

How did IFRS 15 affect the revenue recognition practices and financial statements of firms? Evidence from Australia and New Zealand

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ABSTRACT

We provide evidence on how International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* affected the revenue recognition practices of firms in Australia and New Zealand. Firms used the modified retrospective method more than the full retrospective method; however, the usage varied by firm size. The majority of sample firms (63.38%) reported that the standard had either no impact or no material impact on their financial statements; the remaining 36.62% disclosed IFRS 15 impacts in notes to financial statements. The disclosure of impacts varied by sectors and firm size. The standard did not affect the accounting for standard retail sales transactions. However, it resulted in the deferral of revenue recognition for the majority of firms whose revenue recognition was impacted by the standard. For firms that disclosed IFRS 15 impacts on financial statements, revenue was the most affected item. Cost of goods sold, contract liabilities and profit after tax were three other most affected financial statement items. Finally, the standard affected financial statements through multiple channels.

Keywords: IFRS 15, Revenue recognition, IFRS impacts

JEL classification: L51; M41

1. Introduction

We examine how International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* affected the revenue recognition practices and financial statements of Australian and New Zealand firms.¹ The International Accounting Standards Board (IASB) issued

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¹ In Australia, the equivalent to IFRS 15 is Australian Accounting Standard AASB 15 *Revenue from Contracts with Customers*, which incorporates IFRS 15. Australian firms refer to AASB 15 in their accounting policy notes. Firms complying with AASB 15 also comply with IFRS 15. In New Zealand, the equivalent standard is NZ IFRS 15 *Revenue from Contracts with Customers*. New Zealand firms refer to NZ IFRS 15 in their accounting policy notes. Firms complying with NZ IFRS 15 also comply with IFRS 15.

the new revenue standard, i.e., IFRS 15, in May 2014 (International Accounting Standards Board [IASB], 2014).² IFRS 15 replaces the previous revenue standards: International Accounting Standard (IAS) 18 *Revenue* and IAS 11 *Construction Contracts*, and introduces more prescriptive accounting requirements for revenue recognition than were included in IAS 18 and IAS 11. The new revenue standard is effective for annual periods beginning on or after January 1, 2018 (IASB, 2018c, para. C1).

One major justification for undertaking the revenue project was that previous revenue standards under International Financial Reporting Standards (IFRSs) provided only “limited guidance for transactions involving multiple components or multiple deliverables” (IASB, 2008, para. S2). Yet IFRS 15 addresses not only multiple-element revenue contracts; it also changes the principle underlying revenue recognition. The previous revenue standards required revenue from the sale of goods to be recognized on transferring the risks and rewards associated with ownership to the customer and revenue from all service and construction contracts to be recognized over time (IASB, 2013b, para. 22; 2013c, paras. 14&20). In contrast, IFRS 15 requires that revenue be recognized when the performance obligation is satisfied by transferring the good or service (i.e., the asset) to the customer, which is when the customer obtains control of the asset (IASB, 2018c, para. 31). While the standard requires revenue to be recognized over time in three specified situations, this is different from previous revenue standards under which revenue from *all* service and construction contracts were to be recognized over time (IASB, 2013b, para. 22; 2013c, paras. 14&20; 2018c, para. 35). In their comment letters on the IASB exposure draft on revenue recognition, many IASB constituents questioned the need for a new revenue standard and expressed concerns about the new revenue recognition model.³

² IFRS 15 is the result of the joint revenue recognition project of the FASB and the IASB. The project started in 2002 (Schipper et al., 2009). The IASB issued a discussion paper detailing the preliminary views it reached with the FASB in December 2008, and two exposure drafts in 2010 and 2011 before issuing the final standard in 2014 (IASB, 2008, 2010, 2011, 2018c).

³ These constituents included the Autorite Des Normes Comptables (comment letter no. 68), the Dutch Accounting Standards Board (comment letter no. 272), the German Accounting Standards Board (comment letter

IFRS 15 addresses revenue recognition; therefore, its direct effects will be on revenue recognition practices. However, since financial statements are linked, the standard will likely affect other financial statement line items also (e.g., cost of goods sold, profit, accounts receivables, revenue received in advance, and retained earnings) (Napier & Stadler, 2020; Schipper et al., 2009). All other effects of the standard will be derived from its financial statement effects (Marton & Wagenhofer, 2010; May & Sundem, 1976; Napier & Stadler, 2020).

Revenue is a key indicator for management performance evaluation through financial statement ratios widely used in bonus and debt contracts (e.g., return on assets, revenue growth, retained earnings, and debt-equity ratio) as well as investor evaluations of the firm (Leftwich, 1983; Wagenhofer, 2014). Further, Graham et al. (2005) find that financial executives consider revenue as one of the three most important firm performance measures⁴ they report to outsiders. Therefore, the change in revenue standard may affect internal performance evaluation, contracting outcomes⁵ and investor evaluations of the firm through its impacts on revenue and related financial statement numbers. The change in revenue standard can also have other real effects (e.g., changes in the business model and cash flows) for the firm (Napier & Stadler, 2020).⁶

no. 370), A.P. Moller-Maersk (comment letter no. 371), France Telecom (comment letter no. 387), the European Financial Reporting Advisory Group (comment letter No. 394), Business Europe (comment letter no. 395), GDF Suez (comment letter no. 613), the Swedish Financial Reporting Board (comment letter no. 940), and the European Federation of Accountants (comment letter no. 953). These comment letters were retrieved from https://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1820-100 (accessed 9 April 2020).

⁴ The other two most important performance measures are earnings and cash flow from operation (Graham et al., 2005).

⁵ An extensive literature documents that accounting numbers are used in writing and enforcing contracts such as profit-based bonus plans and debt covenants (Healy, 1985; Holthausen & Leftwich, 1983; Leftwich, 1983; Sunder, 1997). However, if contracts are written using “frozen” GAAP, rather than “rolling” GAAP, changes in revenue standards will not affect bonus plans and debt covenants.

⁶ Economic consequences of accounting standards include their impacts on the firms’ operating, investing and financing decisions, and other effects (e.g., audit fee) affecting cash flows. Prior research acknowledges that accounting standards can have economic consequences (Ayers et al., 2002; Beattie et al., 2006; Horwitz & Kolodny, 1980; Jarva, 2014; Kim et al., 2012). Constituents also have long argued that accounting standards have economic consequences (André et al., 2009; Beresford, 2001; Kabir & Rahman, 2018; Zeff, 1978).

However, the IASB claims that “the requirements in IFRS 15 will result in changes in the accounting for only *some* revenue transactions for *some* companies” (IASB, 2014, p. 7, italics in original). It expects that for many straightforward retail transactions, IFRS 15 will have little impact on “the amount and timing of revenue recognition” (IASB, 2014, p. 7). For other contracts, such as long-term service contracts and multiple-element arrangements, the standard could have some impact on the amount or timing of revenue recognition (IASB, 2014, p. 7). The IASB (2014, p. 7) also argues that the changes in revenue accounting practices will vary by “companies, industries and capital markets”. However, given the judgments and estimates managers must make to apply IFRS 15, it is unclear how the standard will affect the revenue recognition practices and financial statements of firms.

Finally, revenue recognition has historically been one of the most important accounting topics. Early accounting theorists devoted significant amount of attention to developing and explaining revenue recognition models (Chambers, 1966; Hendriksen, 1977; Littleton, 1953; MacNeal, 1939/1970; Paton & Littleton, 1940; Sprouse & Moonitz, 1962). More recently, as the FASB and the IASB decided to undertake the joint revenue project in 2002 and the IASB issued the discussion paper on revenue recognition, we witnessed a surge in interests in revenue accounting (Marton & Wagenhofer, 2010; Pro-Active Accounting Activities in Europe [PAAinE], 2007; Wüstemann & Kierzek, 2005). As IFRS 15 changes the revenue recognition principle, constituents will be interested in how the new revenue standard impacts revenue recognition practices of firms. Considering constituents’ interests, the IASB must conduct a post-implementation review of the standard after it has been implemented for two years (IFRS Foundation, 2016, para. 6.52). Therefore, we investigate how the new revenue standard affected the revenue recognition practices and financial statements in Australia and New Zealand.

Several studies examine the implications of alternative revenue recognition models for the properties of revenue and earnings (Altamuro et al., 2005; Rasmussen, 2013; Zhang, 2005). Napier and Stadler (2020) examine the impacts of IFRS 15 on revenue, profit and retained earnings of a

sample of large European firms, and the potential capital market, contracting and other real effects of the standard. In contrast, we focus on the financial statement effects of the standard and whether the effects vary by sectors and firm size. Further, IFRS 15 is likely to affect revenue and other financial statement items; therefore, we examine the impacts of the new revenue standard not only on revenue, profit and retained earnings, but also on expenses, assets, and liabilities. Finally, and importantly, we provide detailed evidence from notes to financial statements on the channels through which IFRS 15 affected revenue recognition practices and consequently, financial statements.

Our sample is comprised of 396 firms included in S&P/ASX300, S&P/NZX50 and S&P/NZX SmallCap indices. These include large, medium, and small firms listed on Australian Securities Exchange (ASX) and New Zealand Exchange (NZX) and cover all the eleven Global Industry Classification Standard (GICS) sectors.

Australia and New Zealand share similar institutional settings (e.g., stock market-oriented financing systems, efficient judicial system, less corruption, high investor protection, and rigorous accounting and auditing enforcement mechanisms) and accounting traditions with other English-speaking common law countries (Brown et al., 2014; Doupnik & Perera, 2015; La Porta et al., 1998). The international accounting literature documents that these country-level features determine accounting quality, including compliance with accounting standards (Ali & Hwang, 2000 ; Amiraslani et al., 2013; Ball et al., 2000; Soderstrom & Sun, 2007). Thus, the findings are likely generalizable to other English-speaking common law countries.

We hand-collected data from the first annual report prepared under IFRS 15 (year t) and the last annual report prepared under the previous revenue standards (year t-1). Firms reported in notes to year t annual reports whether and how IFRS 15 affected financial statements. They also reported the financial statement figures for year t-1 under the previous revenue standards and the restated figures for the same year under IFRS 15. These disclosures allow us to examine the impacts

of the standard on revenues and other financial statement items, and the channels through which the standard affected these items.

The paper proceeds as follows. Section 2 discusses the differences between IFRS 15 and the previous revenue standards, and section 3 briefly surveys prior research and lists the research questions. Section 4 discusses the sample and data, section 5 reports evidence on IFRS 15 impacts on financial statements, and section 6 provides evidence from note disclosures on the channels through which the new revenue standard affected revenue recognition practices and the financial statements of the sample firms. Section 7 summarizes and discusses the findings and suggests future research opportunities.

2. Differences between IFRS 15 and the previous revenue standards

In this section, we discuss the differences between the revenue recognition models under IFRS 15 and the previous revenue standards under four broad headings: (a) recognition, (b) measurement, (c) accounting for contract costs, and (d) presentation on financial statements.

2.1. Revenue recognition

In this sub-section, we discuss two major differences in revenue recognition: (a) the principle for revenue recognition, and (b) the guidance on accounting for multiple-element contracts.

2.1.1. Revenue recognition principle

IAS 18 required revenue from the sale of goods to be recognized when the entity transferred the risks and rewards associated with ownership to the customer, but both IAS 18 and IAS 11 required revenue from service rendition and construction contracts to be recognized over time (IASB, 2013b, para. 22; 2013c, paras. 14&20). In contrast, IFRS 15 requires that revenue from customer contracts be recognized when the entity satisfies the performance obligation by

transferring the good or service (i.e., the asset) to the customer, which is when the customer obtains control of the asset (IASB, 2018c, para. 31). The standard specifies five indicators for the transfer of control, with the transfer of risks and rewards being one of these indicators⁷ (IASB, 2018c, para. 38). This suggests that the transfer of risks and rewards of ownership may not always coincide with the transfer of control.

Further, IFRS 15 specifies three situations⁸ in which the performance obligation is satisfied over time (IASB, 2018c, para. 35), thus suggesting that revenue from many service and construction contracts will continue to be recognized over time as under IAS 18 and IAS 11. However, this approach is different from that in IAS 18 and IAS 11, which required revenue from *all* service and construction contracts to be recognized over time provided the outcome of the contract could be estimated reliably (IASB, 2013b, para. 22; 2013c, para. 20). Thus, under IFRS 15, the entity must determine first whether the performance obligation is satisfied over time to determine the timing of revenue recognition (IASB, 2018c, para. 35).

The interaction of these criteria for determining whether the performance obligation is satisfied over time or at a point in time with the requirement to identify separate performance obligations (discussed in the next sub-section) may change the timing of revenue recognition. For example, there may be some services which were previously accounted for as separate components of a transaction and for which revenue was recognized at a point in time. However, these services may no longer meet the definition of separate performance obligations, and hence may be considered part of a transaction for which revenue is recognized over time under IFRS 15.

⁷ Other indicators are: (a) the entity has a present right to payment from the customer, (b) the customer has the legal title to the asset, (c) the entity has delivered the asset to the customer, and (d) the customer has accepted the asset (IASB, 2018c, para. 38).

⁸ The situations are when: “(a) the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs; (b) the entity’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or (c) the entity’s performance does not create an asset with an alternative use to the entity” (IASB, 2018c, para. 35).

2.1.2. Guidance on multiple-element revenue contracts

IAS 18 required that the recognition criteria be applied to “the separately identifiable components of a single transaction” (IASB, 2013c, para. 13). The standard, however, did not provide explicit guidance on how to identify the components and how to allocate the transaction price to them, thus allowing managers room for judgment (IASB, 2013c, para. 13). IFRS 15, on the other hand, requires that the transaction price be allocated to separate performance obligations, and provides guidance on how to identify them and allocate the transaction price to them. The standard specifies that the separate performance obligations be identified based on the distinctness of the goods and services, and the transaction price be allocated to the performance obligations based on their stand-alone selling prices (IASB, 2018c, paras. 22&74).

Note that the limited guidance on multiple-element contracts in previous revenue standards was one primary rationale for undertaking the revenue project. However, in the absence of elaborate guidance in IFRSs, similar industry accounting practices regarding multiple-element contracts may emerge through industry associations and audit firms. Further, managers must judge whether performance obligations are distinct, and estimate the stand-alone prices, thus allowing accounting discretion to managers under IFRS 15 also (Schipper et al., 2009). How these judgments will affect the identification of separate components are empirical questions. For example, some components that were treated as separate components of a transaction under previous standards may not meet the criterion (i.e., the distinctness of promised goods or services) of separate performance obligations under IFRS 15 and vice versa (IASB, 2018c, para. 22). Therefore, the effect of IFRS 15 on accounting for multiple-element contracts is an empirical question.

Two topics related to the accounting for multiple-element contracts are: (a) accounting for warranties, and (b) accounting for customer options to acquire goods or services for free or at a discount.

IAS 18 did not provide any specific guidance on accounting for warranties. Prior to the issuance of IFRS 15, warranties were often accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IASB, 2008, paras. 6.26–6.27). A warranty provision for the estimated cost of providing the warranty service was created at the time of delivering the good to the customer, and the provision was used when the actual cost to provide the service was incurred (IASB, 2008, paras. 6.26–6.27). In contrast, IFRS 15 distinguishes between two types of warranties: (a) warranties that provide the customer with the assurance that the related product complies with the agreed-upon specifications (assurance-type warranties), and (b) warranties that provide the customer with a service (service-type warranties) in addition to the assurance that the product complies with the agreed-upon specifications (IASB, 2018c, para. B28).

Service-type warranties are considered as giving rise to separate performance obligations, to which a portion of the transaction price must be allocated (IASB, 2018c, para. B29). An entity is required to raise a provision for assurance-types warranties in accordance with IAS 37 (IASB, 2018c, para. B30). With this new distinction between two types of warranties, some warranties for which provisions would have been created under previous standards may be classified as service-type warranties under IFRS 15, resulting in the allocation of the transaction price to these warranties and the deferral of revenue from these contracts.

Prior to the issuance of IFRS 15, IFRIC Interpretation 13 *Customer Loyalty Programs* provided guidance on accounting for award credits granted to customers as part of loyalty programs and required the entity to allocate a part of the consideration received in a sales transaction to these credits based on their fair value and recognize the related revenue when the credits were redeemed (IASB, 2013a, paras. 5–7).

In contrast, IFRS 15 provides guidance on accounting for customer options to acquire goods or services for free or at a discount, which include but are not limited to customer loyalty programs. If a contract grants the customer an option to acquire additional goods or services from the entity, the entity must treat the option as a separate performance obligation, allocate the transaction price

to the option in proportion to the stand-alone selling prices, and recognize revenue when the performance obligation is satisfied “only if the option provides a material right to the customer that it would not receive without entering into that contract” (IASB, 2018c, para. B42).

The above discussion shows that the guidance in IFRS 15 for customer options is broadly consistent with that in IFRIC Interpretation 13. Yet differences may arise in how the award credits are accounted for because of the difference in allocation bases (fair value vs. stand-alone selling price). Also, the guidance in IFRS 15 may change the accounting for other sales incentives that were not previously accounted for as a separate component of the contract with customers (IASB, 2008, para. 6.33).

2.2. Measurement of revenue

IAS 18 required revenue to be measured at the fair value of consideration received or receivable (IASB, 2013c, paras. 9&11). The measurement was to take into account any trade discounts and volume rebates allowed by the entity (IASB, 2013c, paras. 9&11). IFRS 15 requires the entity to recognize as revenue the amount of the transaction price allocated to a performance obligation when the entity satisfies the obligation (IASB, 2018c, para. 46). The transaction price is the amount to which the entity expects to be entitled in exchange for transferring the good or service to the customer (IASB, 2018c, para. 47).

Further, both IFRS 15 and IAS 18 require the entity to determine whether it is acting as a principal or an agent. Under both standards, the principal (agent) recognizes the amount of the gross consideration (commission or fees) as revenue (IASB, 2013c, para. 8; 2018a, paras. BC379&BC380; 2018c, para. B35B). However, IFRS 15 and IAS 18 specify different criteria for determining whether the entity is a principal. IFRS 15 defines an entity as a principal if it controls the specified good or service before it is transferred to the customer (IASB, 2018c, para. B35). In contrast, IAS 18 defined a principal as an entity that had “exposure to the significant risks and rewards associated with the sale of goods or the rendering of services” (IASB, 2013d, para. 21).

This change in the criterion may result in a change in the status of an entity from a principal to an agent and vice versa and may consequently affect whether revenue is measured on a gross or a net basis.

In addition, we discuss three differences between IFRS 15 and previous revenue standards that may result in different measures of revenue: (a) measurement of variable consideration, (b) consideration payable to customers, and (c) adjustment of the consideration for the financing component.

2.2.1. Measurement of variable consideration

The previous standards did not provide explicit guidance on how to measure consideration that is variable, except requiring that revenue must be capable of being measured reliably (IASB, 2013b, para. 23; 2013c, paras. 14&20). The Illustrative Examples accompanying IAS 18 suggest that when goods are shipped subject to a right of return, the entity should recognize revenue when the customer has accepted the goods or the goods have been delivered and the time for return has elapsed (IASB, 2013d, para. 2(b)). In contrast, IFRS 15 does not use reliable measurement as a condition for recognition.⁹ The standard requires that, when estimating the transaction price, the entity considers the effect of variable consideration arising from, for example, refunds, rebates, credits, discounts, and price concessions (IASB, 2018c, paras. 48&51). The entity is allowed a conditional choice between the expected value and the most likely amount to estimate the consideration, “depending on which method the entity expects to better predict the amount of consideration” (IASB, 2018c, para. 53).

⁹ The IASB (2018b) replaced reliability with faithful representation and relegated verifiability to the status of an enhancing qualitative characteristic in the Conceptual Framework for Financial Reporting.

2.2.2. Consideration payable to customers

Consideration payable to customers includes amounts that the entity pays, or expects to pay, to customers. It also includes credits or other items (e.g., a coupon or voucher) that can be applied by the customer against amounts owed to the entity. IAS 18 was silent on the accounting treatment of this item. IFRS 15 requires the consideration paid to customers to be treated as a reduction of the transaction price, and hence, of revenue unless the payment is for a distinct good or service (IASB, 2018c, para. 70).

2.2.3. Significant financing component

IAS 18 required that revenue be measured at the fair value of the consideration received or receivable and noted that the fair value of consideration was less than the nominal amount of cash or cash equivalent when the payment was deferred (IASB, 2013c, paras. 9&11). To estimate the fair value of the consideration, IAS 18 required future payments to be discounted at an imputed rate of interest, which was “the more clearly determinable of either: (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services” (IASB, 2013c, para. 11). The difference between the fair value and the nominal amount of the consideration was to be treated as interest revenue under IAS 18 (IASB, 2013c, para. 11).

IFRS 15 requires that the amount of promised consideration from the customer be adjusted for the time value of money if the contract contains a significant financing component and provides guidance on determining whether the financing component is significant (IASB, 2018c, paras. 60–62). The objective of adjusting the promised consideration is to recognize, as revenue, an amount equal to the cash selling price (IASB, 2018c, para. 61). To achieve this objective, the entity must adjust the promised consideration at “the discount rate that would be reflected in a separate financing transaction between the entity and its customer at contract inception” (IASB, 2018c, para.

64). The difference between the nominal consideration and its discounted value is treated as either interest revenue or interest expense over the contract term (IASB, 2018c, para. 65).

While the requirements of IFRS 15 regarding the treatment of financing components are consistent with those of IAS 18, there are subtle differences between these requirements. First, IFRS 15 requires the adjustment of the consideration when the consideration is received in advance or is deferred. IAS 18 was silent on the adjustment of consideration received in advance. Second, IFRS 15 requires the adjustment of the consideration only when the financing component is significant and provides guidance on determining whether the financing component is significant. Third, there are differences in the wording of the interest rate to be used in adjusting the consideration for the time value of money.

2.3. Contract costs

The IASB (2008, para. 6.47(d)) notes that, prior to the issuance of IFRS 15, entities sometimes capitalized the costs to obtain contracts. IFRS 15 requires the entity to capitalize the incremental costs of obtaining a contract only if the entity expects the costs to be recoverable (IASB, 2018c, para. 91). Further, the standard requires costs incurred to fulfil a contract to be capitalized if the costs relate directly to the contract and are expected to be recovered (IASB, 2018c, para. 95).

2.4. Presentation

The IASB makes a distinction in IFRS 15 between conditional and unconditional rights to customer consideration arising from contract performance, with the former (later) being labelled contract assets (receivables) (IASB, 2018c, paras. 107–108). The IASB makes this distinction because, unlike the receivable that is subject to credit risk only, the contract asset is subject to both credit and performance risks; therefore, presenting contract assets and receivables separately will provide users with relevant information about the risks associated the entity's rights in the contract

(IASB, 2018a, para. BC323). IFRS 15 also uses the term ‘contract liability’ for the entity’s obligation to provide goods or services for which the entity received the consideration from the customer (IASB, 2018c, para. 106). Previous revenue standards did not make these distinctions.

The differences between IFRS 15 and the previous revenue standards are summarized in Table 1. How these differences will affect the timing and amount of revenue recognition are empirical questions. We, therefore, provide evidence on IFRS 15 impacts on revenue recognition practices and consequently, financial statements in Australia and New Zealand.

Table 1 about here

3. Prior research and research questions

Since we investigate IFRS 15 impacts on revenue recognition practices, our paper relates to the literature on revenue recognition models. Several studies examine the implications of alternative revenue recognition models for properties of earnings and revenue (e.g., reliability, predictive ability, and information content). For example, Altamuro et al. (2005) report that accelerated revenue recognition improves earnings informativeness. In contrast, Rasmussen (2013) finds that deferred revenue recognition improves earnings informativeness. Zhang (2005) provides evidence that alternative revenue recognition models affect the trade-off between relevance and reliability.

IFRS 15 is a new standard, which became effective starting from 2018. An early study of a sample of European telecommunication and construction firms reports non-compliance with the disclosure requirements of IFRS 15 (Boujelben & Kobbi-Fakhfakh, 2020). Napier and Stadler (2020) examine IFRS 15 impacts on revenue, profit and retained earnings of a sample of European firms, and report that the impacts are, on average, minimum. However, IFRS 15 addresses revenue recognition and, because of articulation of financial statements, revenue recognition is linked to expenses (e.g., cost of goods sold), assets (e.g., inventories, receivables, and deferred tax asset), and liabilities (e.g., unearned revenue, and deferred tax liability). We, therefore, broaden the

examination of the impacts of IFRS 15 to expenses, and balance sheet assets and liabilities. Further, we do not have evidence on whether IFRS 15 impacts vary by sectors and firm size. Importantly, it is unclear how (i.e., the channels) the standard affects the financial statement items. Therefore, we use a sample of firms from Australia and New Zealand and explore the following research questions:

- (a) What are the impacts of IFRS 15 on revenue, expenses, profit, assets, liabilities and retained earnings of firms in Australia and New Zealand?
- (b) Do IFRS 15 impacts on financial statements vary by sectors and firm size?
- (c) How (i.e., the channels) does IFRS 15 affect the revenue recognition practices and consequently, the financial statements in Australia and New Zealand?

4. Sample and data

We start with S&P/ASX300, S&P/NZX50 and S&P/NZX SmallCap firms. S&P/ASX300 firms are comprised of 301 large-cap, medium-cap and small-cap firms. They include all the S&P/ASX 200 firms and an additional 101 firms. S&P/NZX50 firms are comprised of large firms included in the S&P/NZX 10 Index and medium sized firms included in the S&P/NZX MidCap Index, and account for about 90% of New Zealand equity market capitalization. S&P/NZX SmallCap firms are smaller listed firms outside the S&P/NZX 50 Index.¹⁰

Two Australian firms and nine New Zealand firms are cross-listed and appear in both New Zealand and Australian sub-samples. To avoid double counting, we drop these cross-listed firms from the New Zealand and Australian sub-samples, respectively. The annual reports of two NZX-listed firms and two ASX-listed firms were unavailable. Further, four ASX-listed firms applied the US GAAP. Finally, five NZX-listed firms did not mention explicitly whether they applied IFRS 15 in their financial statements. We drop all these firms from the sample. These selection criteria

¹⁰ The components of S&P/ASX300, S&P/NZX50 and S&P/NZX SmallCap indices were as of 31 December 2019. The component firms were obtained from the Eikon database on 10 October 2020.

yield a final sample of 396 firms¹¹: 286 ASX-listed firms and 110 NZX-listed firms.¹² Table 2, Panel A reports how we derive the sample.

Table 2, Panel B shows that the sample covers firms belonging to each of the eleven GICS sectors, and thus allows us to investigate whether IFRS 15 impacts on revenue recognition practices vary by sectors.

The sectoral distribution of the sample firms vary slightly between Australia and New Zealand. For example, 190 Australian firms (66.43%) belong to the following five sectors: Materials (n=57), Industrials (n=28), Consumer Discretionary (n=34), Financials (n=38), and Real Estate (n=33). The dominance of the Materials sector is in line with the dominance of the mining industry in the Australian economy. On the other hand, 74 New Zealand firms (67.27%) come from five sectors: Industrials (n=15), Consumer Discretionary (n=15), Consumer Staples (n=19), Healthcare (n=13), and Information Technology (n=12).

To examine whether the impacts vary by firm size, we label S&P/ASX 200 firms included in S&P/ASX 300 firms as larger ASX-firms, the remaining S&P/ASX 300 firms as smaller ASX-firms, S&P/NZX 50 firms as larger NZX-firms and S&P/NZX SmallCap firms as smaller NZX-firms.

We downloaded the annual reports from the websites of the sample firms, and hand-collected data from the annual reports for years t and t-1. Initially, we collected data for a small sample of firms and discussed the data. One author then collected data for all sample firms from their annual reports, and the other author checked the data for accuracy by comparing them with

¹¹ Out of this, 250 firms have June year-end, and the remaining 146 firms have other year-ends (e.g., January, March, July, September, and December). Un-tabulated results reveal no significant differences in results between these two groups of firms.

¹² Out of these 396 firms, 11 firms – six from Australia and five from New Zealand – early-adopted IFRS 15. Early adoption of the standard is voluntary. Prior research on the voluntary adoption of IFRS provides mixed evidence. Kabir et al. (2010), for example, find no significant difference in the impact of IFRS adoption between early adopters of IFRSs and other firms that adopted IFRSs on the mandatory adoption date in New Zealand. However, other IFRSs studies find that voluntary adopters of IFRSs are different from mandatory adopters of IFRSs (Christensen et al., 2015; Gassen & Sellhorn, 2006). Therefore, it would be interesting to examine whether early-adopters of IFRS 15 are different from other sample firms. Since the small number of early-adopters does not allow us to reach any definitive conclusion, we provide descriptive statistics for these firms in notes.

annual report disclosures. To enhance the transparency, we cite excerpts from accounting policy notes, and mention the firm name and the accounting policy note/page number in this paper. Unless stated otherwise, the dollar figures mentioned in this paper are in Australian dollar.

Table 2 about here

4.1. Choice of the transition method

The IASB (2018c, para. C3) allows firms a choice between two retrospective methods for transitioning to IFRS 15: the full retrospective method and the modified retrospective method. Under the full retrospective method, firms apply IFRS 15 retrospectively to each prior period presented. In contrast, under the modified retrospective method, firms apply the standard retrospectively, with the cumulative effect of applying this standard being recognized at the date of initial application.

Preparers and auditors suggest that the full retrospective method entails more costs and poses more implementation challenges for preparers than the modified method (IASB, 2018a, para. BC439). The IASB allowed the modified retrospective method to mitigate the concerns for transition costs and implementation challenges (IASB, 2018a, para. BC441). These concerns suggest that firms are likely to choose the modified retrospective method more than the full retrospective method.

Table 2, Panel C shows that only 87 (i.e., 21.97%) firms adopted the full retrospective method. One hundred and eighty-one (i.e., 45.71%) firms adopted the modified retrospective method, and the remaining 128 (i.e., 32.32%) firms did not disclose explicitly which method they adopted.¹³ The percentage of sample firms applying the full retrospective method is slightly less than that (i.e., 25%) reported by Napier and Stadler (2020) because, in contrast with their sample

¹³ Out of the 11 early-adopters, seven (i.e., 63.63%) adopted the full retrospective method for transition to IFRS 15. This percentage is much higher than that for the full sample.

of larger firms, our sample is comprised of both larger and smaller firms. These statistics are consistent with the cost and implementation challenge associated with full retrospective method. The distribution of the transition method is similar across Australia and New Zealand, and the chi-squared test statistic ($\chi^2=1.46$; p-value=0.48) suggests that there is no significant association between countries and transition methods.

Prior research suggests that smaller firms incur relatively higher costs of implementation of IFRSs than larger firms (Institute of Chartered Accountants in England and Wales [ICAEW], 2007). Further, larger firms have better internal resources (e.g., larger accounting department and trained accountants) to implement IFRSs than smaller firms. While the full retrospective method provides useful comparative information for users (IASB, 2018a, para. BC435), larger firms are likely to benefit more than smaller firms because of the greater number of shareholders of larger firms. Therefore, we test whether there is any significant difference in the choice of the transition method between larger and smaller firms.

Un-tabulated results reveal a statistically significant difference in the choice of the transition method across four size sub-samples: larger ASX-firms, smaller ASX-firms, larger NZX-firms, and smaller NZX firms ($\chi^2=20.66$; p-value=0.00). More specifically, we find that larger firms tend to adopt the full retrospective method more than smaller firms both in Australia and New Zealand. For example, 24.06% of larger ASX-firms and 36.17% of larger NZX-firms adopted the full retrospective method. The corresponding percentages are 15.15% for smaller ASX-firms and 15.87% for smaller NZX-firms. Further, the percentage of smaller NZX-firms using the modified retrospective method is much higher than that of larger NZX-firms (49.21% vs. 29.79%). These results support the cost-benefit explanation for the choice of the transition method.¹⁴

Yet another potential explanation is that opportunistic consideration plays a role in the transition method choice. If opportunistic consideration plays a role, we expect the full

¹⁴ Un-tabulated results show that the difference in the choice of transition method between larger ASX-firms and larger NZX-firms is significant ($\chi^2=7.05$; p-value=0.03). The difference between smaller ASX-firms and smaller NZX-firms is not significant ($\chi^2=1.55$; p-value=0.46), however.

retrospective method firms to report larger declines in retained earnings at the date of initial application than the modified method firms. Larger declines in retained earnings at the date of initial application are the result of larger declines in revenue and net profit during the prior years. Therefore, larger declines in retained earnings of the full method firms at the date of initial application would suggest that these firms report larger drops in revenue and profit of year t-1 than the modified method firms if these firms had restated year t-1 income statement. Managers of full retrospective method firms can attribute the larger drops in revenue and profit in year t-1 to the adoption of the new standard; yet it has the advantage of showing better revenue and profit trends in year t. This incentive is likely to be stronger for larger firms because of the greater number of shareholders of these firms. To check the plausibility of this explanation, we test whether the full method firms reported statistically significant larger declines in retained earnings at the date of initial application than the modified method firms.

Thirty-two full method firms and 69 modified method firms reported changes in retained earnings at the date of initial application. The mean (median) change is -2.00% (-0.22%) and -0.78% (-0.09%) of total assets for the full method and modified method firms, respectively. While the direction of change in restated retained earnings is consistent with the opportunistic choice explanation, the differences are not statistically significant at $p < 10\%$. However, the difference in the change in retained earnings is significant at $p < 5\%$ (one-way test) for larger ASX-firms. For other sub-samples – larger NZX-firms, and smaller NZX-and ASX-firms – the differences in changes in retained earnings between the two transition methods are not significant. Taken together, the results suggest that costs and implementation challenges drive the choice of the transition method, especially for smaller firms; but opportunistic incentive also influences the transition method choice of larger ASX-firms. However, a definitive conclusion in this regard would require a larger sample.

5. Impacts of IFRS 15 on financial statement items

5.1. Disclosure of impacts in notes

Table 3, Panel A shows that 83 (i.e., 20.96%) firms reported in financial statement notes that IFRS 15 would have no impact on the financial statements. Another 168 (i.e., 42.42%) firms reported that the impact of the standard would not be material. The remaining 145 (i.e., 36.62%) firms disclosed the impacts of IFRS 15 in notes to financial statements.¹⁵ The percentages are similar for both Australian and New Zealand sub-samples, and the chi-squared test statistic ($\chi^2=0.42$, $p=0.81$) confirms this. However, un-tabulated results reveal statistically significant ($\chi^2=23.33$, $p=0.001$) differences in the disclosure of impacts across various size groups. More specifically, 44.39% of larger ASX-firms and 40.43% of larger NZX-firms reported IFRS 15 impacts in notes. The corresponding percentages are 22.22% for smaller ASX-firms and 33.33% for smaller NZX-firms. These results suggest that larger firms are more likely to disclose IFRS 15 impacts in notes than smaller firms.¹⁶

To put these percentages into perspective, Napier and Stadler (2020) report that IFRS 15 did not have material impacts on the financial statements of 48% of their sample firms, suggesting that the standard had material impacts on the financial statements of the remaining 52% sample firms. Thus, the percentage of our sample firms disclosing IFRS 15 impacts is lower than that in Napier and Stadler (2020). As the statistics reported above suggest, this is primarily due to the difference in the samples' compositions. In contrast with Napier and Stadler (2020) sample including the largest European firms, we include both larger and smaller firms in our sample. The percentage of larger firms in our sample disclosing the impacts is less than but closer to that in Napier and Stadler (2020).

¹⁵ Un-tabulated results reveal that seven (i.e., 63.63%) out of 11 early adopters disclosed IFRS 15 impacts. This percentage is much higher than that for the full sample.

¹⁶ When we compare the disclosure of IFRS 15 impacts between larger ASX-firms and larger NZX-firms, the difference is not significant ($\chi^2=0.68$; p -value=0.71). The difference between smaller ASX-firms and smaller NZX-firms is marginally significant ($\chi^2=5.55$; p -value=0.06), however.

Panel B reveals sectoral variation in the disclosure of IFRS 15 impacts. In terms of the percentage of firms, the most disclosing sectors are Communication Services (70.59% firms), Utilities (69.23% firms), Consumer Discretionary (48.98% firms), and Information Technology (48.57% firms). The least disclosing sectors are Real Estate (16.67% firms), Health Care (25.00% firms), Materials (27.87% firms), Consumer Staples (29.73% firms), and Financials (31.82% firms). The sectoral variation in disclosures is significant ($\chi^2=32.80$; p-value=0.00). While Panel B reveals sectoral variation in both Australia and New Zealand,¹⁷ we observe some variation in the sectoral pattern of disclosures between the sample countries. In common with the full sample, Communication Services and Utilities are two of the most disclosing sectors in each country. However, more Information Technology firms disclosed IFRS 15 impacts in Australia than in New Zealand (56.52% firms for Australia vs. 33.33% firms for New Zealand). Further, IFRS 15 did not affect materially any sample firm in Energy, Health Care, and Financials sectors in New Zealand. In contrast, 43.75% of Energy firms, 39.13% of Health Care firms, and 36.84% of Financials firms in Australia disclosed IFRS 15 impacts. These results suggest that IFRS 15 impacts are likely to vary by sectors and the sectoral pattern in IFRS 15 impacts may vary by countries.

Table 3 about here

5.2. Revenue transactions not materially impacted by IFRS 15

Table 3, Panel C reports examples of revenues whose recognition was not materially affected by IFRS 15. These include the sale of goods and services (e.g., retail sales) whose recognition and measurement under the previous revenue standards are consistent with those under IFRS 15. For example, a few sample firms that generated revenue from the sale of goods reported that the point in time at which the customer obtained control over the goods under IFRS 15 was the

¹⁷ Although the χ^2 statistic is not appropriate when the cell frequency is less than five, we report the statistic for Australia and New Zealand separately in Table 3, Panel B.

same as the point at which risks and rewards of ownership were transferred under the previous standards. Consider the following excerpts from the accounting policy notes of two sample firms:

The Group adopted AASB 15 during the current period, using the modified retrospective approach, which requires a cumulative catch-up adjustment to retained earnings and no restatement of comparative amounts. The Group performed a detailed assessment of the impact of AASB 15 concluding that the timing and amount of revenue recognised under AASB 15 was consistent with previous accounting standards as a majority of transactions are for sale of goods in-store and online, and the performance obligation is satisfied when transfer of control occurs (which is at the point of sale or on delivery of goods to the customer). Accordingly, no adjustment to retained earnings was required. (Woolworths Group, 2019, note 1.2.5)

The adoption of AASB 15 has not impacted the timing of revenue recognition on the sale of goods, which continues to be recognised on a point in time basis. In previous reporting periods, revenue from the sale of goods was recognised when the customer accepted the risks and rewards of ownership, which occurred at the point in sale or when the goods were collected/delivered. In applying AASB 15, revenue associated with the sale of goods is recognised when the performance obligation of the sale has been fulfilled and control of the goods has transferred to the customer, which continues to occur at the point of sale when the goods are collected/delivered. (JB Hi-Fi, 2019, note 29(e))

These are in line with the IASB's expectation: "[f]or many contracts (*particularly for commonplace retail transactions*), the proposed revenue recognition model would cause little, if any, change" (IASB, 2008, para. S28, italics added).

Some sample firms generate revenue from sources that are outside the scope of IFRS 15; these revenue streams are accounted for under other standards (e.g., IFRS 9 and IFRS 16). Therefore, the adoption of IFRS 15 did not affect the timing of revenue recognition for these firms.

The majority of the Group's revenue streams have application under other relevant standards and therefore have no application under AASB 15 (for example rental income, finance income). (Abacus Property Group, 2019, note 23(c))

Rent from investment properties is recognised and measured in accordance with AASB 16 Leases. (The GPT Group, 2018, note 24)

The Group's revenue recognition of interest income, net change in the fair value of financial assets and foreign exchange gains/(losses) was unaffected as these items are excluded from the scope of AASB 15. (Magellan Financial Group, 2019, note 1(c))

5.3. Magnitude of impacts on financial statement items

Table 4 reports IFRS impacts, by GICS sectors, on items of the income statement and the statement of financial position for year t-1. The impacts on income statement items are presented as percentage of revenue in Panel A, and the impacts on the statement of financial position items are expressed as percentage of total assets in Panels B and C. While we report the statistical

significance of the mean and median impacts in Table 4, we focus on the signs and magnitudes of the impacts instead because the number of firms reporting the impact on each financial statement item is small.

Table 4 about here

We observe six salient features of the results reported in Table 4. First, IFRS 15 affected the amount of operating revenue of firms in each sector (Panel A). The mean (median) impact ranges from -7.02% (-6.30%) for the Information Technology sector to 14.31% (11.57%) for the Real Estate sector. Both the F-statistic and the Kruskal Wallis test statistic are significant at $p < 1\%$, suggesting that the sectoral variation in the impacts on revenue is statistically significant.

Second, in terms of the relative magnitude and the number of sectors affected, revenue was the most affected financial statement item. This is expected because IFRS 15 addresses revenue recognition and measurement. The mean (median) change in revenue was -1.03% (-0.28%) for the full sample. However, un-tabulated results show that the mean (median) absolute change in revenue was 4.18% (1.55%). This is higher than 0.72% absolute change in revenue reported by Napier and Stadler (2020) for their European sample. Un-tabulated results further show that 55.74% of firms that disclosed changes in operating revenue reported an absolute change of at least 1% in revenue.

Table 4, Panel A shows that eight sectors experienced mean and median changes in revenue of at least 1%. Real Estate (mean: 14.31%; median: 11.57%), Information Technology (mean: -7.02%; median: -6.30%), and Financials (mean: 6.24%; median: 7.60%) had the highest mean (median) impacts on operating revenue. In contrast, Utilities (mean: -0.16%; median: -0.09%), Industrials (mean: 0.45%; median: -0.08%), and Communication Services (mean: -0.87%; median: -0.12%) experienced the lowest mean (median) changes in operating revenue.

Besides operating revenue, cost of goods sold (five sectors), contract liabilities (four sectors) and profit after tax (three sectors) were the most affected (i.e., mean and median changes of at least 1%) financial statement items. In addition, five sectors reported mean changes of at least

1% in both operating expenses and retained earnings, and four sectors reported mean changes of at least 1% in trade and other receivables. A caveat is that only a small number of firms reported impacts on these items: 61 for operating revenue, 27 for cost of goods sold, 23 for contract liabilities, 27 for profit after tax, 43 for operating expenses, and 101 for retained earnings. Another caveat is that only firms that adopted the full retrospective method disclosed the impacts on income statement items such as revenue, expenses and profit; therefore, more firms would have reported IFRS 15 impacts on the income statement had all firms adopted the full retrospective method. The number of firms reporting IFRS 15 impact on retained earnings (n=101) confirms this as retained earnings reflects the cumulative impacts on income statement items, net of dividend distributions.

IFRS 15 impacts were less than 1% of the relevant benchmark (revenue in case of income statement items and total assets in case of the statement of financial position items) for other financial statement items in most of the sectors.¹⁸ Un-tabulated results also show that the impacts are similarly small for most of the financial statement items for the four size groups of firms as well as for Australia and New Zealand.

Third, the mean (median) impact on operating revenue was negative for the full sample (mean= -1.03%; median= -0.28%). Around 64% of firms that reported changes in revenue on adopting IFRS 15 reported declines in revenue. Further, the mean (median) impact was negative for eight (nine) sectors. These results suggest that the adoption of the standard resulted in, on average, a deferral of revenue recognition for these sectors. The conclusion is reinforced by a decrease in trade and other receivables (Panel B) and an increase in revenue received in advance (Panel C) because of IFRS 15 adoption. The mean (median) change in trade and other receivables was negative for eight (eight) sectors, and the mean (median) change in receivables was -1.44% (-0.46%) for the full sample.¹⁹ Relatedly, the mean (median) change in revenue received in advance

¹⁸ Un-tabulated results show that early adopters reported financial statement impacts of similar magnitude.

¹⁹ The decline in receivables is also attributable to reclassifications from receivables to contract assets.

was positive for nine (eight) sectors, suggesting that a portion of the revenue recognized under the previous revenue standards was unearned under IFRS 15.

Fourth, consistent with declines in revenue, both net profit and retained earnings declined for the full sample as well as for most sectors. Around 67% of firms that reported IFRS 15 impact on net profit experienced declines in net profit and around 70% of the firms that reported the impact on retained earnings experienced declines in opening retained earnings. Un-tabulated results shows that two multinational firms – Domino’s Pizza Enterprise and Rio Tinto – included in our sample also reported decreases in retained earnings and the magnitudes of changes were like other sample firms. The mean (median) change in net profit and retained earnings for the full sample were -0.92% (-0.07%) and -1.17% (-0.12%), respectively. However, un-tabulated results show that the mean (median) absolute changes in profit and retained earnings were 1.17% (0.13%) and 1.51% (0.29%), respectively. The mean percentage absolute change in profit in our sample is higher than 0.16% in Napier and Stadler (2020), but the change in retained earnings is like that reported in Napier and Stadler (2020).

The lesser extent of decline in net profit, compared with the decline in revenue, was due to compensating declines in expenses. The mean (median) change in cost of goods sold was negative for five (five) sectors. The mean (median) change in operating expenses was negative for six (seven) sectors.

Fifth, IFRS 15 resulted in, on average, decreases in intangibles of five sectors in year t-1. This was because of changes in the treatments of the cost of obtaining contracts and payments made to customers. For example, TPG Telecom (2019, note 31) previously treated direct costs of acquiring customers as subscriber acquisition costs under intangible assets. After adopting IFRS 15, the firm treated these costs either as reduction of revenue or contract assets. Healius (2019, note About this Report), an ASX-listed Health Care firm, previously treated payments to healthcare professionals on entering contracts as an intangible asset. On adopting IFRS 15, the firm treated

these payments either as reductions in revenue or contract assets, depending on whether these payments met IFRS 15 condition for capitalization.

Sixth, the impacts on most financial statement items did not vary statistically significantly by sectors. Thus, while sectors varied significantly in the disclosure of IFRS 15 impacts on financial statements, they did not vary in the magnitude of impacts when we consider only those firms that disclosed the impacts. The most notable exceptions were revenue and deferred tax liability. The mean and median changes in operating revenue (deferred tax liability) differed across sectors at $p < 1\%$ (at $p < 5\%$). In addition, the mean changes in profit after tax (intangible assets) varied across sectors at $p < 5\%$ (at $p < 10\%$). Finally, the median changes in inventories (retained earnings) differed across sectors at $p < 10\%$ (at $p < 10\%$).

6. How IFRS 15 affected revenue recognition practices

We documented in section 5 changes in financial statement items resulting from the adoption of IFRS 15. Table 5 reports the channels through which IFRS 15 affected the financial statement items in each sector. As is evident in Table 5, the standard affected the financial statement items through a variety of channels and there was some variation in the channels across the sectors. Yet, we observe several commonly appearing channels: (a) changes in separate performance obligations, (b) changes in revenue recognition timing, (c) changes in revenue measurement, (d) identification of financing components and changes in the discount rate used to evaluate the financing component, (e) changes in the accounting for contract costs, (f) changes in the status of the firm from being a principal to being an agent and vice versa, and (g) new balance sheet presentation of contract assets and contract liabilities.

Table 5 about here

We noted that the highest percentages of firms disclosing IFRS 15 impacts belonged to Communication Services and Utilities sectors (Table 3, Panel B). Table 5 shows that IFRS 15

affected the financial statements of Communication Services firms through, inter alia, changes in the bases of recognizing gift card revenue, television revenue, and revenue from annual and seasonal passes (Event Hospitality and Entertainment, Nine Entertainment, and Village Roadshow), set up revenue not considered a separate performance obligation (TPG Telecom), the change in the basis for allocating the transaction price to the customer loyalty program (Village Roadshow), the identification of a significant financing component (Southern Cross Media Group), changes in the treatment of costs to obtain contracts (Chorus, Event Hospitality and Entertainment, Spark New Zealand, and TPG Telecom), the change in the allocation of discount arising from the sale of bundle goods and services (Telstra Corporation), the principal/agent distinction and the consequent changes in the measurement of revenue from gross to net basis and vice versa (Sky Network Television, and Spark New Zealand), and the balance sheet presentation of contract assets and contract liabilities (Telstra Corporation).

In contrast, IFRS 15 affected the financial statements of Utilities firms through changes in the treatment of costs to obtain contracts (Contact Energy, Meridian Energy, and Trustpower), the change in the treatment of the consideration payable to customers (Mercury Energy), the identification of a financing component (APA Group), and the principal/agent distinction (Genesis Energy)

IFRS 15 had the largest impact on the operating revenue of Real Estate firms (Table 4, Panel A). Three NZX-listed Real Estate firms – Investore Property, Property for Industry, and Stride Property Group – are responsible for this large revenue effect (not in the table). These real estate firms previously netted service charges against property operating expenses; upon adoption of IFRS 15, the firms presented them separately on the statement of comprehensive income. This change in presentation increased both revenue and property operating expenses. The following footnote disclosure by Investore Property illustrates this change and the effect thereof.

The implementation of NZ IFRS 15 has required a change in the presentation of service charges in the statement of comprehensive income. Previously, Investore presented the income generated from service charges recovered from tenants as an offset to direct property operating expenses. In implementing NZ IFRS 15, these components have been separated out between income and expense as income falls under the scope of NZ IFRS 15 and cannot be netted off against related expenses. As a result, the 2018

comparatives have been restated as follows: gross rental income increased by \$3,139,000 and direct property operating expenses increased by \$3,139,000.²⁰ (Investore property, 2019, note 1.3, footnote added)

In the next five sub-sections (sub-sections 6.1-6.5), we discuss in detail the channels through which IFRS 15 affected the financial statement items and provide relevant examples from the note disclosures of sample firms. More specifically, we focus on how IFRS 15 affected the identification of separate performance obligations, revenue recognition timing, revenue measurement, accounting for contract costs, and presentation on financial statements.

6.1. Impact on the identification of separate performance obligations

One major rationale the IASB offered for undertaking the revenue project was that previous revenue standards under IFRSs provided only “limited guidance” on “revenue recognition for multiple-element arrangements” (IASB, 2018a, para. BC2(b)). Therefore, the IASB expects that the new revenue recognition model would affect the identification of separate performance obligations. Consider the following extract from the discussion paper on revenue recognition (IASB, 2008, para. S28(b)):

In present practice, entities sometimes account for similar contractual promises differently. For example, some warranties and other post-delivery services are accounted for as cost accruals rather than as ‘deliverables’ in or ‘components’ of a contract. In the proposed model, entities would account for those obligations as performance obligations and would recognise revenue as they are satisfied.

Consistent with this expectation, the application of IFRS 15 impacted the identification of separate performance obligations. The standard requires that each performance obligation included in a contract with customers must be identified (IASB, 2018c, para. 22). A performance obligation involves a promise to transfer distinct goods or services to customers (IASB, 2018c, para. 22).

The IFRS 15 requirement to identify separate performance obligations resulted in some performance obligations that were previously combined with other obligations to be accounted for separately. Appendix A provides examples of how IFRS 15 affected the identification of separate

²⁰ The figures in this note are in New Zealand dollars.

performance obligations of sample firms. Downer EDI noted in its 2019 annual report that IFRS 15 required a more granular approach than IAS 18 to identify separate performance obligations; therefore, the standard resulted in the identification of additional performance obligations for some contracts. Similarly, Bravura Solutions previously considered license and maintenance services as non-separable but considered each of them as separate performance obligations under IFRS 15. Also, because IFRS 15 distinguishes between assurance-type and service-type warranties, with service-type warranties being considered separate performance obligations, BlueScope Steel regarded service warranty as a separate performance obligation.

On the other hand, many sample firms that previously considered some services as separate performance obligations now consider them as part of a single performance obligation. Examples of such services include set-up revenue (TPG Telecom), initial franchise fee (Domino's Pizza), various services under construction contracts (Scentre Group), and listing fee (ASX).

6.2. Impact on the timing of revenue recognition

IFRS 15 requires an entity to recognize revenue when it satisfies each performance obligation by transferring goods or services (IASB, 2018c, para. 31). Revenue must be recognized over time if the performance obligation is satisfied over time; otherwise, revenue is recognized at a point in time (IASB, 2018c, para. 31). As noted above, some performance obligations that were previously considered non-separable were classified as separate performance obligations under IFRS 15 and vice versa. This change in the identification of performance obligations and the application of the criteria for determining whether the performance obligation is satisfied over time resulted in the deferral of revenue recognition in many cases. For example, as Appendix A shows, Domino's Pizza previously recognized revenue relating to the initial fees when the related upfront services were provided. However, on adoption of IFRS 15, the firm considered that the initial fees were highly interrelated with the franchise right and were not services distinct from the ongoing services to the franchisees. The firm, therefore, recognized the initial fees over the term of each respective franchise agreement.

Another reason for changes in the timing of revenue recognition was the change from the risk and reward model in IAS 18 to the control-based model of revenue recognition in IFRS 15. For example, ASX-listed InvoCare disclosed that the main impact of IFRS 15 on the Groups' revenue recognition practices arose from the change to the control-based revenue recognition model in IFRS 15.

Under AASB 15 the main impact on the Group's revenue recognition practice arises from the change from a 'risk and rewards' model under AASB 118 to a 'control' based model under AASB 15. The interment right, memorial products and plaques are each considered to be distinct performance obligations under AASB 15 as a customer can use the site without a memorial and there is not a transformative or integrated relationship between the products. The transfer of control of these distinct performance obligations determines when revenue should be recognised. (InvoCare, 2018, note 2, italics added)

Consequently, the Group would recognize \$82.2 million of revenue, previously recognized under IAS 18, over the next five years under IFRS 15 (InvoCare, 2018, note 2). This change impacted inventories, deferred revenue, deferred tax liability and retained earnings of the Group. Similarly, Burger Fuel (2019, note 4) cited the change to the control-based revenue recognition model as the reason for changing the timing of recognizing franchise revenue from a point in time when the contract was signed to over the life of the franchise agreement. The change to the control-based model also resulted in the delayed recognition of gold sales of Red 5 (2019, note 4.20).

Yet another reason for the change in the timing of revenue recognition was the change in the probability threshold for the recognition of revenue. Because of the change in probability threshold for the recognition, Downer EDI recognized a change of \$204.80 million in opening retained earnings.

Revenue was previously recognised when it was probable that work performed will result in revenue whereas under AASB 15, revenue is recognised when contract modifications are enforceable and to the extent that it is "highly probable" that a significant reversal of revenue will not occur. ...

As a result of the change to a higher threshold of approval for claims or variations and the "highly probable" threshold for the estimation of the amount to be recognised as revenue, a \$204.8 million after tax impact on transition was recognised in retained earnings as at 1 July 2018. (Downer EDI, 2019, note G1, italics added)

Because of this change in threshold, CIMIC Group (2018, note 1) also reported a change in its revenue recognition practice.

The change in the basis of revenue recognition also affected revenue recognition timing. For example, Village Roadshow (2019, note 1) sold “non-refundable gift cards and vouchers” to customers that gave them “the right to receive goods or services in the future”. Prior to IFRS 15, the firm recognised “prepayment amount received from a customer as an unearned revenue liability” and the breakage revenue “upon expiry of the gift cards and vouchers”. On adopting IFRS 15, the firm recognised breakage revenue “in proportion to the pattern of rights exercised by the customer as there is an expectation the Group will be entitled to breakage revenue, and it is considered highly probable a significant reversal will not occur in the future”. This change resulted in an increase in breakage revenue of \$4.3 million in the year ended 30 June 2018, and consequent changes in opening retained earnings, opening unearned revenue, and opening deferred tax liability.

Another example of the change in the basis of revenue recognition is provided by ASX-listed Nine Entertainment Co. Holdings (2019, note 7.6(a)). Prior to IFRS 15, the firm “recognised Television revenue when the associated advertisement had been broadcast.” Upon adoption of IFRS 15, “revenue for Television is recognised by reference to when an advertisement has been broadcast and specific viewer metrics contained in the agreement with the customer have been met.” This resulted in “a reduction of \$2.3 million to opening retained earnings as at 1 July 2018”.

Village Roadshow recognised revenue from the sale of annual and seasonal passes over time under both IAS 18 and IFRS 15. However, the Group changed the basis for the allocation of revenue from passes. Prior to IFRS 15, “the Group recognised revenue based on average visitation using historical data over the period in which the passes were available to be used” (Village Roadshow, 2019, note 1). Under IFRS 15, the Group recognised revenue on annual and seasonal passes “on a straight-line basis to reflect that these passes give rise to a stand-ready performance obligation over the period to which the customer is entitled to use the parks” (Village Roadshow, 2019, note 1).

Also, because of the application of IFRS 15, Downer EDI reported a change in the method for measuring progress in the satisfaction of the performance obligation over time. Consequently, it recognized an after-tax increase of \$2.5 million in opening retained earnings.

The Group recognises revenue using the measure of progress that best reflects the Group's performance in satisfying the performance obligation within the contracts over time. The different methods of measuring progress include an input method (e.g. costs incurred) or an output method (e.g. milestones reached).

On adoption of AASB 15, it was identified that for Rail maintenance contracts, the input method would better reflect the measure of progress rather than the billing method previously used. As a result, a \$2.5 million after tax impact on transition was recognised in retained earnings as at 1 July 2018. (Downer EDI, 2019, note G1)

The application of IFRS 15 resulted in delayed recognition of non-project related works in progress, and the consequent decrease in inventories works in progress and opening retained earnings. Consider the following note disclosure of ALS:

Non-project related works in progress no longer recognised as revenue. Under AASB 118 revenue for non-project related work was recognised for performance obligations started but not yet completed at the end of the period. Under AASB 15, revenue is recognised only to the extent that the performance obligation is fully complete, usually when the report of findings or test/inspection certificate is issued to the customer. Revenue is now recognised later than under AASB 118. The effect of implementing AASB 15 is a decrease of Inventories Work in Progress of \$12.3 million with an adjustment of equal value made to opening retained earnings. (ALS, 2019, note 7B)

We noted above that the mean and median changes in revenue and receivables because of IFRS 15 were negative, suggesting that the standard resulted in delayed recognition of revenue. European Securities and Markets Authority (ESMA, 2019, para. 15) also reports changes in revenue recognition timing for a sample of European firms. Disclosures in notes to financial statements of sample firms confirm these statistics. As Table 6 shows, IFRS 15 resulted in deferring revenue for most of the firms that disclosed the standard's impacts on revenue. Consider the following example of revenue recognition deferral by Flight Centre Travel Group:

Under AASB 15 revenue is recognized as services are provided. Practically this means revenue from tour operations is now recognized over the duration of the tour. This *represents a deferral of revenue compared to the previous policy*, whereby revenue was generally recognized at tour departure. (Flight Centre Travel Group, 2019, note I(B), italics added)

This change resulted in a revenue decrease of \$0.512 million and profit before tax increase of \$0.02 million during 2018, an opening retained earnings decrease of \$1.736 million, a deferred

revenue increase of \$7.265 million, a fulfilment asset increase of \$5.115 million, and a deferred tax asset increase of \$0.414 million (Flight Centre Travel Group, 2019, note I(B)).

Other examples of revenue stream whose recognition had been deferred on the adoption of IFRS 15 included listing fee, student placement fee, annual fees on credit cards, television revenue, license fee, and warranty revenue.

Table 6 about here

There were, however, a few instances where the recognition of revenue was brought forward. Consider the case of ANZ:

Recognition of trail commission revenue: *trail commission revenue previously recognized over time is now recognized at the time the Group initially distributes the underlying product to the customer where it is highly probable the revenue will not need to be reversed in future periods.* (ANZ, 2019, note 1, italics added)

6.3. Measurement

The application of IFRS 15 affected the measurements of revenue and other financial statement items through the basis for allocating the transaction price to multiple performance obligations, the allocation of the discount arising from bundle purchases, the measurement of variable consideration, the treatment of a significant financing component, and the principal vs. agent distinction. In this sub-section, we provide examples of how the new revenue standard affected the measurements of financial statement items.

6.3.1. Basis for allocating the transaction price to separate performance obligations

The previous revenue standards provided only limited guidance on how to allocate the transaction price to separate performance obligations. The significant exception was the requirement to allocate the transaction price to customer award credits under the loyalty program based on fair value under IFRIC 13. In contrast, IFRS 15 requires the transaction price to be allocated to separate performance obligations based on stand-alone selling prices. Prior to IFRS 15,

firms used a variety of methods (e.g., fair value basis and the residual method) for allocating the transaction price to separate performance obligations.²¹ Since IFRS 15 specifies a single basis (i.e., the stand-alone selling prices) for allocation, the application of this requirement improved inter-firm comparability. Village Roadshow changed the allocation basis from fair value to stand-alone selling prices of customer points earned under the loyalty program.

The Cinema Exhibition segment operates loyalty programs where a customer can earn points when they purchase cinema tickets and concession items which can be redeemed in the future for goods and services. Under AASB 15, these loyalty programs give rise to a separate performance obligation as it provides a material right to the customer. *The Group has allocated a portion of the transaction price to the loyalty points earned based on relative estimated stand-alone selling price, and deferred the recognition of this revenue until the points are redeemed. Previously, revenue was deferred on an allocation of the fair value of points issued.* (Village Roadshow, 2019, note 1, italics added)

Village Roadshow determined that “lower revenue of \$3.6 million would have been recognised cumulatively in periods prior to 1 July 2018 for open contracts, had AASB 15 been applied to these loyalty programs” (Village Roadshow, 2019, note 1). Consequently, the change in the allocation basis “resulted in a decrease in retained earnings and a corresponding increase in the unearned revenue liability on 1 July 2018” (Village Roadshow, 2019, note 1).

Qantas, in contrast, changed the allocation basis from the residual method to the stand-alone selling prices of points passengers earned under the Frequent Flyer program. This resulted in a higher allocation to passenger travel and expediated the recognition of revenue.

²¹ Telecommunication firms commonly offer multiple-element contracts to their customers. Marton and Wagenhofer (2010) predict that the new revenue recognition model will change the revenue recognition practices for multiple-element contracts. Therefore, to evaluate the generalizability of our results, we consider four telecommunication firms from English-speaking common law countries and four from code law countries. These are Deutsche Telekom (Germany), Orange Group (France), Spark New Zealand, Telefónica (Spain), Telstra (Australia), TELUS Corporation (Canada), Telecom Italia (Italy), and Vodafone Group (UK). Under previous revenue standards, the firms allocated the contract revenue to separate elements according to their relative standalone selling prices or fair value. Deutsche Telekom (2017, p. 166), Telstra Corporation (2018, note 2.2.1), and Vodafone Group (2018, note 1) used the relative standalone selling prices as the allocation basis. On the other hand, Spark New Zealand (2018, note 2.2), Telefónica (2017, note 3 1)), and TELUS Corporation (2017, note 1(e)) used the relative fair values as the allocation basis. The cumulative impact of this and other changes are reflected in the cumulative adjustment to opening retained earnings. Un-tabulated results show that the adjustment is positive for seven of the eight telecommunication firms and accounted for less than 1% of total assets for five of the eight telecommunication firms. Of the remaining three firms, the adjustment was less than 2% for two firms, and less than 4% for one firm.

AASB 15 requires the allocation of a transaction price to distinct performance obligations based on their relative stand-alone selling prices. As such, the allocation of revenue between passenger travel and Qantas Points changed at a Group level under the new revenue standard. *Previously, revenue was allocated using the residual method. Under AASB 15, the allocation changed to a proportional basis based on the relative stand-alone selling prices.* This has resulted in a higher allocation to passenger travel at a Group level, which is recognised earlier than the redemption of the Qantas Points earned on that travel. (Qantas, 2019, note 29(R), italics added)

6.3.2. Allocation of the discount to bundle purchases

When the entity provides discount for bundle purchases, the discount must be allocated proportionately to all separate performance obligations unless there is objective evidence that the discount applies to one or more, but not all, performance obligations (IASB, 2018c, para. 81). The application of this requirement resulted in a change in the measurement and the timing of revenue recognition of Telstra Corporation (2019, note 7.1.1(b)(ii)).

6.3.3. Variable consideration

When the consideration promised in a contract is variable, the firm must measure revenue at the estimated amount to which the firm will be entitled in exchange for the transfer of goods or services to the customer (IASB, 2018c, para. 50). The application of IFRS 15 resulted in changes in the accounting for variable consideration for some firms. For example, the application of this requirement to rebates paid by SkyCity Entertainment Group changed the measurements of its revenue and operating expense.

As part of the impact of adopting NZ IFRS 15, the Group reassessed how certain arrangements with International Business customers should be treated. *Rebates paid to gaming promoters were previously reflected as operating expenses. These are now accounted for as a reduction in gaming revenue.* (SkyCity Entertainment Group, 2019, note 1(f), italics added)

IFRS 15 requires the firm to recognize a refund liability and a right of return asset when it sells goods with a right of return (IASB, 2018c, para. B21). This requirement resulted in a change in the accounting policy for sale with a right of return of Premier Investments.

Under AASB 15, *the Group estimates the value of expected customer returns that will arise as a result of the Group's returns policy*, which entitles the customer to a refund of returned unused products within the specified timeframe for the respective brands. *At the same time, the Group recognizes a right of return asset*, being the former carrying amount of the inventory, less any expected costs to recover the goods

the Group expects to be returned by customers as a result of the returns policy. *Prior to the adoption of AASB 15, no right of return provision was recognized by the Group.* (Premier Investments, 2019, note 2(j), italics added)

Because of this accounting policy change, Premier Investments recognised on the statement of financial position as at 29 July 2018 “a right of return asset in trade and other receivables of \$0.7 million”, “a refund liability of \$2.0 million in provisions, an increase in deferred tax assets of \$0.4 million and a decrease in retained earnings of \$0.9 million” (Premier Investments, 2019, note 2(j)).

6.3.4. Consideration paid to customers

We found diversity in the accounting for the consideration payable to customers prior to the adoption of IFRS 15. As the following excerpts show, Healius treated these payments as intangible assets, and amortized them over the contract term. Mercury NZ expensed these payments immediately. Meridian Energy applied these payments as discounts to sales. On adoption of IFRS 15, Healius and Mercury accounted for these payments as reductions in revenue, but Meridian capitalized them as contract assets.

Previously payments made by the Group to healthcare professionals on entering into contractual relationships were accounted for as intangible assets and amortised over the life of the relevant contract. Under AASB 15 consideration payable to a customer is accounted for as a reduction of the transaction price unless the payment is made in exchange for a distinct good or service that the customer transfers to the entity. (Healius, 2019, note About this Report, italics added)

The adoption of IFRS 15 results in a change to the Group’s policy relating to the treatment of credits given to customers.... *The Group previously recognized ... customer credits ... as expenses when incurred. The change of policy results in customer incentives being recognized directly against revenue when incurred.* (Mercury NZ, 2019, note 1(2), italics added)

Meridian’s previous policy was to recognise customer credits (upfront discounts) as discounts to electricity sales to customers at the time the credits were applied to the customers’ accounts, The change of policy will result in customer incentives ... being deferred to the balance sheet as customer contract assets and amortised on a straight-line basis over the expected average customer contract tenure. (Meridian Energy, 2018, p. 88)

6.3.5. Principal vs. agent distinction

While both IFRS 15 and the previous revenue standards require the entity to determine whether it is acting as a principal or an agent, the criteria were different. In some cases, this resulted in changes in the determination of whether the entity was a principal or an agent. For example, the new guidance led to changes in the statuses of Spark New Zealand and Sky Network Television

from being a principal to being an agent and from being an agent to being a principal, respectively, and consequently changed the measurement of revenue and operating expense under IFRS 15.

Spark has assessed that *we are an agent in relation to third-party services*, such as Spotify and Netflix, and also certain cloud, security and service management contracts, which may incorporate services provided by third parties. *This has resulted in a reduction in reported operating revenue and operating expenses but no impact on net earnings.* (Spark New Zealand, 2019, note 1.4, italics added)

Certain contracts where *Sky has been identified as the principal*, which historically were recognised net of expenses are now presented on a gross basis with expenses recognised in operating costs. As a result of the assessment made for adopting NZ IFRS 15, *an adjustment was made which increased both revenue and expenses with no impact to net profit...* (Sky Network Television, 2019, note 3, italics added)

6.3.6. Significant financing component

Both IFRS 15 and IAS 18 require that the customer consideration be adjusted for the time value of money. However, IFRS 15 provides prescriptive requirements for significant financing components. Further, the interest rates specified for discounting the consideration may not necessarily be the same. Consequently, the application of IFRS 15 resulted in the identification of new significant financing components and changes in the discount rate, resulting in a change in the allocation of the consideration between revenue and interest revenue/expense. For example, APA Group identified significant financing components in some contracts.

APA Group may receive cash from customers as a contribution to constructing or connecting the customer to the network as part of ongoing access to gas transportation services. *A significant financing component has been identified in some such contracts*, as a result of the length of time between when the customer pays for the service and when APA Group fulfils the performance obligation. *The effects of financing have been presented as interest expense separately from revenue from contracts with customers, with the accumulative adjustment at 1 July 2018 recognised in retained earnings...* (APA Group, 2019, note 30, italics added)

This change resulted in a decline of \$2.2 million in opening retained earnings, an increase in unearned revenue of \$3.1 million, and an increase in deferred tax asset of \$0.90 million at 1 July 2018 (APA Group, 2019, note 30). Southern Cross Media Group (2019, p. 83) also identified that a significant financing component existed “within the ATN contract”.

The application of IFRS 15 resulted in a change in the discount rate Spark New Zealand used to evaluate the financing component.

The impact of revised guidance in the new standard in relation to the existence of *a significant financing component* in a contract. The inherent financing component of Spark's interest-free device offers to customers *was previously assessed using Spark's incremental borrowing rate*, however, *NZ IFRS 15 requires the use of an interest rate that would be used in a separate financing transaction* between Spark and the customer that reflects their credit characteristics. *The application of this rate to the sale of devices sold on repayment plans has resulted in a reduction in device revenue and an increase in interest income recognized over the repayment term.* (Spark New Zealand, 2019, note 1.4, italics added)

Also, because of the application of IFRS 15, InvoCare reported a change in how it accounted for the financing component.

Under AASB 15 the initial recognition of the financing component is recognised as an element of deferred revenue and prepaid contract liabilities. On delivery of a prepaid funeral service contract, under AASB 118, the Group previously recognised an expense reduction for the impact of price rises recognised after initial recognition. Under AASB 15, this practice has ceased and the Group recognises the financing component as a component of revenue. (InvoCare, 2018, note 2)

This change “resulted in \$7.6 million of revenue being deferred (relating to the financing component) and \$28.6 million of financing component relating to prepaid contract liabilities. In addition, deferred tax liabilities were decreased by \$10.9 million and a net adjustment to retained earnings of \$25.3 million was recognised” (InvoCare, 2018, note 2).

6.4. Contract costs

We observed diversity in the accounting for costs of obtaining contracts prior to adoption of IFRS 15. Appendix B provides examples of how the standard affected the accounting for contract costs. Nanosonics expensed sales commissions prior to adopting IFRS 15. In contrast, Downer EDI previously capitalized costs incurred during the tender process. After adopting IFRS 15, the firms capitalize these costs if they are recoverable and amortize them over the contract period. Thus, IFRS 15 enhances the comparability in the accounting for the costs of obtaining the contracts.

In addition, several firms capitalized the cost to fulfil a contract. For example, Integrated Research previously expensed sales commission but capitalized it on adoption of IFRS 15. This impacted the firm's opening retained earnings, deferred tax liability, amortization expense and profit.

6.5. Presentation

Following the distinction between contract assets and receivables in IFRS 15, sample firms used the term ‘contract assets’ in place of receivables. Also, consistent with the IFRS 15 suggestion, sample firms used the term ‘contract liabilities’ in place of ‘payables.’ Two examples of these changes are as follows:

Work completed but not billed and work-in-progress not yet billable which were previously classified as accrued revenue within trade and other receivables will now be classified as a contract asset.... Amounts received in advance from clients which were previously classified as unearned income within other creditor and accruals will now be classified as contract liabilities. (Link Administration Holdings, 2019, note 3(b), italics added)

Contract liabilities in relation to advances received from customers (supply and install contracts) of \$8,243,000 were previously presented as part of payables (\$9,371,000), provisions (\$1,101,000) or as a reduction of receivables (\$2,229,000).(Brickworks, 2019, note 7.6(b), italics added)

Besides these changes, sample firms made other subtle changes in the presentation of revenue and related items on the financial statements. For example, Air New Zealand re-classified certain ancillary services revenue from other revenues to passenger revenue.

The timing of recognition of the consideration for certain ancillary services has changed to align with the principal performance obligations associated with the services provided. The related revenue has been reclassified from ‘Other revenue’ to ‘Passenger revenue’. (Air New Zealand, 2019, note 25, italics added)

7. Summary, discussion, and future research opportunities

We provide evidence on IFRS 15 impacts on the revenue recognition practices and financial statements of a sample of Australian and New Zealand firms. We find that firms tend to use the modified retrospective method more than the full retrospective method. Further, larger firms tend to use the full retrospective method more than smaller firms, but smaller firms tend to use the modified retrospective method more than larger firms. This result is consistent with the higher costs and implementation challenges associated with the full retrospective method driving the choice of the transition method, especially for smaller firms. We also report results consistent with opportunistic consideration influencing the choice of the transition method for larger ASX-firms.

We also find that 63.38% sample firms reported that IFRS 15 would have either no impact or no material impact on financial statements. The remaining 36.62% firms disclosed IFRS 15 impacts on financial statements. These percentages are very similar in Australia and New Zealand at the aggregate level. However, the percentages varied by firm sizes, with a higher percentage of larger firms reporting the impacts in notes. The percentages also varied by sectors, with slightly different sectoral patterns observed in Australia and New Zealand.

We find that IFRS 15 did not affect standard retail sales transactions, for which the recognition and measurement under the previous revenue standards were consistent with those under IFRS 15. Further, the standard did not affect the revenue recognition practices of some firms because their revenue transactions were outside its scope. Those transactions are covered in other IFRSs (e.g., IFRS 9 and IFRS 16). For firms that disclosed IFRS 15 impacts on financial statements, revenue was the most affected item in terms of the magnitude and the number of sectors affected. The mean (median) signed and absolute changes in revenue were -1.03% (-0.28%) and 4.18% (1.55%), respectively. Besides revenue, cost of goods sold, contract liabilities and profit after tax were three other most affected financial statement items. We noted a caveat that only a small number of sample firms disclosed these impacts.

We noted the IASB constituents' concerns with the new revenue recognition model. The IASB claimed that the new standard would affect "only *some* revenue transactions of *some* companies" (IASB, 2014, p. 7, italics in original). While the standard did not affect materially the majority (i.e., 63.38%) of the sample firms, it affected a significant percentage (i.e., 36.62%) of firms also. Importantly, firms that disclosed IFRS 15 impacts experienced material impacts on revenue. Since revenue is used in many ratios widely used in bonus and debt covenants, IFRS 15 will likely affect these firms unless they use "frozen" GAAP in contracts. These results are, therefore, of potential interest to the IASB and its constituents, especially because the IASB must conduct a post-implementation review of the standard.

Firms that disclosed IFRS 15 impacts on revenue reported, on average, declines in year t-1 revenue when the figure was restated using IFRS 15. Consistent with declines in revenue, the sample firms reported declines in net profit, retained earnings, and receivables, and increases in revenue received in advance. Wagenhofer (2014) notes that IFRS 15 contains some conservative revenue recognition requirements. Consistent with this, we provide evidence that IFRS 15 delayed the revenue recognition of many sample firms.

One major channel through which IFRS 15 affected the financial statements was the change in the identification of performance obligations. In some cases, performance obligations that were not previously considered separate are considered separate under IFRS 15. In other cases, previously separate performance obligations are now considered parts of broader performance obligations. These changes in performance obligations resulted in the deferral of revenue recognition for most firms that disclosed IFRS 15 impact on revenue.

For multiple-element contracts, IFRS 15 changed the basis for allocating the transaction price to relative stand-alone selling prices. Previously, firms used several allocation bases such as the fair value, the residual method, and stand-alone selling prices. The standard also caused changes in the basis of allocating revenue over time, the accounting for variable consideration (e.g., returns and rebates), the statuses of some firms from being a principal to an agent and vice versa, the accounting for the consideration payable to customers, the identification of significant financing components, the discount rate for evaluating the financing component of the contract, the accounting for contract costs, and presentation on financial statements.

We contribute to the revenue recognition literature (Altamuro et al., 2005; Rasmussen, 2013; Zhang, 2005) and the emerging literature on the impacts of IFRS 15 (Napier & Stadler, 2020). In contrast with these papers, we provide detailed evidence on IFRS 15 impacts on financial statement items and how the standard affected these items.

In this study, we document that IFRS 15 resulted in the deferral of revenue. We also find that the standard resulted in comparable accounting policies (e.g., accounting for contract costs and

the basis for allocating the transaction price to separate performance obligations). Large sample studies may examine whether the application of the standard affects the timeliness and comparability of revenue and earnings. Prior research suggests that the impacts of alternative revenue recognition models are context-dependent (Altamuro et al., 2005; Rasmussen, 2013). We also report that IFRS 15 impacts on revenue varied by sectors. Therefore, one potentially fruitful research avenue is to focus on specific sectors.

Declaration of interests

We declare that we have no financial or other interests that could have influenced the results reported in this paper.

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Table 1**Differences between the revenue models under IFRS 15 and the previous revenue standards**

Areas of difference	IFRS 15	Previous revenue standards (IAS 11, IAS 18 and IFRIC 13)
Revenue recognition principle	Revenue recognition is based on the transfer of control. Revenue is to be recognized over time in three specified situations. In other situations, revenue is to be recognized at a point in time.	Revenue recognition from the sale of goods was based on the transfer of risks and rewards to the customer. Revenue from service and construction contracts was to be recognized over time.
Guidance on multiple-element contracts	Provides guidance on how to identify the separate performance obligations and allocate the transaction price to them.	Provided no guidance on the identification of the components of a transaction, and the allocation of the transaction price to the components.
Accounting for warranty	Distinguishes between assurance-type and service-type warranties, and specifies the accounting requirement for each type of warranty	Provided no guidance on the accounting for warranties. Reporting entities often used the guidance in IAS 37 to account for warranties.
Accounting for customer options to acquire goods or services for free or at a discount	Sales incentives, including award credits under customer loyalty programs, are to be accounted for as separate performance obligations if these offer the customer a material right that would not have been awarded if the customer had not entered the contract in the first place.	Provided guidance on the accounting for credits awarded to customers under customer loyalty programs.
Measurement of variable consideration	Specified the expected value and the most likely outcome for measuring the variable consideration.	No explicit guidance on the measurement of variable consideration, except specifying that revenue must be capable of being measured with reliability.
Consideration payable to customers	Accounted for as a reduction of the transaction price unless the payment is for distinct goods or services.	No explicit guidance on this.
Financing components	If the contract contains a significant financing component, the amount of consideration must be discounted at the discount rate that would be reflected in a separate financing transaction between the entity and its customer.	If the consideration is deferred, it must be discounted at either (a) the prevailing rate for a similar instrument of an issuer with a similar credit rating; or (b) a rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.
Contract costs	Requires the capitalization of these costs if these are recoverable.	No explicit guidance on how to account for these costs.
Presentation	Uses 'contract assets' and 'receivables' to indicate conditional and unconditional rights to customer consideration, respectively. Uses 'contract liabilities' in place of trade payables.	Did not distinguish between conditional and unconditional rights to consideration. Did not use 'contract assets' and 'contract liabilities.'

Table 2**Sample**

Panel A: Sample selection criteria			
Criteria	ASX sample	NZX sample	Full sample
Initial sample	301	119	420
Less: dual listed firms	(9)	(2)	(11)
Less: annual reports unavailable	(2)	(2)	(4)
Less: firms that used US GAAP	(4)	-	(4)
Less: firms that did not explicitly state their adoption of IFRS 15	-	(5)	(5)
Final sample	286	110	396
Panel B: Sample firms by GICS sectors			
Sectors	ASX sample	NZX sample	Full sample
Energy	16	3	19
Materials	57	4	61
Industrials	28	15	43
Consumer Discretionary	34	15	49
Consumer Staples	18	19	37
Healthcare	23	13	36
Financials	38	6	44
Information Technology	23	12	35
Communication Services	12	5	17
Utilities	4	9	13
Real Estate	33	9	42
Total	286	110	396
Panel C: Number of firms by transition methods			
Transition method	ASX sample	NZX sample	Full sample
Full retrospective method	60	27	87
Modified retrospective	136	45	181
Not disclosed	90	38	128
Total	286	110	396
Pearson χ^2 for association between country and transition method		1.46	
(p-value)		(0.48)	

Table 3

Overall impacts of IFRS 15

Panel A: Number of firms reporting IFRS 15 impacts in notes									
IFRS 15 impacts on financial statements	ASX sample			NZX sample			Full sample		
No impact	62			21			83		
No material impact	119			49			168		
Impact disclosed	105			40			145		
Total	286			110			396		
Pearson χ^2 for association between country and impact				0.42					
(p-value)				(0.81)					
Panel B: IFRS 15 impacts by country-GICS sectors									
Sectors	ASX sample			NZX sample			Full sample		
	No impact/No material impact	IFRS 15 impacts disclosed	Total	No impact/No material impact	IFRS 15 impacts disclosed	Total	No impact/No material impact	IFRS 15 impacts disclosed	Total
Energy	9	7	16	3	0	3	12	7	19
Materials	41	16	57	3	1	4	44	17	61
Industrials	16	12	28	9	6	15	25	18	43
Consumer Discretionary	18	16	34	7	8	15	25	24	49
Consumer Staples	14	4	18	12	7	19	26	11	37
Health Care	14	9	23	13	0	13	27	9	36
Financials	24	14	38	6	0	6	30	14	44
Information Technology	10	13	23	8	4	12	18	17	35
Communication Services	4	8	12	1	4	5	5	12	17
Utilities	2	2	4	2	7	9	4	9	13
Real Estate	29	4	33	6	3	9	35	7	42
Total	181	105	286	70	40	110	251	145	396
Pearson χ^2 for association between sectors and impacts	23.29			25.62			32.80		
(p-value)	(0.01)			(0.00)			(0.00)		

Panel C: Examples of revenue not materially impacted by IFRS 15

Revenue	Firm (Sector)
<ul style="list-style-type: none"> • Sale of fuel and convenience retail • Sales of coal and oil • Sale of goods and services • Revenue from courier and postal services, and information management services 	<ul style="list-style-type: none"> • Z Energy (Energy) • New Hope Group (Energy) • Incitec Pivot Limited (Materials) • Freightways Limited (Industrials)

- Revenue from tourism services, and sale of goods
- Revenue from child-care centre and fees paid by franchisees
- Sale of consumer electronics, telecommunications products and services, and computer software and musical instruments
- Sale of goods in-store and online
- Sale of beverage products
- Rest home and hospital service fees
- Interest income, and rental income from investment properties
- Interest income (outside the scope of IFRS 15)
- Software license revenue, consulting revenue, royalty revenue, and revenue from cloud, hosting and maintenance services
- Rent from investment property (outside the scope of IFRS 15)

- Tourism Holdings Ltd (Industrials)
 - G8 Education Ltd (Consumer Discretionary)
 - JB Hi-Fi Limited (Consumer Discretionary)
 - Woolworths Group (Consumer Staples)
 - Coca-Cola Amatil (consumer Staples)
 - Oceania Healthcare (Health Care)
 - Heartland Group (Financials)
 - Magellan Financial Group (Financials)
 - Iress Ltd (Information Technology)
 - WiseTech Global (Information Technology)
 - Abacus Property Group (Real Estate)
 - The GPT Group (Real Estate)
-

Table 4

Mean (median) changes to financial statement line items

Panel A: Mean (median) changes in income statement line items as a percentage of revenue										
GICS sectors	Operating revenue		All other income		Cost of goods sold or service		Operating expense		Profit after Tax	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Energy	-3.90	-3.55	2.50	1.79	-5.60	-5.60	0.29	0.29	1.15	1.15
Materials	-2.48	-2.03	3.04	3.04	0.05	0.05	-2.01	-0.95	-0.70	-0.70
Industrials	0.45	-0.08	-0.90	-0.90	0.93	0.50	0.10	-0.00	-0.24	-0.11
Consumer Discretionary	-3.70	-1.02	0.66	0.66	-0.41	-0.15	-4.49	-0.38	-0.07	-0.01
Consumer Staples	-2.22	-5.00			-1.52	-3.25	-2.11	-0.02	-0.04	-0.04
Health Care	-4.26	-4.26					-0.40	-0.40	-7.73	-7.73
Financials	6.24	7.60			9.12	9.12	0.47	0.47		
Information Technology	-7.02	-6.30			-3.11	-3.11	-1.12	-0.88	-3.83	-2.57
Communication Services	-0.87	-0.12	0.44	0.44	-0.83	-0.83	0.59	0.87	-0.86	-0.14
Utilities	-0.16	-0.09					-0.41	-0.14	0.31	0.09
Real Estate	14.31	11.57			12.30	11.57	6.03	6.03		
Full sample	-1.03	-0.28	1.22	0.38	1.01	-0.02	-1.16	-0.02	-0.92	-0.07
ANOVA F-statistic (p-value)	3.01 (0.00)		1.06 (0.45)		1.40 (0.26)		1.29 (0.28)		2.51 (0.05)	
Kwallis χ^2 (p-value)		24.15 (0.01)		4.96 (0.29)		13.02 (0.11)		15.22 (0.12)		12.63 (0.13)

Table 4 (continued)

Panel B: Mean (median) changes in assets accounts as a percentage of total assets												
GICS sectors	Trade and other receivables		Contract asset		Inventories		Intangible assets		Deferred tax asset		All other assets	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Energy	-0.30	-0.30							0.13	0.13	0.29	0.29
Materials	-1.06	-0.63	0.10	-0.00	1.57	1.57			0.02	0.02		
Industrials	-1.35	-0.46	0.13	0.49	-0.88	-0.40			0.27	0.15	-0.82	-0.02
Consumer Discretionary	-2.89	-2.05	2.52	0.28	1.75	0.95	-0.29	-0.29	0.70	0.12	0.35	0.34
Consumer Staples	-0.41	-0.41			-0.81	-0.81	-0.48	-0.48	0.35	0.35	-0.58	-0.58
Health Care	0.28	0.28	1.46	1.43	-0.58	-0.58	-1.41	-1.41	0.23	-0.02		
Financials	-0.71	-0.71					-0.01	-0.01	0.09	0.02	-0.02	0.00
Information Technology	-3.25	-1.26	0.06	0.93			8.31	8.31	2.20	0.45	0.03	0.34
Communication Services	0.19	0.09	1.08	0.35	-0.72	-0.72	-0.83	-0.18	0.09	0.13	0.10	0.10
Utilities	0.16	0.16	0.21	0.13					0.01	0.01	-0.01	-0.01
Real Estate	-0.53	-0.53	0.55	0.55	-0.97	-0.97			-0.13	-0.13	0.09	0.09
Full sample	-1.44	-0.46	0.70	0.42	0.27	0.04	0.17	-0.21	0.81	0.11	-0.07	0.02
ANOVA F-statistic (p-value)	0.78 (0.65)		0.34 (0.93)		1.12 (0.42)		5.75 (0.06)		0.40 (0.94)		0.30 (0.95)	
Kwallis χ^2 (p-value)		13.34 (0.21)		7.57 (0.37)		11.31 (0.08)		3.86 (0.57)		9.97 (0.44)		6.77 (0.56)

Table 4 (continued)

Panel C: Mean (median) changes in liability and equity accounts as a percentage of total assets																		
GICS sectors	Trade and other payables		Contract liabilities		Revenue received in advance		Provisions		All other liabilities		Deferred tax liability		Retained earnings		Non-controlling interest		Reserve	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Energy	-0.18	-0.18	0.00	0.00	0.20	0.20					0.05	0.05	-0.09	-0.09				
Materials	-0.40	-0.40	1.01	1.01	0.56	0.08	1.92	-0.02	-3.58	-3.58	-0.15	-0.15	-0.19	-0.14	-0.06	-0.06	-0.17	-0.17
Industrials	0.97	0.27	0.45	0.45	0.34	0.33	1.09	1.09			-0.65	-0.56	-1.61	-0.32	-0.11	-0.15	-0.02	0.00
Consumer	-0.74	-0.31	3.39	1.55	2.55	1.96	0.00	0.12	0.12	0.09	-0.41	-0.24	-1.65	-0.23	-0.00	-0.00		
Discretionary Consumer	-1.00	-1.00	5.75	5.75					-0.16	-0.16			-4.33	-1.42				
Staples																		
Health Care	0.06	0.06	-0.23	-0.23	13.66	13.66	0.32	0.32	0.23	0.23	0.17	0.17	-2.58	0.05	-0.12	-0.12		
Financials	0.19	0.02	0.44	0.44	0.68	0.94	-0.01	-0.01	0.00	0.00	-0.14	0.00	-0.30	-0.06	-0.11	-0.11		
Information Technology	0.26	0.26	3.74	2.98	2.11	-0.68			0.01	0.01	0.24	0.13	-2.20	0.08			-0.02	-0.02
Communication Services	-0.24	-0.04			0.59	0.30	-0.07	-0.07	0.07	0.07	0.01	0.03	-0.13	-0.09	-0.01	-0.01	-0.03	-0.03
Utilities					0.20	0.20					0.04	0.04	0.06	0.05	0.15	0.15		
Real Estate	-0.20	-0.20	0.10	0.10	-0.85	-0.85					-0.13	-0.13	0.00	0.00				
Full sample	0.07	-0.01	2.38	0.46	1.74	0.28	0.71	0.05	-0.56	0.01	-0.08	0.00	-1.17	-0.12	-0.05	-0.06	-0.04	-0.02
ANOVA F-statistic (p-value)	0.26 (0.98)		0.57 (0.79)		0.69 (0.71)		0.26 (0.92)		0.65 (0.69)		2.66 (0.02)		0.54 (0.86)		2.81 (0.17)		3.44 (0.17)	
Kwallis χ^2 (p-value)		7.67 (0.57)		9.68 (0.29)		12.53 (0.18)		3.62 (0.61)		4.31 (0.64)		19.82 (0.02)		17.49 (0.06)		6.80 (0.34)		2.89 (0.41)

Panel A is based on 62 firms that disclosed any income statement impacts of IFRS 15. These are primarily firms that adopted the full retrospective method. Panel B and C are based on 111 firms. These include firms that adopted the full retrospective method and firms that adopted the modified retrospective method. However, the number of firms reporting an impact on a financial statement item varies across items and sectors. For some financial statement items, the mean and median are the same. This is either because the number of firms reporting the impact on that item is one or two, or because of rounding to two decimal places. Means and medians in bold are significant at p<10%. The statistical significance of each figure is based on the actual number of firms that reported that figure.

Table 5

Channels through which IFRS 15 affected financial statement items in each sector

Sectors	Channels through which IFRS 15 affected revenue recognition (Firm)
Energy	<ul style="list-style-type: none"> • Recognition of franchisees' fee over time (Ampol) • Reclassification of other income and other revenue to revenue from contracts from customers (Santos) • Presentation of contract liabilities (Washington H. Soul Pattinson & Co.) • Disclosure of individual components of revenue (Cooper Energy)
Materials	<ul style="list-style-type: none"> • Separate performance obligation (IGO, and Sandfire Resources) • Treatment of service warranty (BlueScope Steel) • Measurement of transaction price (BHP, and Sandfire Resources) • Revenue recognized when the customer obtains control rather than when the risks and rewards are transferred (Perseus Mining, and Red 5) • Presentation of contract assets and contract liabilities (Brickworks)
Industrials	<ul style="list-style-type: none"> • Separate performance obligations (Downer EDI, Qantas, and Brambles) • Basis for allocating the transaction price to separate performance obligations (Qantas) • Non-recognition of non-project related works in progress as revenue (ALS) • Revenue from freighting services provided recognized over time rather than at a point in time (TIL Logistics Group) • Higher probability threshold for the recognition of revenue (Downer EDI, and CIMIC Group) • Treatment of costs to obtain contracts (CIMIC Group, and Downer EDI) • Treatment of costs to fulfil contracts (AWF Madison Group) • Change in the method for measuring progress (Downer EDI) • Variable consideration (AWF Madison Group, McMillan Shakespeare, and Monadelphous) • Principal/agent distinction (Air New Zealand, Qantas, and Wellington Drive Technologies) • Presentation of contract assets and contract liabilities (AWF Madison Group, and Bingo Industries)
Consumer Discretionary	<ul style="list-style-type: none"> • Separate performance obligation (Briscoe Group, Domino's Pizza Enterprises, Hallenstein Glasson Holdings, and Just Life Group) • Basis of allocating the transaction price to separate performance obligations (i.e., customer loyalty program) (Premier Investments) • Change from the risk and reward model to the control model-based revenue recognition (Burger Fuel Group, and InvoCare) • Recognition of revenue (e.g., tour operation revenue and franchise fee revenue) over time rather than at a point in time (Collins Foods, and Flight Centre Travel Group) • Treatment of the financing component (InvoCare) • Consideration paid to customers (Star Entertainment Group) • Treatment of right of return (Premier Investments) • Principal/agent distinction (Flight Center Travel Group, and Sealink Travel Group)
Consumer Staples	<ul style="list-style-type: none"> • Revenue recognition over time (Cooks Global Foods) • Variable consideration (Costa Group Holdings, and The a2 Milk Company) • Treatment of costs to obtain contracts (Green Cross Health) • Payments made to customers (Bega Cheese) • Principal/agent distinction (Metcash, and Scales Corporation)
Health Care	<ul style="list-style-type: none"> • Separate performance obligations (Nanosonics) • Recognition over time rather than at a point in time (CSL) • Variable consideration (Australian Pharmaceutical Industries) • Consideration payable to customers (Healius) • Identification of financing component (Nanosonics) • Treatment of costs to obtain contracts (Sigma Healthcare) • Principal/agent distinction (Ramsay Health Care)
Financials	<ul style="list-style-type: none"> • Separate performance obligation (ASX, and Steadfast Group)

Sectors	Channels through which IFRS 15 affected revenue recognition (Firm)
	<ul style="list-style-type: none"> • Application of IFRS 15 to individual contracts rather than to a portfolio of contracts (Eclix Group) • Revenue (e.g., loan establishment fees, fees in relation to lending, leasing and guarantee arrangements, and annual fees on credit cards products) recognized over time rather than at a point in time (Bank of Queensland, Commonwealth Bank of Australia, and Eclix Group) • Revenue (e.g., trail commission) recognized at a point in time rather than over time (ANZ, Bank of Queensland, and Commonwealth Bank of Australia) • Variable consideration (Eclix Group) • Principal/agent distinction (ANZ, Eclix Group, and Navigator Global Investments)
Information Technology	<ul style="list-style-type: none"> • Separate performance obligations (Bravura Solution, and ELMO Software) • Changes in the timing of revenue (e.g., upfront fee, and general registry maintenance fee) recognition (Computershare) • Consideration paid to customers (Afterpay Touch Group) • Treatment of costs to obtain contracts (Bravura Solutions, and Xero) • Treatment of costs to fulfil contracts (EROAD, Integrated Research, and Link Administration) • Principal/agent distinction (Enprise Group) • Presentation of contract assets and contract liabilities (Appen, Data#3, Integrated Research, and Link Administration)
Communication Services	<ul style="list-style-type: none"> • Set-up revenue charged to customers not considered a separate performance obligation (TPG Telecom) • Basis for allocating the transaction price to the customer loyalty program (Village Roadshow) • Basis of recognizing breakage revenue from the sale of gift cards, television revenue, and annual and seasonal passes (Event Hospitality and Entertainment, Nine Entertainment, and Village Roadshow) • Treatment of costs to obtain contracts (Chorus, Event Hospitality and Entertainment, Spark New Zealand, and TPG Telecom) • Identification of a significant financing component (Southern Cross Media Group) • The discount rate for evaluating the financing component (Spark New Zealand) • Allocation of discounts arising from the sale of a bundle of goods or services (Telstra Corporation) • Principal/agent distinction (Sky Network Television, and Spark New Zealand) • Balance sheet presentation of contract assets and contract liabilities (Telstra Corporation)
Utilities	<ul style="list-style-type: none"> • Treatment of costs to obtain contracts (Contact Energy, Meridian Energy, and Trustpower) • Treatment of consideration payable to customers (Mercury Energy) • Identification of financing component (APA Group) • Principal/agent distinction (Genesis Energy)
Real Estate	<ul style="list-style-type: none"> • Separate performance obligations (Scentre Group) • Recognizing revenue from commercial development activities over time rather than at a point in time (Mirvac Group) • Presentation of income from service charges recovered from tenants and property operating expenses (Investore Property, Property for Industry, and Stride Property Group) • Presentation of contract assets and contract liabilities (Goodman Group)

Table 6**IFRS 15 impacts on revenue recognition timing**

Revenue	Impact on recognition timing	Firm (GICS sector)
<ul style="list-style-type: none"> Upfront fee, including initial upfront administration fee, and initial franchising fee 	Deferred	<ul style="list-style-type: none"> Invocare Consumer Discretionary) Bank of Queensland (Financials) Brambles (Industrials) Collins Foods (Consumer Discretionary) Domino's Pizza (Consumer Discretionary) Bank of Queensland (Financials)
<ul style="list-style-type: none"> Annual fees in relation to lending, and annual fees on credit card products 	Deferred	
<ul style="list-style-type: none"> Shareholder meeting service fee 	Deferred	<ul style="list-style-type: none"> Computershare (Information Technology)
<ul style="list-style-type: none"> Revenue from tour operations 	Deferred	<ul style="list-style-type: none"> Flight Centre Travel Group (Consumer Discretionary)
<ul style="list-style-type: none"> Installation service fee, including set-up and connection service fee 	Deferred	<ul style="list-style-type: none"> NEXTDC (Information Technology) AusNet Services (Utilities) TPG Telecom (Communication Services)
<ul style="list-style-type: none"> Student placement revenue 	Varies across markets	<ul style="list-style-type: none"> IDP Education (Consumer Discretionary)
<ul style="list-style-type: none"> Television revenue 	Deferred	<ul style="list-style-type: none"> Nine Entertainment (Consumer Discretionary)
<ul style="list-style-type: none"> Fee and commission income associated with claims handling services 	Deferred	<ul style="list-style-type: none"> Steadfast Group (Financials)
<ul style="list-style-type: none"> Gold sales 	Deferred	<ul style="list-style-type: none"> Regis Resources (Materials)
<ul style="list-style-type: none"> License fee 	Deferred	<ul style="list-style-type: none"> Bravura Solutions (Information Technology)
<ul style="list-style-type: none"> Listing fee 	Deferred	<ul style="list-style-type: none"> ASX (Financials)
<ul style="list-style-type: none"> Shipping and insurance service revenue 	Deferred	<ul style="list-style-type: none"> IGO (Materials)
<ul style="list-style-type: none"> Trail commission income 	Early	<ul style="list-style-type: none"> ANZ (Financials) Bank of Queensland (Financials) Commonwealth Bank of Australia (Financials)
<ul style="list-style-type: none"> Warranty premium 	Deferred	<ul style="list-style-type: none"> BlueScope Steel (Materials)

Appendix A

IFRS 15 impacts on the identification of separate performance obligations

Panel A: Additional performance obligations identified

AASB 15 requires a more granular approach to identify the different revenue streams (i.e. performance obligations) in a contract by identifying the different activities that are being undertaken and then aggregating only those where the different activities are significantly integrated or highly interdependent. As a result of the change, additional performance obligations were identified for some contracts with later revenue recognition which resulted in an adjustment of \$26.8 million after tax to retained earnings as at 1 July 2018. (Downer EDI, 2019, note G1, italics added)

From time to time, the Group prices licences and maintenance services in a bundled annual fee. Under the previous accounting policy, *the delivery of certain licences and provision of maintenance were considered nonseparable* and were rateably recognized over the term. Under AASB 15, *the licence element is considered a separate performance obligation* satisfied at a point in time. (Bravura Solutions, 2019, note 1(aa), italics added)

The majority of the Group's product warranties are assurance type warranties and therefore there is no change in accounting policy. However, the North American Buildings and Building Product businesses offer service warranties to our customers, ranging from 5 to 30 years. *Previously the Group recognised revenue upon receipt of the warranty premium and raised a claims provision* based on known claims and a past history of claims experience. Under AASB 15, *the service warranty premium is treated as a separate performance obligation* with revenue recognised over the warranty period. (BlueScope Steel, 2019, note 35(a), italics added)

Panel B: Previously separate performance obligations are considered not separate under IFRS 15

For certain products, *set-up revenue* charged to customers and connection costs incurred by the Group were previously recognized on installation. As *set-up revenue does not satisfy the definition of a performance obligation under the new standard*, from the date of initial application, *it is treated as part of the total contract price* and allocated over the identified performance obligations. (TPG Telecom, 2019, note 31)

Under AASB 118 revenue relating to initial fees were recognized when the related upfront services were provided. *Upon adoption of AASB 15, the Group has determined that the initial fees are highly interrelated with the franchise right and are not individually distinct from the ongoing services provided to franchisees. As a result, upon adoption of AASB 15, initial fees are recognized over the term of each respective franchise agreement.* Revenue from these initial franchise fees are recognized on straight-line basis, which is consistent with the franchisee's right to use and benefit from the intellectual property. (Domino's Pizza Enterprises, 2019, note 33, italics added)

The Group's property development and construction revenue comprises Construction, Design and Development fees earned from Design and Construction Agreements (D&C Agreements) with third parties. In previous reporting periods, *... the various services provided under the D&C Agreements were treated as distinct performance obligations* and revenues were recognized based on their separately determined percentage of completion. Under AASB 15, *... the Group will account for all services provided under the D&C Agreements as a single performance obligation*, the services being part of a series of distinct goods and services that are substantially integrated with the same pattern of transfer. Accordingly, property development and construction revenue will be recognized based on the percentage of completion for that single performance obligation. (Scentre Group, 2018, note 1(c), italics added)

These [initial and subsequent listing] fees were previously recognized on the date of admission or quotation of the shares. *Under AASB 15, these listing fees are deferred and recognized over the period in which it is estimated that the listing service will be provided. This is because the services provided in relation to the initial or subsequent listing are not considered to be distinct from the ongoing listing service provided throughout the period which the entity is listed.* (ASX, 2019, note A4(b), italics added)

Appendix B

IFRS 15 impacts on accounting for contract costs

With the adoption of the revenue standard *the incremental costs incurred to acquire new customers are capitalized as a contract asset instead of being expensed as incurred*. The contract asset is amortised to operating expenses over the expected life of the customer relationship. (Contact Energy, 2018, note A1, italics added)

Under AASB 15, *incremental contract costs of sales commissions will be amortised over the contract period. These were previously expensed in the period they are paid or become payable*. The impact of the change results in the capitalisation of costs to obtain customer contracts, and a decrease in selling and general expenses. (Nanosonics, 2019, note 1.2(i), italics added)

Under AASB 111 Construction Contracts, *costs incurred during the tender process were capitalized within contract debtors when it was deemed probable the contract will be won. Under the new standard, costs incurred during the tender/bid process will be expensed, unless they are incremental to obtaining the contract and the Group expects to recover them or they are explicitly chargeable to the customer*, regardless of whether the contract is obtained. (Downer EDI, 2019, note G1, italics added)

Incremental sales commission costs incurred in acquiring new contracts were previously expensed on contract inception. Under the new AASB 15 these costs are capitalised as deferred contract costs and expensed to employee benefits expense over the life of the contract. (TPG Telecom, 2019, note 31)

The Company remunerates employees who actively participate in the sales process with commissions calculated based on revenues where they have been involved in the successful contract execution. This typically includes revenues that will be recognised in subsequent financial reporting periods. *Under the accounting policy applied prior to 1 July 2018, commissions related to sales are recognised as an expense on contract execution, which is the point at which a constructive obligation arises for the Company. Under AASB 15, these costs have been recognised as an asset on contract execution with the amortisation period being consistent with the period over which the associated revenue will be recognised on a straight-line basis*.

As at 1 July 2018 there were \$1,541,000 in commissions costs relating to on-going contracts with customers for which revenue was yet to be recognised. *These amounts were capitalised as costs to fulfil a contract on adoption of AASB 15* with a corresponding increase to retained earnings. In addition, deferred tax liabilities were recognised, at the local regional tax rates, of \$311,000. For the year ended 30 June 2019 the net impact of the capitalisation and amortisation of costs to fulfil a contract for the current and previous periods (to the extent the contracts were not completed on adoption of AASB 15) was an increase of profit for the period of \$215,000. (Integrated Research, 2019, note 1, italics added)
