract balances and performance obligations.

5.2.1.1 Information about revenue recognized from contracts with customers. Table 5 (Panel A) shows that all the groups studied seem to be fully compliant (100%) with the information required by the §113a of the IFRS 15 but not with the information articulated by the §113b. In fact, all the telecom and construction groups have disclosed their revenue from contracts with customers separately from other sources of revenue. However, ten groups, in the telecom sector, have disclosed information on impairment losses related to contract assets, compared with only six groups, in the construction sector, which have disclosed such item. From these groups, the Swedish telecom group "Telia company" has reported, in its 2018 annual report, that "there are no material contract assets past due and no allowance for expected credit losses related to contract assets". Similarly, the German construction group "Venovia" has claimed, in its 2018 annual report that "due to the structure of standard payment terms in development activities, no separate loss of value is taken into account for corresponding claims with customers".

Otherwise, the IFRS 15, §114 requires that:

> [...] an entity shall disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors

On the other hand, IFRS 8 "Operating segments" requires that an entity shall provide information for segments as they are defined for internal reporting purposes. Particularly, it requires the disclosure of revenues per business and geographic segment.

IFRS 15, §112 clarifies that an entity need not disclose information which has been provided under another standard. However, if company's revenue information, that is disclosed under the IFRS 8, do not sufficiently respond to the disclosure objectives of the IFRS 15, this company should provide users of financial statements with further information in such a way to help them understand the composition of revenue recognized in the period. Furthermore, the IFRS 15, §115 requires that when a company applies the IFRS 8, it should explain the relationship between revenue disaggregation in the segment reporting section of the annual report and revenue disaggregation provided under the IFRS 15.

Table 5.
Information about contracts with customers

No.	Items required by IFRS 15:	IFRS 15 references	Telecom sector N	Telecom sector (%)	Construction sector N	Construction sector (%)
	Panel A: Contracts with customers					
1	Revenue recognized from contracts with customers disclosed separately from other sources of revenue	§113	11	100	11	100
2	Impairment losses recognized on any contract assets arising from an entity's contracts with customers disclosed separately from impairment losses from other contracts		10	90.91	6	54.54
3	New disaggregation of revenue after IFRS 15 adoption	§114–115	7	63.6	7	63.63
	Categories used to disaggregate revenue after IFRS 15 adoption:					
	– Type of goods and services		3	27.27		
	– Timing of transfer of goods or services (at a point of time and over time)		1	9.09	2	18.18
	– Matrix presentation		3	27.27		
	– Contract duration (short-term and long-term contracts)				1	9.09
	– Market or type of customer (government and non-government customer)				4	36.36
	Panel B: Contract balances					
4	The opening and closing balances of contract assets and contract liabilities	§116–118	10	90.91	7	63.63
5	An explanation of how the timing of satisfaction of the performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances		10	90.91	9	81.81
6	An explanation of the significant changes in the contract asset and the contract liability balances during the reporting period		7	70	4	36.36
	Panel C: Performance obligations					
7	Performance obligations description	§119–122	11	100	11	100
8	The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period		9	81.82	8	72.73
9	A quantitative or qualitative explanation of when the entity expects to recognize as revenue the amount of unsatisfied performance obligations as of the end of the reporting period		7	77.78	6	54.54
10	Practical expedient about the unsatisfied performance obligations as of the end of the reporting period		4	44.44	0	0

Table 5 (Panel A) shows that the IFRS 15 disclosure requirements 15 have resulted in the adoption of further categories to disaggregate the revenue, besides segments identified under the IFRS 8. In fact, for the telecom sector, seven groups (63.6%) have added new categories following the IFRS 15 implementation. The Swedish group "Telia Company", for example, has disclosed segment information, under the IFRS 8, by geographical area. The first-time adoption of the IFRS 15 led this group to provide more detailed disaggregation in a matrix format i.e. by geographical area and type of goods and services. For the Belgian group "Proximus", the IFRS 15 implementation led it to disaggregate its revenue, for the first-time, by the timing of transfer of goods and services i.e. at a point in time or over time. This group, has disaggregated its revenue, pre-IFRS 15, by line-of-business and geographical area. The French group "Vivendi", on the other hand, has also added a new category to disaggregate its revenue i.e. by activity (intellectual property license,

subscription service, advertising, merchandising and others). Otherwise, the Deutsche group "Altice Europe" and the German group "KPN" have disaggregated their revenue by the type of goods and services. This category was not used pre-IFRS 15 and these groups, previously, disaggregated their revenue by line-of-business and by geographical area. Finally, for the German group "Deutsch telecom" and the Dutch group "Veon", the IFRS 15 application has led them to disaggregate their revenue by using a matrix presentation (type of goods and services and geographical area). Prior to the IFRS 15, these two groups used only the type of goods and services as a disaggregation category.

For the construction sector, Table 5 (Panel A) shows that the IFRS 15 application has, also, led seven groups to use other categories to disaggregate revenue than those previously used under the IFRS 8. These categories are the timing of transfer of goods or services (two groups: the Sweden group "Fabege" and the German group "Deutsche Wohnen"), the market or type of customer (four groups: the French groups "Eiffage", "Bouygue" and "Vinci" and the Spain group "Acciona") and the contract duration (one group: the French group "Vinci").

However, our analysis identified eight groups that did not provide any additional information on revenue disaggregation compared to their segment disclosures which raise doubt over whether the disclosure objective had been met, as stated by the FRC (2018). In particular, given that the IFRS 15 requires that an entity shall determine and explain the timing of satisfaction of its performance obligations (at a point in time and/or over time), the non-disaggregation of its revenue, at least, on this basis raises some questions.

Taken together, our content analysis identified timing of transfer of goods or services (at a point of time or over time) to the customer as a new disaggregation category, which has been used by the two studied sectors (3). In addition, other categories were identified and were specific to each of the both sectors. We cite, for the telecom sector, the disaggregation of revenue by type of goods and services (3) or in a matrix format (3). For the construction sector, on the other hand, we note the disaggregation of revenue by contract duration (1) or by market or type of customer (4). We can then conclude that the first-time adoption of the IFRS 15 improved the transparency of the financial reporting with regard to the revenue disaggregation for 14 groups. The targeted objective is to provide the users of financial statements with more precise information that explain the origin of the revenue recognized during a period. Our findings corroborate, in some ways, those found by the FRC (2019) and KPMG (2019). Indeed, the FRC (2019) identified the type of market, the type of goods and services and the timing of transfer of goods and services to the customer as the most commonly used categories by the companies analysed. Moreover, KPMG (2019) noted that 96% of the sampled companies have disclosed disaggregation of revenue, either as part of the revenue disclosure or as part of the IFRS 8 segment reporting disclosure. Furthermore, companies disaggregated revenue mainly by geographical region (78%), by type of goods or services (51%) or by operating or reportable segment (51%).

5.2.1.2 Information about contract balances (116–118). KPMG (2019) documented that among the most significant disclosed drivers explaining the impact of the IFRS 15 are presentation and enhanced disclosures. They specified that the IFRS 15 impacted the presentation of financial statements, such as introducing contract assets and contract liabilities. In fact, under the IFRS 15, an entity shall disclose information about contract balances. More specifically, it should provide the opening and closing balances of contract assets and contract liabilities (IFRS 15, §116a), an explanation of how the timing of satisfaction of the performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances (IFRS 15, §117), as well as their variations during the reporting period (IFRS 15, §118).

Table 5 (Panel B) shows that 90.91% of the telecom annual reports analysed seem to be fully compliant with information required by the §116a and the §117 of the IFRS 15. However, for the construction sector, only nine groups have complied with the information required by the §117 of the IFRS 15 from which seven groups provided the opening and closing balances of their contract assets and liabilities as required by the §116a. Eventually, Table 5 (Panel B) shows that only 11 sampled groups, including 7 groups operating in the telecom sector, have provided an explanation of the sources of variation of their contract balances.

Overall, the results found indicate a lack of full-compliance of the sampled groups with the required information about contract balances. Furthermore, it appears that the telecom groups were more compliant than their counterparts operating in the construction sector. We point out this more compliance for the all three kinds of information examined. We can, even, notice that the degree of compliance of construction groups with the information required by the §118 is low as it is, by far, below the average (36.36%). This finding was also confirmed by KMPG's (2019) analysis which noted that disclosures for contract assets and contract liabilities were limited. Thus, we highlight the need to improve the quality of information about contract balances in upcoming annual reports.

5.2.1.3 Information about performance obligations (119–122). The IFRS 15, §119, requires that "an entity shall disclose information about its performance obligations in contracts with customers". This will allow the financial statements users to get information not only about the accounting policies for recognizing revenue but also a description on how the policy is related to the contracts they entered into with customers (Ernst and Young, 2017). The IFRS 15 requires information disclosure about the satisfied as well as unsatisfied or partially unsatisfied (sometimes referred to as "backlog") performance obligations. Indeed, the IFRS 15 requests the disclosure of the amount of the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as of the end of the reporting period (IFRS 15, §120a) and an explanation of when the entity expect to recognize this amount as revenue (IFRS 15, §120b). However, the IFRS 15 allows the entity not to disclose the information required above if the expected original duration of the contract is less than one year (IFRS 15, §121a). Items 7–10 in Table 5 (Panel C) detailed these requirements.

Table 5 (Panel C) shows that all the sampled groups have provided a description of their performance obligations arising from contracts with their customers. It also shows that 17 groups have disclosed the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. Furthermore, only 13 groups have provided an explanation of when they expect to recognize as revenue the amount of the transaction price allocated to the unsatisfied performance obligations. Particularly, they presented a chronological breakdown of their backlog as specified by the §120b(i) of the IFRS 15. Finally, as the IFRS 15, §121–122, provide entities with a practical expedient related to the unsatisfied performance obligations as of the end of reporting period, our analysis identified only four groups, exclusively in the telecom sector, that have disclosed explicitly that they made use of such practical expedient.

Overall, the results found a full compliance of the sampled groups with the IFRS 15 disclosure requirements with regard to the description of performance obligations. However, the degree of compliance degrades when it comes to provide more details related to the unsatisfied (or partially unsatisfied) performance obligations as of the end of the reporting period. This finding corroborates those found by KPMG (2019) and the FRC (2019) which noticed that disclosures on unsatisfied performance obligations were limited. The FRC

(2019) added that when required ‘backlog’ information appeared to be relevant and possibly material, for some companies, it was not provided.

Furthermore our analysis, always, documents the more compliance of the telecom sector groups compared to their counterparts belonging to the construction sector with disclosure requirements on performance obligations.

Three main conclusions can be drawn from the exploration of the compliance degree of the studied groups with the IFRS 15 disclosure requirements about contracts with customers.

Firstly, we notice a full compliance only in two cases. Specifically, all analysed reports contain a description of the performance obligations and provide revenue from contracts with customers separately from other sources of revenue. The full compliance may be justified by the ease of production of this kind of information. Indeed, when the required information necessitates a forward looking or estimates (like explaining the schedule of revenue recognition related to unsatisfied [or partially unsatisfied] performance obligations, or the pattern that relates the timing of performance obligations and the timing of payment) the degree of compliance degrades.

Secondly, among the four kinds of information about contracts with customers, we notice that the disclosure of information about revenue disaggregation performed the lowest percentages of compliance for the whole sample (from 9.09% to 27.27%). This result may suggest that the boundaries between the segment information required under the IFRS8 and the IFRS 15 disclosure requirements about the revenue disaggregation is still confusing for the preparers of financial reporting. Also, it may be explained by the fact that the IFRS 15 did not add further significant information to disclose and that the segment reporting provided under the IFRS 8 is sufficient to meet the information needs of the financial statements users.

Thirdly, the telecom groups were more compliant with the IFRS 15 disclosure requirements about contract with customers, than the construction groups. However, there is scope to improve the quality of information about contracts with customers as required from §113 to §122 of the IFRS 15.

5.2.2 Information about the significant judgements made in applying the International Financial Reporting Standard 15. According to the §110 b of the IFRS 15, an entity shall disclose qualitative and quantitative information about the significant judgements, and changes in the judgements, made in applying this standard to the contracts with customers. Indeed, §123–126 of the IFRS 15 provide that an entity should explain the judgments, and the changes in the judgments, made to determine two essential elements. Firstly, *when the performance obligations are met?* Secondly, *what is the transaction price and what are the amounts allocated to performance obligations?*

5.2.2.1 Determining the timing of satisfaction of performance obligations (International Financial Reporting Standard 15, 123a and 124–125). One of the critical issues with respect to revenue recognition is timing, i.e. the appropriate point in the sales cycle when revenue should be recognized (Zhang, 2005). KPMG (2019) found that among the most significant disclosed drivers explaining the impact of the IFRS 15 is the timing of revenue recognition.

Table 6 (Panel A) shows our findings regarding the disclosure frequency of information about the significant judgements made in determining the timing of satisfaction of performance obligations. It shows that, for the telecom sector, all the sampled groups have published an explanation of the moment when their performance obligations were satisfied (IFRS 15, §123a, §124 b and §125). It could be either “at a point in time” (example: the income from the sale of a mobile is recognized when the customer gets control over the mobile, including delivery) or “over time” (example: revenue generated by mobile or fixed

Table 6. Information about the significant judgements made in applying the IFRS 15

No.	Items required by IFRS 15 :	IFRS 15 references	Telecom sector N	Telecom sector (%)	Construction sector N	Construction sector (%)
Panel A: Determining the timing of satisfaction of performance obligations (PO)						
1	The timing of satisfaction of performance obligations (§123a)	§123 a	11	100	11	100
2	The timing of satisfaction of PO is only "Point in time"		–	–	1	9.09
3	The timing of satisfaction of PO is only "over time"		–	–	4	36.36
4	The timing of satisfaction of PO is both "Point in time" and "over time"		11	100	6	54.55
5	The methods used to recognize revenue output/input methods (§124a)	§124	–	–	8	80
6	An explanation of why the methods used provide a faithful depiction of the transfer of goods or services, when the timing is "over time" (§124b)		11	100	9	90
7	An explanation of why the performance obligation is satisfied at "a point in time" (§125)	§125	11	100	7	100
Panel B: Determining the transaction price and the amounts allocated to PO						
8	Determining the transaction price and the amounts allocated to PO	§123 b §126	11	100	9	81.81
9	Allocation of the transaction price (§126c)		9	81.81	4	36.36
10	Variable consideration		3	27.27	4	36.36
11	Financing component		8	72.72	1	9.09
12	Practical expedient about financing component		3	37.50	–	–
13	Discounts		6	54.55	1	9.09
14	Contract modification		3	27.27	5	45.45

phone traffic is recognized based on their use) depending on the nature of the performance obligations. For the construction sector, on the other hand, performance obligations are satisfied either "at a point in time" only (one group) or "over time" only (four groups) or at both times (six groups). In addition, except for the German group "Deutsche Wohnen", all the other sampled groups have explained the judgements made to determine the timing of their revenue recognition. Furthermore, except for the Sweden group "Fabege, the majority of the groups (ten) have used the degree of completion as the most appropriate method to recognize revenue. On the one hand, this finding does not seem to reflect a major change following the IFRS 15 implementation since, even in application of the old standard i.e. IAS11, this method was used. On the other hand, it shows that for the construction contracts, unlike IAS11, revenue recognition over time by reference to the degree of completion is no more automatic [5]. Indeed, our analysis identifies seven groups for which performance obligations were satisfied "at a point in time". Finally, for the construction groups, when performance obligations are satisfied "over time", the methods used to recognize revenue (i.e. a description of the output methods or input methods used and how those methods are applied) have been disclosed except for the Austrian group "Strabag" and the German group "Deutsche Wohnen".

5.2.2.2 Determining the transaction price and its allocation to the different performance obligations (123b and 126). The content analysis reveals that the telecom sampled groups offer a variety of customer contracts and a widespread use of bundled contracts. As the IFRS 15 is very prescriptive, it will be a challenge to determine the transaction price and to allocate it to the different performance obligations contained in telecom customer contracts. Most construction groups, on the other hand, such as "Venovia" (Germany), "Vinci"

(France), "Eiffage" (France) and "ASC" (Spain) stated in their annual reports that most of their contracts contain a single performance obligation.

Table 6 (Panel B) shows the disclosure frequency of information about the significant judgements made in determining the transaction price and the amounts allocated to performance obligations for the two sectors as required by the IFRS 15, §123b and §126. It reveals that the telecom groups have disclosed more information, in this regard, than their counterparts operating in the construction sector. Indeed, all the telecom groups and only nine construction groups have disclosed information on how they had determined the transaction prices of their contracts with customers. Furthermore, nine telecom groups and only four construction groups have explained how they had allocated these transactions prices to the performance obligations. One possible explanation for these findings is the specificity of the contracts with customers in these two sectors as discussed above.

Otherwise, IFRS 15 §48 provides that the nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. For the purpose of determining this price, an entity should consider: variable consideration; constraining estimates of variable consideration; the existence of a significant financing component in the contract; non-cash consideration; and consideration payable to a customer. In this context, the content analysis of the current study reveals that the nature and the level of detail of the information about transaction price determination depend on the industry type and on one group to another. Indeed, for the telecom sector, eight groups have considered the existence of a financing component in their contracts with customers, of which four groups have declared that such component was not material. In addition, six groups have provided information about discounts. But, only three groups have disclosed explanation about contract modification, variable consideration and practical expedient about financial component [6]. However, these details seem to be limited in the construction sector. Indeed, the most information disclosed with regard to transaction price determination was related to contract modification (five groups), and at a lower level to variable consideration (four groups). This finding can be explained by the fact that the construction contracts usually involve changes to the initial price stipulated by a contract because of claims and/or changes that may occur during the period of fulfilling the performance obligations of it.

Two main conclusions can be drawn from the exploration of the compliance degree of the studied groups with the disclosure requirements about the significant judgements made in applying the IFRS 15.

Firstly, the results show a high degree of compliance with the IFRS 15 disclosure requirements related to the timing of satisfaction of performance obligations (from 80% to 100%).

Secondly, except for the percentages of compliance with the required information about the contract modification and the variable consideration, the results show a superiority of all compliance percentages for the telecom groups compared to the construction groups. A possible explanation of this finding is that the telecom groups offer a variety of performance obligations within contracts with customers, while most of the construction groups' contracts contain a single performance obligation. Thus, the policies to apply IFRS 15 to revenue is more challenging to explain, for the telecom contracts, and, then, request more detailed disclosures than for the construction contracts.

5.2.3 Information about assets recognized from the costs to obtain or to fulfil a contract with a customer. Previously, costs incurred to obtain or to fulfil a contract with a customer were expensed as incurred, in the income statement. Under the IFRS 15, contract costs that are expected to be recovered are capitalized and recognized in the entity's consolidated balance sheet as assets over the estimated duration of the contract.

The IFRS 15, §127a, requires that "an entity shall describe the judgments made in determining the amount of the costs incurred to obtain (acquisition costs) or to fulfil (fulfilment costs) a contract with a customer". Table 7 below shows that information about assets recognized from the contract costs is almost absent in the construction sector. Nevertheless, several telecom groups have disclosed this required information. For these groups, the recognition of the acquisition/fulfilment costs as assets constitutes a main change, among others, that affected their previous accounting methods. They consider the sales commissions, for example, the commissions paid for "post-paid" contracts, and the equipment grants to dealers for a specific contract, as acquisition costs. In addition, the activation fees and the expected termination fees have been cited as fulfilment costs. Table 7 shows that the majority of the telecom groups (90.91%) have disclosed the amount of their capitalized acquisition costs and more than half (54.55%) of them have disclosed information about the assets recognized from the costs to fulfil a contract with a customer. On the other hand, only three construction groups have disclosed information about contract costs, in particular costs incurred to obtain a contract.

Furthermore, and in accordance with the IFRS 15, an entity should disclose the amount of the contract costs amortization and any impairment losses recognized in the reporting period (IFRS 15, §128b) as well as the method used to determine this amount (IFRS 15, §127 b). The content analysis of this study identifies ten telecom groups (90.91%) which have indicated the method they had used to determine the amortization of capitalized costs for each reporting period. But, only four groups of them (40%) have disclosed the amount of the amortization recognized in the reporting period. For the construction sector, on the other hand, only one group has published information about the method of amortization.

Lastly, eight telecom groups have signalled that they had made use of the practical expedient regarding the incremental costs of obtaining a contract. As a practical expedient, an entity may recognize the acquisition costs as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less (IFRS 15, §94). Finally, we highlight that no group has disclosed information on closing balances of contract costs by main category as required by the §128a of the IFRS 15.

Two main conclusions can be drawn from the exploration of the compliance degree of the studied groups with the disclosure requirements about contracts costs.

Firstly, the results show a high degree of compliance of the telecom groups with the IFRS 15 disclosure requirements about contracts costs. Indeed, almost all required information has been disclosed. But, the disclosure frequency varies between 40% and 91%.

Secondly, the majority of the construction annual reports we reviewed made no reference to contracts costs (only two out of the six investigated items have been disclosed and the disclosure frequency varies between 9% and 27%) which might be material given the construction activity which is involved in long-term contracts as highlighted by the FRC (2019).

Table 7. Information about assets recognized from the costs to obtain or to fulfil a contract with a customer

No.	Items	IFRS 15 references	Telecom sector *N*	Telecom sector (%)	Construction sector *N*	Construction sector (%)
1	Costs to obtain a contract	§127	10	90.91	3	27.27
2	Costs to fulfil a contract		6	54.55	–	–
3	The method of amortization		10	90.91	1	9.09
4	The amount of amortization	§128	4	40	–	–
5	Closing balances of contract costs by main category		–	–	–	–
6	Practical expedient about the incremental costs of obtaining a contract	§129	8	80	–	–

We can then conclude that disclosure requirements related to contract costs were sometimes missing in the annual reports we analysed. Thus, there is scope to improve the quality of information about contact costs in upcoming annual reports, as also highlighted by the FRC (2019).

6. Conclusion

The current study explored the compliance level with the IFRS 15 disclosure requirements around its first time application. To carry out this research, we analysed the annual reports, for the year 2018, of 22 EU listed groups operating in telecom and construction sectors. From a close review of the IFRS 15, we created and completed a datasheet which encompasses information items related to the transition method, the contracts with customers, the significant judgments made and the contracts costs.

Our analysis showed that all the sampled groups have applied the IFRS 15, for the first time, in 2018, the mandatory adoption year. In addition, half of the sampled groups have chosen the simplified transition method with cumulative effect; ten groups have used the full retrospective method and only one group have not disclosed the applied transition method.

Two main findings emerge from this study. Firstly, the 2018 annual reports that we analysed did not fully comply with the IFRS 15 mandatory disclosures. Thus, we believe that there is room for improvement in the quantity and therefore the quality of the IFRS 15 disclosures in upcoming annual reports. According to Glaum *et al.* (2013b), non-compliance can occur because of unintentional neglect, a misinterpretation of disclosure requirements or an intentional decision to not comply with the rules. Secondly, the degree of compliance differs between the two investigated sectors. In fact, it appears that the telecom groups were more compliant than the construction groups. These findings support the Big4 auditors' expectations and highlight the fact that the IFRS 15 implementation is likely to affect the disclosure practices of entities to different degrees. It depends on the specificities of the contracts in each sector. One possible explanation for these findings is that, given the complexity of the multiple telecom contracts, the policies to apply the IFRS 15 to revenues and costs is more challenging to explain, and request more detailed disclosures than construction contracts. Indeed, KMPG (2019), in its analysis, concluded that limited disclosures were mainly observed in financial statements of companies where the introduction of the IFRS 15 had a limited financial impact.

The research findings should be of concern to accounting standard setters and regulators and have important public policy implications. Firstly, they are germane to the debate on the consequences of the convergence project between the IASB and the FASB of which the IFRS 15 is an example. As argued by Hodgdon *et al.* (2008, p. 11) "the adoption of a new IFRS alone, unaccompanied by full compliance of the disclosure requirements, limits its effectiveness". Thus, providing firms with more guidance on how to implement new accounting rules has the potential to increase transparency and comparability. KPMG (2019) claimed that the IFRS 15 remains a focus point for regulators, and companies should stay alert for findings from the regulators and see if they are applicable to them. Secondly, the non-full-compliance noticed reinforces the importance of developing mechanisms i.e. corporate governance to enforce compliance with IFRS disclosure requirements and reduce management discretion. In addition, companies need to continuously assess the impact of IFRS 15, as more experience is gained in applying the standard, and further analysis may be needed for topics such as the contracts with customers, the significant judgements made and the contract costs.

While this research makes several noteworthy contributions, three limitations need to be acknowledged. Firstly, although this study is time specific i.e. focusing on the first year of mandatory implementation of IFRS 15, it may give a misleading perception about companies' compliance behaviour given that the IFRS 15 is a complex and comprehensive accounting standard with much more prescriptive guidance and disclosure requirements (KPMG, 2019) and preparers are less familiar with the disclosure requirements of this new standard (Peng *et al.*, 2008; Tsalavoutas, 2011). Secondly, while this study provides some preliminary evidence regarding EU companies' levels of compliance with the IFRS 15 mandatory disclosures, the findings are mainly descriptive in nature. Thirdly, the external validity of the findings can be questioned as the sample comprises only two sectors.

Thus, this research could be extended, in the future, to a great number of sectors and companies, and over a long period, to provide more complete overview about the level of compliance with the IFRS 15 mandatory disclosures. Furthermore, given that the current research is quantitative in nature, future studies may carry out a qualitative analysis of the IFRS 15 impacts on financial reporting. Other possible areas of research are to identify the determinants and consequences of the degree of compliance with the IFRS 15 mandatory disclosures.

Notes

1. ASC606 is the American standard for recognizing revenue from contracts with customers which resembles its international counterpart, the IFRS 15.
2. CFA Institute is the global association of investment professionals that sets the standards for professional excellence.
3. « The FRC is an independent regulator in the UK and Ireland, responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business by aiming its work at investors and others who rely on company reports, audits and high-quality risk management. » https://en.wikipedia.org/wiki/Financial_Reporting_Council
4. www.forbes.com/global2000/list/
5. For the case of "Fabege", lease contracts are the main source of its revenue and are accounted in accordance with IAS 17 "leases". For property sales, they are recognized according to the IFRS 15 on the completion date.
6. According to the IFRS 15, §63 « As a practical expedient, an entity need not adjust the promised amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less ».

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