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(Convocatoria 2024)**

Post-Implementation Review of IFRS-EU 15

Analysis and monitoring of the IASB project on the implementation of the standard

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POST-IMPLEMENTATION REVIEW OF IFRS-EU 15
ANALYSIS AND MONITORING OF THE IASB PROJECT ON
THE IMPLEMENTATION OF THE STANDARD

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Huertas, 26 - 28014 MADRID

Beatriz García Osma (Carlos III University of Madrid)
Jacobo Gómez Conde (Autonomous University of Madrid)
Araceli Mora Enguïdanos (University of Valencia; *Principal Researcher*)



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Executive Summary

INTRODUCTION: OBJECTIVE AND METHODOLOGY

In 2014, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 15 *"Revenue from Contracts with Customers"* applicable as from 2018. Five years after its initial application, in 2023, the IASB launched an information-gathering process to assess the implementation of IFRS 15.

This report analyses various consequences of the adoption of IFRS 15 from multiple perspectives. The first part of the report focuses on the effects of adoption on external users, in particular with regard to potential changes in the usefulness of financial statement information prepared under IFRS 15 for investment decision-making. Two methodological approaches are applied. First, we review evidence from recent academic research. Second, we present the findings from an international online survey of users and a series of interviews with analysts on the perceived effects of adopting IFRS 15 (or its national adaptations).

The second part of the report addresses the effects of adoption on internal users, with two specific objectives. On the one hand, we aim to identify potential practical challenges in the application of the Standard, through an analysis of IASB and EFRAG working papers and the comment letters received. On the other hand, we examine the impact of implementing the Standard on information systems, information technology (IT) and management control systems (MCSs), and, where relevant, on internal corporate decision-making. To this end, we conducted an international online survey and interviews with preparers.

RESULTS

The summary of the main results and conclusions of our analysis for each part is as follows:

Effects of the Standard on external users

(i) Empirical evidence in the academic literature

Overall, empirical evidence to date indicates that the application of the new revenue recognition requirements under IFRS 15 has had a limited impact on reported figures. However, this impact is more pronounced in long-cycle businesses, and the requirements (particularly those relating to disclosure) are associated with an increase in the usefulness of financial information for investment decision-making. Analysts, however, require time to adapt and familiarise themselves with the Standard before reducing forecast dispersion and error. The literature suggests that the most useful aspect is the disaggregation of revenue in the notes to the financial statements, particularly when accompanied by qualitative information. The elements that generate the greatest uncertainty are the variable consideration component and the principal versus agent assessment, although the latter appears to be a transitional issue. Among the available transition methods, full retrospective approach appears to be the most useful. There is still insufficient evidence on the impact of the Standard on comparability or debt markets. It is also important to note that most of the existing evidence comes from the United States and thus relates to Accounting Standards Codification (ASC) Topic 606, not directly to IFRS 15.

(ii) User feedback

Overall, the feedback collected through the surveys suggests that the changes introduced by IFRS 15 have had uneven effects across industries and sectors. In those sectors most affected, the Standard has had a moderate impact on the balance sheet and income statement, and a significant impact on the disclosures in the notes to the financial statements. In general, users consider that the changes introduced by IFRS 15 have increased the predictive value of financial statement information (as well as their ability to oversee management). The changes to disclosure requirements are considered to have had the most positive influence on usefulness. In particular, the disaggregation of revenue is seen as improving forecasting ability. Users also believe that comparability has improved. This increase in usefulness has been accompanied by a slightly higher cost for users in terms of familiarisation with the Standard (perceived as greater than that required for other standards). Interviews with analysts further reveal that the changes introduced by IFRS 15 have slightly modified the supplementary information (i.e. outside the financial statements) they receive from management. They consider that the implementation of IFRS 15 has led to changes in the use and design of internal control systems, influencing certain internal decisions and resulting in positive effects on efficiency.

Effects of the Standard on internal users

(i) Practical application issues

The main issues in practical application or interpretation relate to the concept of “highly probable” reversal in variable consideration (which often leads to deferral of recognition until realisation); the principal versus agent assessment, especially in intangible and digital services; and licences, particularly in complex contracts, in distinguishing between a right to use and a right to access, and in renewal arrangements. Other areas, such as the presentation of “negative revenue”, the assessment of “alternative use”, and interactions with other standards in determining scope (e.g. IFRS 16, IFRS 3, IFRS 10, or IFRS 11), are also seen as problematic in certain sectors. However, the IASB has not, to date, considered that any of these issues warrant amendments to IFRS 15 or the addition of guidance or examples.

(ii) Effects of implementation on management control systems (MCSs) and internal decision-making

The evidence gathered from the surveys and interviews indicates that the changes introduced by IFRS 15 have affected MCSs and IT systems, with significant variation across sectors. The aspects of the Standard with the greatest impact are the disclosure requirements, followed by the timing of revenue recognition over time and the accounting for variable consideration. The most significant one-off impacts relate to changes in IT systems, while the most substantial ongoing costs are associated with changes in performance indicators and training of (sales) staff.

These MCS changes influence decision-making in the most affected sectors, leading to real effects on organisational structures and processes, most notably, increased involvement of the accounting department in decisions related to contract design. In fact, real effects have occurred in pricing and contract structuring. These changes could in turn give rise to internal benefits in terms of efficiency.

In summary, the adoption of IFRS 15 has led to a general improvement in public financial information for external users, primarily due to the additional disclosures in the notes to the financial statements. Its implementation has had an impact on various systems, substantial in some sectors, which, beyond the associated costs, has also entailed changes in control systems. This has resulted in changes in decision-making (real effects), which may in turn have a net positive impact on efficiency.

CONCLUSIONS

In general, we find that IFRS 15 is a comprehensive and complex standard, but one that achieves a consistent and complete framework, enhances the usefulness of information for users, and, despite the implementation costs in many sectors, has enabled the reorganisation of internal systems with potential benefits for management. However, as with any principles-based standard, there are interpretation issues that give rise to diversity in application in practice. Many of these issues are expected to diminish over time as preparers and their auditors become more familiar with the standard. Some of these issues might be addressed as illustrative examples and application guidance are developed, although the IASB does not appear to have any intention, at least in the short term, to amend the Standard as a result of its post-implementation review.

Introduction

IFRS 15

In 2014, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published International Financial Reporting Standard 15 (IFRS 15) and Accounting Standards Codification Topic 606 (ASC Topic 606), respectively, under the same title, "*Revenue from contracts with customers*", as a result of a joint project. Both standards represent a significant departure from previous guidance on revenue recognition (IAS 11 and IAS 18 in the case of the IASB). In 2017, the Accounting and Auditing Institute (ICAC) launched a process to amend the Spanish General Accounting Plan (PGC) specifically to bring it into line with some of the more recent changes in IFRSs, in particular IFRS 15. This process resulted in the 2021 PGC, and more specifically in the Resolution of 10 February 2021 issuing rules on the recognition, measurement and preparation of annual financial statements for revenue recognition from the sale of goods and the rendering of services. In June 2023, the IASB issued a document requesting information on the implementation of IFRS 15 (post-implementation review or PIR)¹.

The new standards comprehensively address all significant aspects of revenue reporting, covering definition ("what"), measurement ("how much"), recognition ("when") and reporting ("disclosure"). More specifically, the Standard sets out guidance for identifying performance obligations in contracts, establishes criteria for determining the transaction price, and outlines the conditions relating to the pattern of transfer of control of assets to a customer as the basis for determining when to recognise revenue. According to the IASB (and the FASB), the objective of the new requirements was to establish a framework that provides a comprehensive basis for revenue recognition, eliminate inconsistencies and weaknesses in the previous requirements, improve comparability among entities, industries and jurisdictions, and provide more useful information to users of financial statements through improved disclosure requirements. Changes to revenue recognition requirements have been considered one of the most significant accounting and reporting changes of the decade (Hinson *et al.*, 2024). This, combined with the fact that the project lasted twelve years and many controversies arose during the process, with significant changes from the original ideas, makes the analysis of the effects of these standards particularly relevant.

The core principle of the new standards is that an entity shall recognise revenue when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is embodied in a five-step model: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognise revenue when (or as) the entity satisfies a performance obligation. The new Standards also include a cohesive set of disclosure requirements that significantly expand the previous disclosure requirements related to revenue recognition, notably in the disaggregation requirements.

In general, changes to financial reporting standards are primarily intended to improve the quality of financial information and support decision-making by users of that information, primarily investors (both debt and equity). Even so, assessing the extent to which the standards provide decision-useful information to investors may be an insufficient benchmark for fully evaluating the effectiveness of the standard-setting process and its net costs. We consider that the impact of adopting new standards

¹ "Post-implementation Review IFRS 15 Revenue from Contracts with Customers". Available at [ifrs.org](https://www.ifrs.org). The FASB also started a review although it does not have a formal post-implementation review process.

on preparers (companies), internally, as a result of implementing the changes necessary for proper application, should form a more prominent part of the cost-benefit analysis and, in particular, of the post-implementation review (PIR) of the standards². The costs, practical difficulties of application and other internal aspects arising from the implementation of the standards are an important part of the analysis of the adoption of a new standard.

OBJECTIVE, METHODOLOGY AND STRUCTURE OF THE REPORT

This report analyses the consequences of the adoption of IFRS 15 for both external and internal users of the information. First, we analyse the effects of the adoption of the Standard on **external users**, primarily in relation to the usefulness of the information contained in the financial statements **for investment decision-making**, once the Standard has been applied. Two methodologies are used for this purpose:

- a) Review of recent academic literature, generally empirical studies based on capital markets data, providing evidence on the impact on prices, liquidity, analyst forecasts or other variables.
- b) A questionnaire and interviews with users of financial information on the relevance and usefulness of IFRS 15-based information for decision-making and accountability purposes.

This enables us to complement what can be inferred from the market-based usefulness of the information with the perceptions of usefulness reported by users themselves.

Second, we analyse the effects of adoption on **internal users**, hereinafter also referred to as preparers, with two distinct objectives:

- a) To identify **potential practical problems in the application of the Standard**.
- b) To analyse the effect of the implementation of IFRS 15 (or its national adaptations, such as the 2021 PGC) on **IT systems and information technology** and on **management control systems (MCSs)** and, arising from these potential effects, where applicable, **the consequences on internal decision-making** within the company.

We use two methodologies to achieve these objectives:

- (i) Analysis of working papers prepared by the IASB and EFRAG on comment letters received during the process, in order to identify practical issues reported in those documents;
- (ii) A questionnaire and interviews with preparers on the impacts on specific aspects of their IT systems and MCSs, and in turn, the effects of those changes on user decisions.

This last aspect in particular represents a novel contribution, as up to now, such specific impacts have generally been summarised by standard-setters as "implementation costs" without further detail or analysis of the secondary effects these changes to IT systems and MCSs may entail.

The **questionnaire** was hosted online and distributed internationally.³ On the first screen, after a brief presentation of the project, participants had several response options, depending on whether they self-identified as a "user" or as a "preparer" from an exhaustive list.⁴ Once participants identified themselves as either user or preparer, they were directed to the specific questionnaire for their group:

² By "adoption" we refer to the entire regulatory process that leads to the issuance of the Standard and results in its "implementation" by entities, understood as the changes necessary for its "application", the latter referring to the calculations of figures and disclosure in the financial statements.

³ The following organisations collaborated in disseminating the questionnaire: EFRAG, Instituto de Contabilidad y Auditoría de Cuentas (ICAC), Association of Chartered Certified Accountants (ACCA), Global Chartered Controller Institute (GCCl), Asociación Española de Contabilidad y Administración de Empresas (AECA), Cámara de Sociedades Argentina, AicoGestion and ACCID. The questionnaire was available in English and Spanish. Some of the results obtained have been used by EFRAG in its comment letter to the IASB. (see efrag.org)

⁴ The available response options were as follows. *Preparers*: Chief Executive Officer (CEO), Chief Financial Officer (CFO), Head of Accounting, Other Member of Senior Management (non-accounting), IT Systems Manager, Head (or Deputy Head) of Accounting Policies, Other Middle Manager (non-accounting), Controller / Management Accountant, Internal Auditor, Other Preparer of External Financial Information, Other Preparer of Internal/Management Accounting. *Users*: Professional Investor (Fund Manager), Professional Investor (Equity Analyst), Professional Investor (Other), Lender, Credit Analyst, Supplier/Trade Creditor, Government, Regulator/Supervisor, Lobby Organisation, Employee/Union Representative, Customer, General Public, External Auditor, Consultant, Academic, Other User.

user or preparer. Likert scales (seven-point and five-point) were used throughout the survey, along with a limited number of open-ended questions⁵.

The user questionnaire was developed in cooperation with EFRAG.⁶ To develop the preparer questionnaire, we conducted seven semi-structured face-to-face interviews (40–60 minutes) (based on a list of open-ended questions) to gather information on the IFRS 15 implementation processes from professionals with prior experience in implementing or advising on the implementation of the Standard (large audit firms, preparers at large public entities, and consultants from systems firms). We then designed the preparer survey based on the academic literature on management accounting, adapted to our research question on IFRS 15, and on the information obtained from the interviewees. We also controlled, in the study, for the adoption of IFRS 16, since its application occurred simultaneously, in order to avoid possible confounding effects in companies affected by both⁷. The preparer survey focused on how IT systems and MCSs were affected, but it also included a section dedicated to their perspective on how changes in the usefulness of information affected users.

The structure of the survey instrument for both users and preparers is shown in Table 1⁸.

//// **TABLE 1** Survey Instrument Structure

Survey instrument (preparers)	Survey instrument (users)
<i>Section 1: Application of IFRS 15: general aspects.</i> Departments involved, their reactions, impact on financial statements, IT, MCSs <i>Section 2: Consequences for decision-making.</i> To what extent changes in MCSs alter decision-making <i>Section 3: Consequences of changes in MCSs.</i> To what extent do changes in MCSs have organisational consequences? <i>Section 4: Impact of IFRS 16</i> (similar structure to IFRS 15) <i>Section 5: Company and respondent profiles</i>	<i>Section 1. Application of IFRS 15</i> Consequences for External Reporting <i>Section 2. Impact on the financial statements</i> <i>Section 3. Usefulness of IFRS 15 requirements for decision-making</i> <i>Section 4. Internal consequences (for preparers)</i> <i>Section 5. Respondent profile</i>

Once the questionnaires were prepared, we carried out a second phase of interviews using closed-ended questions, which served both to verify the suitability of the questionnaires and to enrich the context and reasoning behind the numerical responses provided by interviewees. This allowed us to obtain comments to improve the questionnaires and helped us interpret the results. In this phase we conducted nine interviews⁹, six preparers (CFOs, heads of accounting policies and a controller) from large listed multinational entities and three users (analysts), with each interview lasting about 60 minutes.

The first part of this report refers to the impact of IFRS 15 for external users and the second part refers to the impact on entities.

5 To ensure the correct identification and measurement of dimensions used in prior research, we also used instruments developed in the existing literature that employ Likert scales from 1 to 5, as well as from 1 to 7. Although it can be argued that using the same scale for all questions facilitates completion of the questionnaire for respondents by reducing cognitive load, it may also increase the risk that part of the observed covariation between constructs is the result of consistency in the properties of the scale rather than the content of the items. It is well established in the survey research literature that scale format and anchors systematically influence responses. Changing the scale for some questions helps mitigate this problem.

6 EFRAG staff based their suggestions on feedback received from the EFRAG user panel.

7 In the case of the preparer survey, if respondents indicated that the impact of IFRS 15 was negligible, the system redirected them to additional questions on IFRS 16.

8 The user questionnaire, as well as the full results of all questions, are available to readers upon request from the authors.

9 All interviews were recorded, and the information is encrypted and available exclusively to the researchers involved in this project, solely for the purposes of this research. The anonymity of responses is guaranteed.

Part 1 Effects of the Standard on external users

EMPIRICAL EVIDENCE FROM ACADEMIC STUDIES

This section summarises the evidence from early academic studies that have analysed financial statements following the adoption of the new Standard. It is important to note that the majority of these studies were conducted in the US context, and the results and conclusions obtained are therefore not always directly transferable to IFRS contexts (or to the Spanish PGC 2021), particularly in Europe. Nevertheless, we consider it useful to present at least the conclusions that may be relevant to this context.

On the direct effects on the financial statements

Several academic studies provide descriptive analyses of the impact of IFRS 15 / ASC 606 adoption on financial statements (a detailed description of these studies can be found in Barone, Manson, Mora and Prochazca, 2025)¹⁰.

In the case of IFRS 15 (and ASC 606), most studies show that application of the Standard had relatively limited impact on the recognition and measurement of revenue, apart from the effects of initial application in some cases. A study by KPMG (2019)¹¹ shows that 87% of companies surveyed revealed that IFRS 15 did not significantly affect their financial statements. It can therefore be concluded that, in general, the adoption of these new Standards had limited impact on balance sheet and income statement figures, although further analysis is needed for certain sectors in which the impact may have been more significant. In fact, the studies identify significant differences across sectors. For instance, accelerated revenue recognition is observed in companies with long revenue cycles, compared with almost no perceptible impact in companies with short cycles. When examining the effects of the transition as disclosed in the notes to the financial statements, it is observed that in cases where revenue is recognised at a point in time, the effects are attributable to the shift from a risks-and-rewards model to a control-based model. In cases where revenue is recognised over time, the main changes result from updates to the methods used to measure progress toward satisfaction of the performance obligations. In addition, the aspects that generate the greatest diversity in impact are the variable component (particularly in companies with long revenue cycles) and the principal-agent relationship. Application issues will be addressed in more detail below.

On the effects on the relevance of information for investment decision-making

The informational effects of a new accounting standard can influence how users process that information and, consequently, their decision-making, which in turn affects both equity and debt markets. The empirical academic literature to date generally shows an increase in the relevance of information following the application of the new revenue standard, particularly with respect to disclosures in the

10 These same authors sent on behalf of the European Accounting Association (EAA) a comment letter to the IASB and EFRAG in relation to the IASB's June 2023 Request for Information, dated October 2023. The letter is available at [ifrs.org](https://www.ifrs.org).

11 KPMG (2019). IFRS 15 and 16: Disclosing change. KPMG's 2018 Annual Report Market Watch. Available at [kpmg.com](https://www.kpmg.com).

notes. While most studies to date have been conducted in the US context, many of the results relating to capital markets may be at least partially applicable to the European IFRS context, albeit with caveats, given the different jurisdictional environments in which IFRS are applied and the fact that, despite the similarity between IFRS 15 and ASC 606, the prior IASB and FASB standards differed substantially, resulting in differing effects of the change in the two contexts.

Share liquidity

Overall, there is empirical evidence of a positive impact on stock liquidity. This is explained by a reduction in information asymmetry between executives and investors thanks to the increased disclosure requirements in the notes, which translates into significantly lower bid–ask spreads and better conditions for access to external capital. A second channel cited for the increase in liquidity relates to the greater accuracy and comparability of the information resulting from the application of the new Standard, which reduces price volatility after its application. These conclusions should nevertheless be treated with caution, since empirical evidence on this subject remains limited, and in the case of IFRS 15, very limited, and the evidence regarding comparability is not necessarily transferable to the IFRS case, as the IASB and FASB baseline standards differed in terms of the level of detail. In fact, in the US context, the shift from a rules-based standard to a principles-based one represents a much more substantial change than under IFRS.

Finally, some authors also investigate the capital market effects of the transition methods applied. Alternative transitional provisions are sometimes allowed to facilitate the application of the new Standard. Allowing two or more transitional options, as in the case of IFRS 15, tends to have a favourable effect on the implementation costs borne by preparers. In this case, either the "full or complete" or the "modified" retrospective approach was allowed¹². Some studies highlight that the full retrospective approach is more informative.

Analyst forecasts

The positive effects previously mentioned on liquidity, trading volumes and bid and ask spreads do not fully extend to analysts in relation to their forecast errors and dispersion. The findings are mixed. Some studies in the US market suggest a negative impact on analysts' forecasts. They argue that the complexity of the Standard implies greater uncertainty about future earnings and, consequently, a higher absolute forecast error and greater dispersion of forecasts, and thus, less consensus. However, other authors conclude that these negative effects are temporary, and that the increase in analyst forecast errors after adoption is greater in the first two quarters and disappears as analysts become familiar with the new standard. Finally, some authors show that the use of the "modified retrospective approach" is associated with higher analyst forecast error than the use of the "full retrospective approach".

Some studies provide evidence that the slight increase in forecast errors and dispersion is primarily due to changes in the accounting treatment of variable consideration. They report a moderate reduction in the revenue–profitability relationship and an increase in analysts' forecast errors and dispersion for companies with long revenue cycles. The requirement in the Standard to recognise variable consideration before the uncertainty is resolved explains these results, at least in part. In addition, some studies show that financial analysts have difficulty forecasting the revenue of companies with principal–agent problems, although this appears to be temporary, consistent with the existence of analyst "learning" over time.

There is also evidence of a positive effect of note disclosures on "revenue disaggregation" on the quality of forecasts. Empirical data indicate that companies that provide disaggregation of revenue achieve greater accuracy in analysts' quarterly revenue forecasts and lower forecast dispersion, sug-

¹² Under the full retrospective approach, the Standard is applied retrospectively to all previous periods, with the resulting adjustment taken to the opening balance of equity as provided for in IAS 8. Under the modified approach, the Standard may be applied only from the date of initial application.

gesting that the disaggregation requirements significantly enhance decision usefulness. It is also concluded that the qualitative information accompanying the disaggregation of revenue increases the usefulness of that information, to the extent that improvements in forecast accuracy and dispersion are only observed in companies whose qualitative disclosures are above average.

Comparability

There is no conclusive evidence regarding the effects on the comparability of financial information. However, it should be noted that empirical studies analysing changes in comparability based on ASC 606 cannot be extrapolated to the IFRS context, since the situation before the issuance of those standards differed considerably between the two. Professionals have acknowledged the greater comparability of revenue figures, as will be discussed later.

Debt markets

Evidence on the effects of the change in standards on debt markets is almost non-existent, but some empirical data indicate that increased uncertainty about future earnings raises the cost of debt for affected companies, as debt contract clauses rely less on earnings figures.

In summary, it can be concluded that, overall, the early empirical evidence from existing research on capital market effects shows that the application of the new revenue Standard has limited impact on figures, although greater in long-cycle companies, and generally **increases usefulness (particularly related to changes in disclosure requirements) for investment decision-making**. However, analysts require time to adapt to and familiarise themselves with the Standard, and there is no clear evidence of a reduction in forecast error and dispersion. **The most useful element is the disclosure in the notes** (if accompanied by qualitative information). **The information that generates the most uncertainty** is the **variable consideration** component and the principal versus agent issue, although the latter also appears to be temporary. Among the available transition methods, full retrospective approach appears to be the most useful.

There is still insufficient evidence on impacts on comparability or on debt markets.

USER FEEDBACK: SURVEYS

This section presents and analyses the main results and conclusions of the questions contained in the survey¹³. An additional analysis is conducted to identify significant differences in responses based on user type (focusing on the comparison between auditors and non-auditors). When such differences are observed, they are highlighted in the results analysis section.

Respondent profile

Approximately one fifth of the participants who completed the survey are classified as users, which in this report refers to respondents who are not preparers. The total number of users surveyed is 48.

¹³ The full questionnaire, together with the average results of the responses (mean, standard deviation, range for each statement) and frequency distributions, is available from the authors upon request.

//// **FIGURE 1** Breakdown of participants by user type

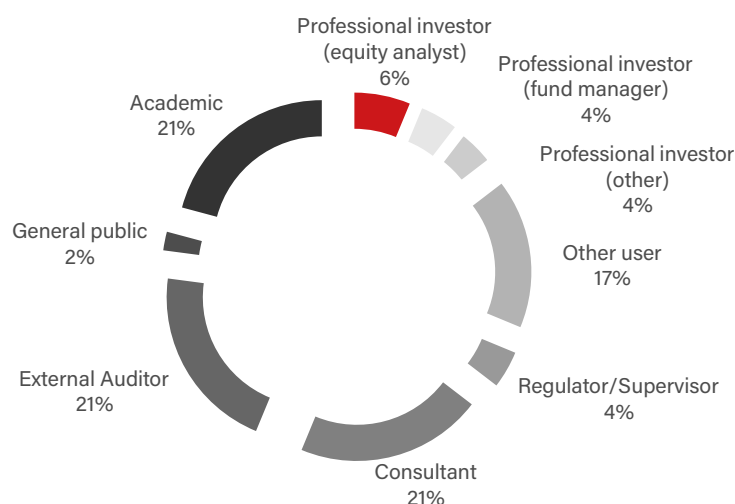
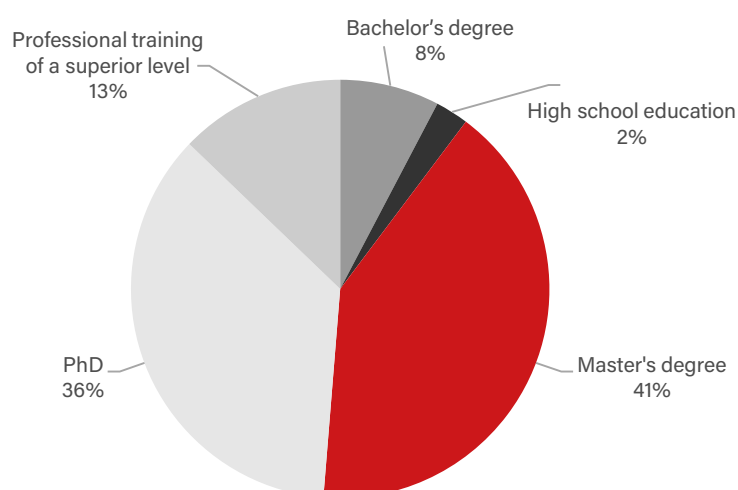


Figure 1 provides a visual representation of the percentage composition of respondents: auditors (21%), consultants (21%), academics (21%), professional investors (including equity analysts, fund managers and other professional investors) (14%), other users (including all types of retail investors and lenders) (17%), and regulators and supervisors (4%).

Figure 2 illustrates the distribution according to the participants' educational background. It is worth noting that the majority of respondents (98%) have a high level of academic or professional education. Specifically, 77% of participants hold a master's degree or PhD. It is interesting to note that only 69% of respondents indicated that they had an accounting degree.

//// **FIGURE 2** Distribution of users by level of education

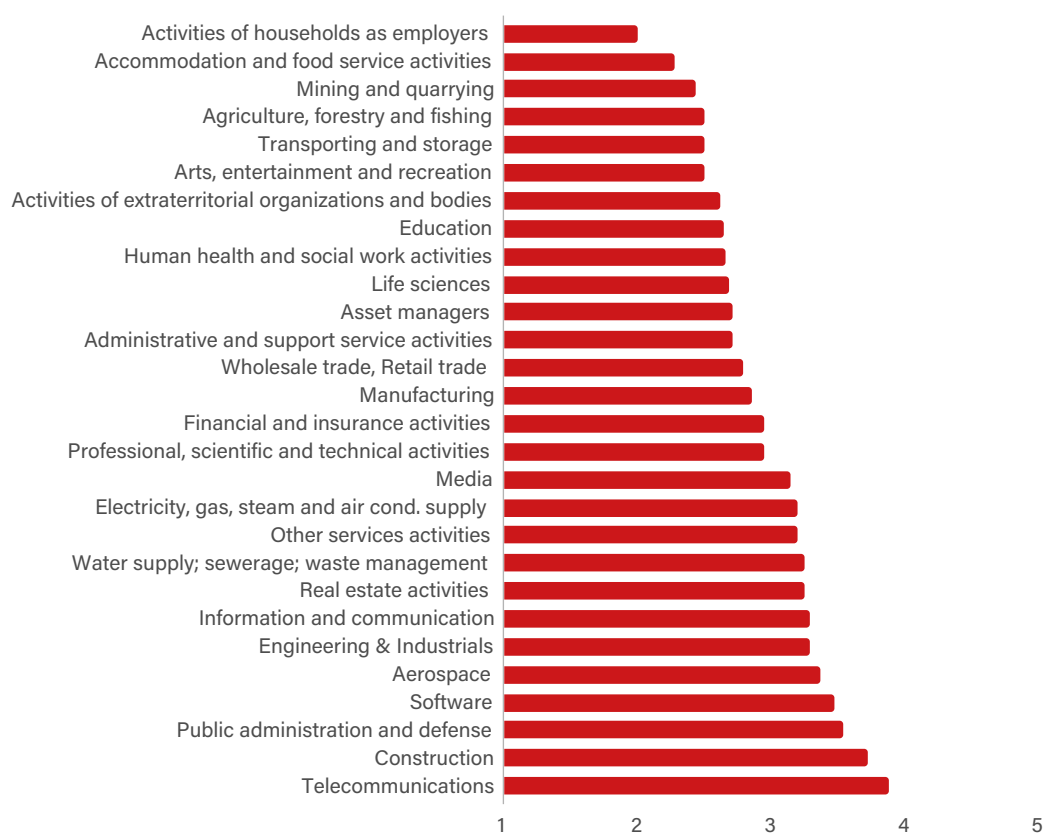


Impact on the financial statements

The most affected sectors

Participants were asked for their perception of the overall impact of IFRS 15 on the financial statements in the 28 sectors presented in Figure 3. We found that in 12 of these sectors, users consider that the application of IFRS 15 has a moderate impact (average score above 3 on a 5-point Likert scale). It is important to note that the question explicitly included disclosure in the notes as a component to be considered in the response. Figure 3 indicates that although all sectors are affected by IFRS 15, the impacts are diverse. According to users' opinions, the five sectors perceived as most affected are "Telecommunications", "Construction", "Public administration and defence", "Software" and "Aerospace". In this context, it is to be expected that the sectors most affected by IFRS 15 are those with complex customer contracts.

//// **FIGURE 3** Impact by sector

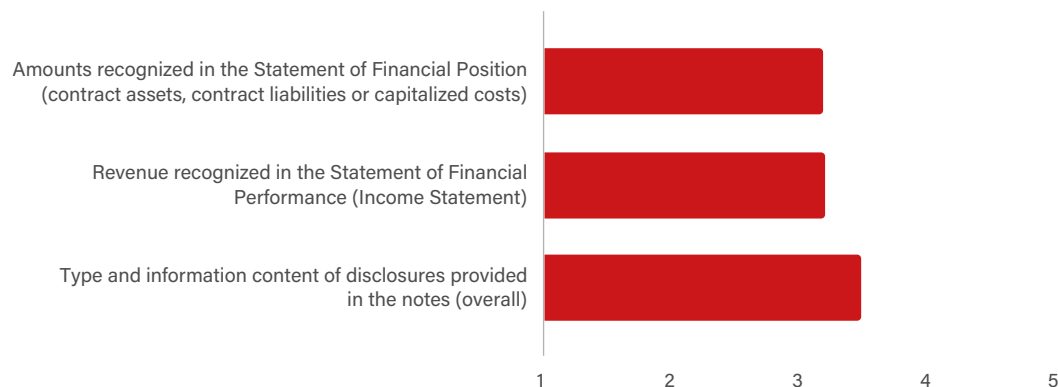


It is important to highlight that all subsequent responses to the questionnaire refer exclusively to industries that respondents consider to be highly affected (or at least more than moderately affected). For example, if an analyst considers the telecommunications sector to be the most affected, all subsequent responses refer to that sector (the one most affected, according to the respondent's opinion). This empirical approach ensures that the results obtained after this question focus exclusively on the sectors participants perceive as significantly affected by IFRS 15, and that their responses reflect the specific features of that sector.

Impact on the financial statements

Given that the material impacts of IFRS 15 relate to note disclosures, we asked separately about the impacts on (a) the financial statements, excluding note disclosures, and (b) the note disclosures themselves. As noted, the impact on the financial statements excluding disclosures was expected to be nil or very low in most entities/sectors, and this is reflected in the results¹⁴ summarised in Figure 4.

//// FIGURE 4 Overall Impact of IFRS 15



The impact on the income statement and the balance sheet is perceived as slightly above moderate (a rating of 3 out of 5). Respondents indicated that the notes (type and informational content of the disclosures) are the most affected statement under IFRS 15. We found a statistically significant difference between the responses of auditors and other user groups, specifically regarding the impact on the balance sheet. In untabulated results, we observed that users other than auditors perceived the impact on the balance sheet as below moderate. However, auditors, especially in the case of the most affected sectors, considered the impact of IFRS 15 to be high, with a rating of 4 out of 5 on the Likert scale.

Below, we present respondents' opinions on the specific impacts on each of the financial statements.

Income Statement

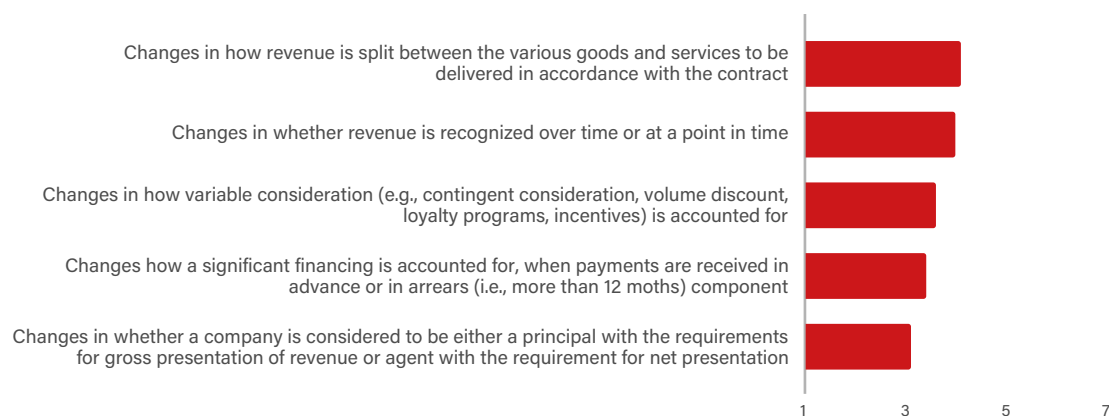
We asked users to what extent the changes resulting from the application of IFRS 15 affected the timing, amount or uncertainty of revenue recognition. It is important to note that the question did not focus solely on the numerical impact, but also considered participants' perceptions of the effects on the timing, uncertainty and risk associated with revenue recognition due to the changes introduced by the standard. In particular, we asked about changes relating to:

- (i) how revenue is split between the various goods and services to be delivered in accordance with the contract,
- (ii) whether revenue is recognized over time or at a point in time,
- (iii) how a significant financing component is accounted for, when payments are received in advance or in arrears (i.e., more than 12 months),
- (iv) how variable consideration (e.g., contingent consideration, volume discount, loyalty programs, incentives) is accounted for,
- (v) whether a company is considered to be either a principal with the requirements for gross presentation of revenue or agent with the requirement for net presentation.

¹⁴ KPMG (2019) showed that 87% of the companies surveyed had reported that IFRS 15 did not significantly affect their financial statements. A more recent study of Australian and New Zealand companies found that 63.38% of the companies in the sample reported that IFRS 15 would have no impact or no significant impact on the financial statements (Kabir and Su, 2022).

Figure 5 presents the results on participants' views regarding the effects of IFRS 15 on revenue recognition in terms of timing, amount and uncertainty, ranked from lowest to highest impact on a 7-point Likert scale, where 4 indicates a moderate impact.

////FIGURE 5 Impact on the income statement



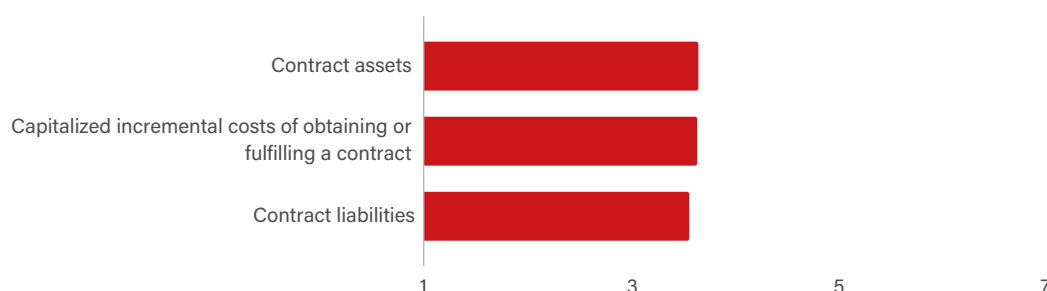
According to the responses, IFRS 15 is considered to have a moderate or below-moderate impact in terms of changes to the income statement. Three changes are considered to have at least a moderate (4) or slightly below-moderate impact on the timing of recognition, amount, or uncertainty of recognised revenue, listed in order of importance: (1) how the price is allocated to the different goods and services; (2) whether revenue is recognised over time or at a point in time; and (3) changes in the accounting for variable consideration. In addition, changes in the accounting for significant financing components and principal versus agent arrangements were considered to have some impact, although below the moderate threshold.

Balance sheet

Participants also gave their opinion on the extent to which the changes resulting from the application of IFRS 15 have affected the amounts recognised in the balance sheet. Specifically, they were asked about changes in the accounting for:

- (i) Contract assets
- (ii) Contract liabilities
- (iii) Capitalization of costs to obtain or fulfil a contract.

The results are presented in Figure 6, which provides a graphical representation of participants' perceptions of the impacts on the balance sheet.

//// **FIGURE 6** Implication on the statement of financial position

These impacts are considered to be less than moderate (average slightly below 4). This reinforces the view that IFRS 15 had greater repercussions on the income statement than on the balance sheet, although the impacts on the latter are not perceived as non-existent or very low (which would be indicated by scores of 1–2 on our scale), bearing in mind that the responses refer to the sectors considered most affected. In non-tabulated results, auditors are found to perceive a greater impact on “contract assets and liabilities” than other users. A possible reason for this discrepancy in perceptions may lie in the auditors’ greater technical knowledge of the standard, which makes them more familiar with the concept of contractual assets and liabilities. This familiarity may lead auditors to perceive a greater impact compared to other users who may not have the same level of technical knowledge in this area. An alternative and equally plausible interpretation is that users may be underestimating the true impacts of IFRS 15.

A remark regarding the question on “capitalised incremental costs of obtaining or fulfilling a contract” is that a high percentage of respondents indicated they had no specific opinion on its impact. As will be seen, the percentage of users selecting this option increases as the questions become more specific and delve further into the details of IFRS 15. Alongside the evidence of differences in auditors’ opinions, this may suggest that even professional expert users are not always aware of the specific changes introduced by the adoption of IFRS and their consequences on the financial statements.

In summary, according to respondents’ opinions, the changes introduced by IFRS 15 have a moderate impact on the balance sheet and the income statement, and a significant impact on note disclosures (always referring to the sectors considered most affected).

Usefulness of information for external decision-making

In Section 3 of the questionnaire, we asked users for their views on whether the changes in the information provided by entities in the financial statements and in the notes, as a result of the application of IFRS 15, affected the usefulness of the information¹⁵. We refer to these responses below.

Overall assessment

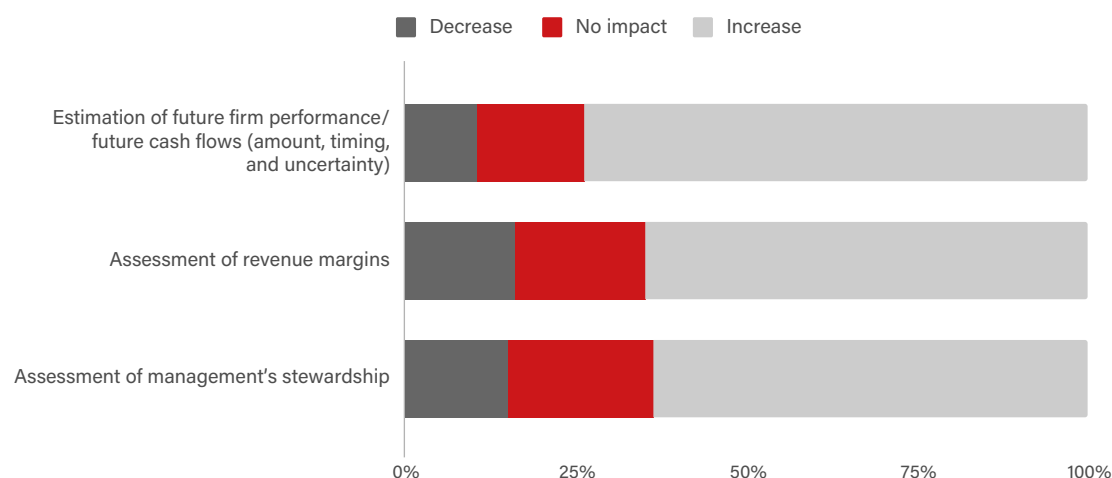
First, we asked whether IFRS 15 has changed (either increased or decreased, on a 5-point Likert scale) the relevance of the information for the following objectives:

- (i) Estimation of future firm performance/future cash flows (amount, timing, and uncertainty);
- (ii) Assessment of revenue margins; and
- (iii) Assessment of management’s stewardship.

¹⁵ To capture their views accurately, a 5-point Likert scale is used, where 1 means a significant decrease in the usefulness of the information due to the adoption of IFRS 15, 3 denotes no change in the usefulness of the information, and 5 indicates a significant increase in usefulness.

The results are presented in Figure 7.

//// **FIGURE 7** Impact on usefulness of the information



The average ratings for the usefulness of the information are close to 4 on the 5-point Likert scale. To present the results as clearly as possible, we group user ratings of 1–2 as perceptions that the changes introduced by IFRS 15 have decreased the usefulness of the information (“Decrease” in the figure above), ratings of 3 as indicating no change in usefulness (“No impact” in the figure above), and ratings of 4–5 as indicating an increase in usefulness (“Increase” in the figure above). As can be seen, users consider that the adoption of IFRS 15 has increased the usefulness of financial information for all three purposes.

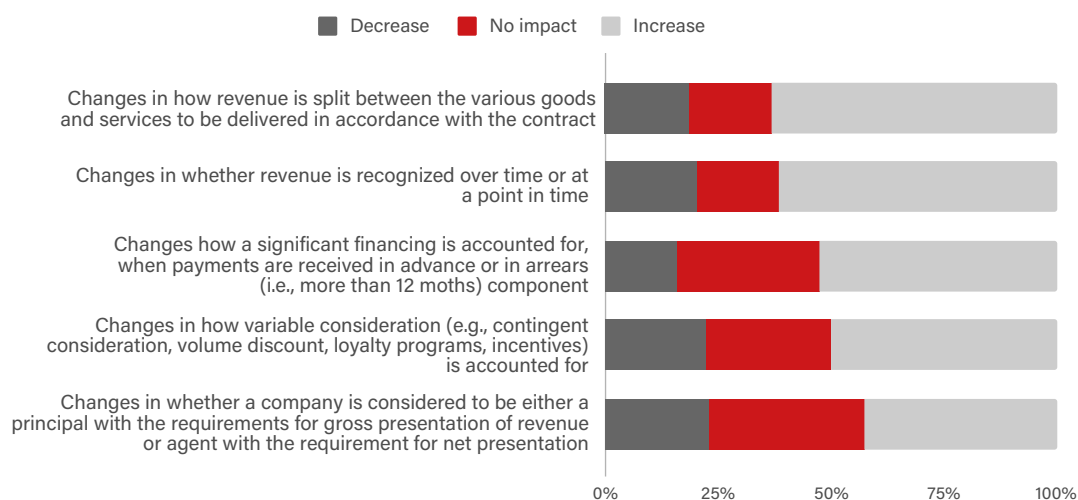
It should be noted that when we asked users about the usefulness of the information for a management control/accountability purpose, around 25% of respondents did not express a specific opinion on the impact of IFRS 15. This may suggest that the participants either lacked a clear understanding of the accountability objective or were unsure about its impact.

Income Statement

With regard to specific income statement matters, we asked respondents for their views on changes in their ability to estimate a company's future cash flows (profitability and risk) arising from the application of IFRS 15. These changes were associated with the following aspects:

- (i) How revenue is split between the various goods and services to be delivered in accordance with the contract;
- (ii) Whether revenue is recognized over time or at a point in time;
- (iii) How a significant financing component is accounted for, when payments are received in advance or in arrears (i.e., more than 12 months);
- (iv) How variable consideration (e.g., contingent consideration, volume discount, loyalty programs, incentives) is accounted for; and
- (v) Whether a company is considered to be either a principal with the requirements for gross presentation of revenue or agent with the requirement for net presentation.

To present the results, we follow the same approach as in the previous figure and group user ratings of 1–2 as perceptions that the changes introduced by IFRS 15 have decreased the usefulness of the information (“Decrease” in the figure), ratings of 3 as indicating no change in usefulness (“No impact” in the figure), and ratings of 4–5 as indicating an increase in usefulness (“Increase” in the figure). The results are presented in Figure 8.

//// **FIGURE 8 Usefulness: Income Statement**

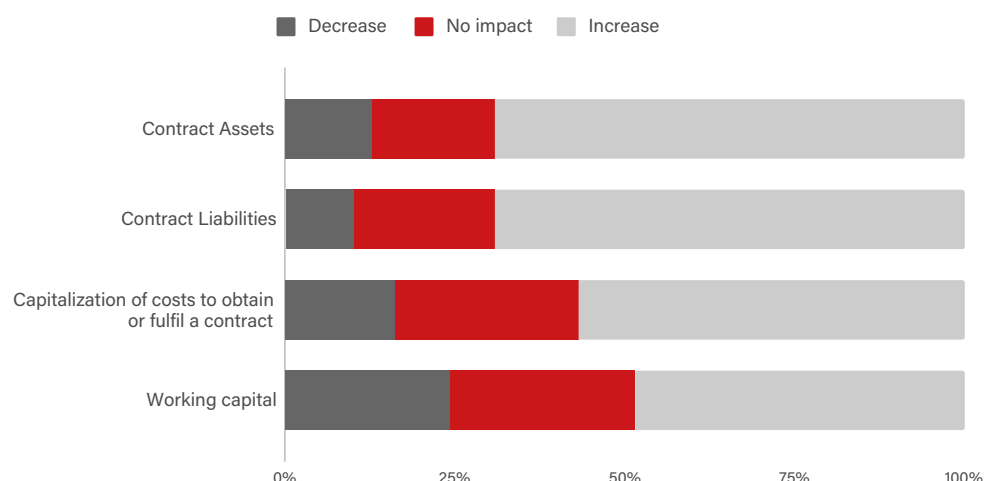
The results show that, on average, respondents perceive a moderate increase in their ability to estimate future cash flows of companies (profitability and risk) as a result of the changes associated with all of the elements mentioned. However, it should be noted that the change related to whether a company is considered a principal, with gross revenue presentation requirements, or an agent, with net presentation requirements, is perceived as having a relatively lower impact, with responses tending towards “no impact”.

When participants were asked to assess the usefulness of the IFRS 15 features included in Figure 8 above for their ability to estimate a company’s future cash flows, approximately 85% of users stated that they use them.

Balance sheet

As regards specific items in the balance sheet, we asked about the usefulness impact resulting from the application of IFRS 15 on the following items:

- (i) Contract assets;
- (ii) Contract liabilities;
- (iii) Capitalised incremental costs of obtaining or fulfilling a contract; and
- (iv) Working capital.

//// **FIGURE 9 Usefulness: Statement of financial position**

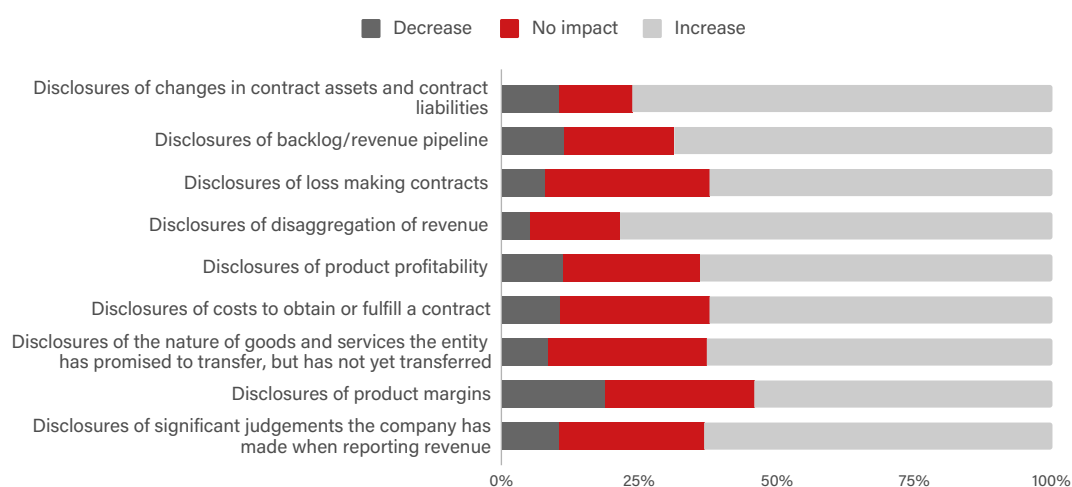
As in the previous two figures, we aggregate the results into perceptions of “Decrease,” “No impact,” and “Increase” in usefulness. The results presented in Figure 9 follow the same pattern as before, indicating an increase in usefulness for all items as a result of the application of IFRS 15. The greatest increase in usefulness is observed for information related to contract assets and liabilities. In addition, there is an increase in usefulness, albeit to a lesser extent, for information on the capitalised costs of obtaining or fulfilling a contract. The smallest increase in usefulness is seen for the “Working capital” figure. Approximately 26% of users indicated that they do not use this information for their estimates of future cash flows. This is the highest percentage, and compared with the other items, it suggests that income statement data, as expected, are used more frequently by users to estimate future cash flows.

Information to be disclosed in the notes to the financial statements

This section explores the impact on the usefulness for estimating future cash flows resulting from specific changes in note disclosures due to the application of IFRS 15. We focus on the following information to be disclosed:

- (i) changes in contract assets and contract liabilities;
- (ii) backlog/revenue pipeline;
- (iii) loss making contracts;
- (iv) disaggregation of revenue;
- (v) product profitability;
- (vi) costs to obtain or fulfill a contract;
- (vii) nature of goods and services the entity has promised to transfer, but has not yet transferred;
- (viii) product margins; and
- (ix) significant judgements the company has made when reporting revenue.

The results presented in Figure 10 indicate that all listed disclosure elements are considered more useful, as they improve the ability to estimate future cash flows. In fact, when considering all changes introduced by IFRS 15, the scores related to changes in disclosure requirements show the highest values in terms of positive impact on usefulness.

//// **FIGURE 10 Usefulness: Information to be disclosed**

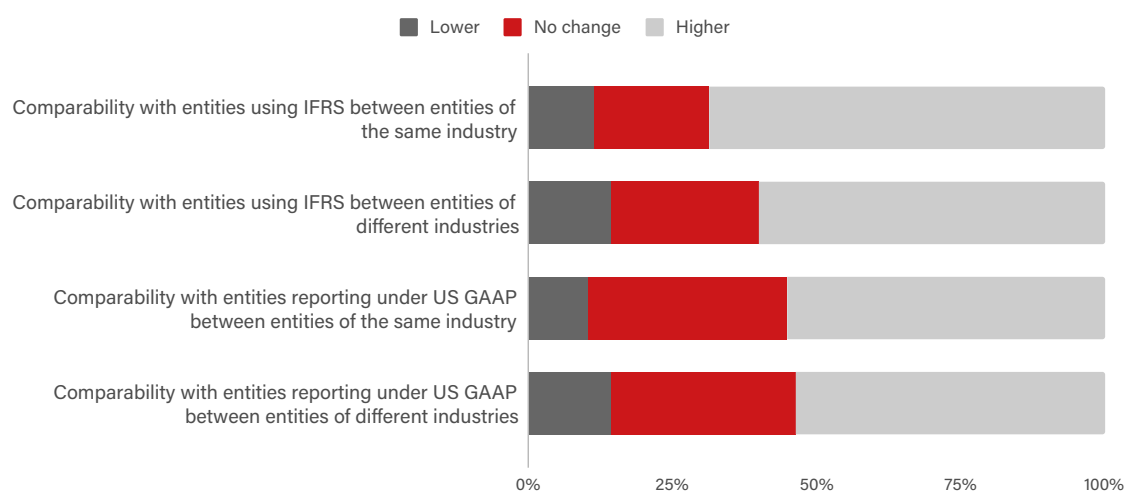
Specifically, the item "Disclosure of disaggregation of revenue" receives the most positive rating, with a score above 4 on the 5-point Likert scale, and over 75% of users believe that such disaggregation enhances the usefulness of the information presented. It is closely followed by the element "Information on changes in contract assets and liabilities". At the opposite end of the spectrum, only half of the users believe that disclosure of product margins enhances the usefulness of the information disclosed.

The item perceived as least useful overall is "Disclosure on the nature of the goods and services that the entity has promised to transfer but has not yet transferred," as around 20% of surveyed users responded that they do not use the information provided in this disclosure item for their estimates.

Comparability

Given the convergence between IFRS 15 and the FASB standard, users were asked the extent to which the application of IFRS 15 has significantly affected comparability. The scale used for this question ranged from 1 to 5, where 1 indicates a significant decrease in comparability, 3 means no change, and 5 represents a significant increase in comparability:

- (i) With other companies applying IFRS
 - a. in the same industry
 - b. in different industries
- (ii) With other companies applying *US GAAP*
 - a. in the same industry
 - b. in different industries

//// **FIGURE 11** Comparability with US GAAP

The results are presented in Figure 11 and indicate that, on average, the application of IFRS 15 increases comparability with other companies applying IFRS, particularly those in the same sector. Users are slightly less positive in their assessment of the impact on comparability between IFRS preparers and those applying US GAAP, although they also perceive an improvement.

A significant percentage of respondents (approximately 35%) stated that they did not have a specific opinion on comparability between IFRS and US GAAP preparers, compared to 20% who expressed no opinion when considering only IFRS preparers.

Cost of obtaining the information

To complete the analysis of the usefulness of information under the new IFRS 15 requirements, users were also asked about the perceived impact on the costs of obtaining information. In particular, we asked about the following aspects:

- (i) To what extent has the application of IFRS 15 affected the cost of obtaining the necessary information for analysis in the most affected sectors (from 1: lower now to 5: higher now)?
- (ii) Compared with other changes in IFRS, was becoming familiar with IFRS 15: from 1–Less costly than other IFRSs to 5–More costly than other IFRSs? and
- (iii) Whether after the adoption of IFRS 15, they are making less use of alternative performance measures/non-GAAP measures related to revenue (1–I do not agree to 5–I agree).

In untabulated results, it was observed that the cost of obtaining information under the new IFRS 15 requirements is perceived as slightly higher. Additionally, becoming familiar with the Standard is considered slightly more costly than with other standards. Notably, respondents indicated a reduced use of financial indicators not regulated by GAAP (non-GAAP measures).

These results suggest a perceived increase in the costs associated with obtaining the necessary information and adapting to the IFRS 15 requirements.

In summary, users believe that the changes introduced by IFRS 15 have enhanced the **predictive value of financial statement information** (income statement, balance sheet and notes), as well as their ability to oversee management. The **changes to disclosure requirements** are considered to have had the most positive influence on usefulness. In particular, the disaggregation of revenue is seen as improving forecasting ability. Users also believe that comparability has improved. This increased usefulness has been accompanied by a **slightly higher cost** to users in terms of familiarisation with IFRS 15 compared with other standards.

Ultimately, the responses from users are consistent with the academic empirical evidence on the impact on capital markets. Furthermore, new evidence is provided on comparability, an area in which current research remains inconclusive.

Consequences for entities' internal control systems

As mentioned in the introduction, evidence on the impact of IFRS 15 implementation on management control systems (MCSs) is drawn mainly from information gathered from preparers through surveys and interviews, which is analysed in a later section. However, it is also important to explore whether preparers have changed how they communicate revenue information to users beyond what is presented in the financial statements. Additionally, it is valuable to understand users' perceptions of the potential impact on MCSs and any resulting consequences.

By assessing these aspects, the aim is to better understand how external users have perceived the effect of IFRS 15 on management's communication with them regarding revenue, and whether they consider that the implementation of the Standard has had implications for MCSs and broader effects on decision-making processes and performance evaluation within organisations. Specific implications will be analysed later in the section on preparers' survey results.

As regards the information received from management, users were asked to what extent they agreed (from 1–strongly disagree to 5–strongly agree) with the following two statements:

- Statement 1: *"Following the introduction of IFRS 15, the way company management presents information on revenue beyond that contained in the financial statements has changed."*
- Statement 2: *"The information on revenue provided by management outside the financial statements has become more useful since the introduction of IFRS 15."*

We also asked respondents about their perception of changes in MCSs and the consequences of those changes on internal decision-making and effectiveness:

- (i) In your opinion, to what extent has the application of IFRS 15 had a significant impact on the management control systems (MCSs) of affected companies? (1-Low to 5-High);
- (ii) To the extent that management control systems (MCSs) are affected by IFRS 15, in your opinion, could this change in MCSs lead to changes in efficiency? (1-Efficiency loss to 5-Efficiency gain);
- (iii) To the extent that management control systems (MCSs) are affected by IFRS 15, in your opinion, could this change lead to changes in internal information so that managers produce better estimates, forecasts, judgments and accounting models? (1-Worse internal information to 5-Better internal information); and
- (iv) Whether the type of contracts and/or the prices of products offered by entities have changed because of the adoption of IFRS 15 (1- disagree to 5- agree).

In untabulated results, users, on average, perceive that the information on revenue outside the financial statements has slightly changed and increased in usefulness following the adoption of IFRS 15. However, a statistically significant difference was observed between the responses of auditors and those of other users. On average, auditors do not believe that the information presented by management outside the financial statements has changed or become more useful, whereas the other users

agree with these statements. This difference may be attributed to the lower degree of involvement auditors have with this type of information, which is primarily directed at investors and analysts.

Regarding the impact on management control systems (MCSs), users believe that IFRS 15 has had a significant influence on companies' control systems. They also perceive that these changes in control systems have led to modifications in the internal information used by management to improve estimates, forecasts, judgments, and accounting models. In addition, users believe that these changes in MCSs have real consequences for contracts, resulting in slight changes in the types of contracts and/or in the prices of the products offered by entities due to the adoption of IFRS 15.

Another statistically significant difference was observed between auditors and other users regarding the perception of the impact of changes in MCSs on efficiency. Whereas non-auditor users expect these changes to have more than a moderate impact on efficiency gains, auditors gave lower scores than other users. Analysts, investors and academics appear to be more optimistic about the potential positive externalities of IFRS application arising from changes in the design and use of MCSs compared with auditors.

These views shed light on how users perceive the changes brought by the adoption of IFRS 15, particularly regarding communication outside the financial statements, the impact on MCSs, and the potential consequences for contracts and efficiency gains.

In summary, users believe that the changes introduced by IFRS 15 have slightly modified the non-financial statement information they receive from management. **They perceive that the application of IFRS 15 has led to changes in the use and design of internal control systems, which influence some internal decisions and have positive consequences for efficiency.**

USER FEEDBACK: INTERVIEWS

Based on interviews conducted with analysts, conclusions were drawn about their views on the usefulness of information for making investment decisions under IFRS 15. The main findings are summarised below, together with a selection of quotations illustrating some of the conclusions drawn.

Impact on financial statements and usefulness of information

Interviewees generally believe that the impact on the figures has not been significant. This contrasts with their opinion on the impact on the disclosures in the notes, to which they attach much greater importance. The following comment is illustrative¹⁶:

"If you look at the Annual Report and analyse the companies, the revenue, the income statement, in general, the impact has not been great, but (the information in the notes) helps a lot in understanding how they get (to the revenue figure) ... even in retail" (E6).

In fact, although the analysts' responses do not provide specific information about the individual changes in IFRS 15 that contribute to increasing the usefulness of the financial statements, their general consensus is that the application of IFRS 15 has had a clearly positive and significant impact on the usefulness of the financial statements. They perceive this impact in several key areas, such as forecasting future results, improving comparability, and supporting management control (accountability).

The analysts' emphasis on the overall positive impact of IFRS 15 suggests that the overall effect of the changes in the standard, such as improved revenue recognition practices, improved disclosure requirements in the notes, and international convergence, has resulted in financial statements that provide more reliable, transparent and comparable information. This, in turn, enables analysts to

¹⁶ Interviewees are numbered E1 to E9. We refer only to the 3 analysts.

make more accurate forecasts of companies' future performance and effectively assess their stewardship responsibilities.

On estimates: *"If you combine the principles and criteria of IFRS 15 with the disclosure requirements, I believe the user gains much more information on how the entity is developing its business model, which enables better assessment of growth, future cash flows or profitability, so I would say the impact is positive.... If you are better able to understand how the business model works, it helps you analyse how to estimate future performance."* (E1)

On management: *"If you can get a better view of cash flows, profitability, growth, and the timing of cash flows, you can link that directly to how management has been performing"* (E1).

Impact on preparers and internal control systems

When we interviewed analysts about their perception of possible changes in internal decision-making brought about by application of IFRS 15, they agreed that there may be positive changes in efficiency, some of them linked to improvements in internal information available for decision-making, as illustrated by the following comments:

"It may have led to changes in efficiency... I'm optimistic about it, in the way they monitor efficiency and estimates and forecasts. That is my perception. It has also helped the entities" (E1)

"Yes, here I think companies will be more efficient, even if (IFRS 15 implementation) costs them more at the beginning" (E6)

Interestingly, interviewees also mentioned consequences for contracts and internal operations that do not necessarily stem from the preparation and use of the new information. For example, one user (analyst) stated that preparers are willing to change contract terms to achieve a desired accounting effect:

"I'm referring to a conversation I had with the CEO of a construction company a few years ago. He said that 'legal did not dominate finance, and finance did not dominate legal,' but he also said, 'if our contract didn't align with IFRS 15, or vice versa, we would change our contract'" (E1).

Part 2 Effects of the Standard on internal users

PRACTICAL APPLICATION ISSUES RELATED TO THE STANDARD

Both the IASB and EFRAG have received comments on practical or interpretive issues in the application of the Standard by companies. Below are those we consider most significant, based on the IASB's internal working papers and the comment letter sent by EFRAG. We have structured them according to different aspects of the standard.

1. Identifying performance obligations in the contract
2. Determining the transaction price
3. Determination when to recognise revenue
4. Principal versus agent considerations
5. Licensing
6. Others
7. Interaction with other standards

When we refer to the IASB in this section, we mean the analysis presented in its internal documents (discussions on comments received in response to the request for information as part of the post-implementation review of IFRS 15, summarised in documents prepared between January 2024 and September 2024¹⁷). When we refer to EFRAG we refer primarily to its comment letter to the IASB issued in October 2023¹⁸.

Identifying performance obligations in the contract

One of the most frequently raised points in the comment letters sent by preparers to the IASB (and to EFRAG) regarding the implementation of IFRS 15 (particularly from the telecommunications, construction, and software sectors) relates to the identification of performance obligations in the contract, especially in determining whether a promised good or service is distinct/separate. Some examples pointed out by EFRAG on this aspect relate to the charging of a non-refundable upfront fee to the customer, as it is stated that it is sometimes difficult to assess whether the customer's payments are related to the transfer of a good or service and, if so, whether these represent separate performance obligations. By way of illustration, the following raise questions: the charging of a line or service activation fee in the telecommunications sector; the charging of a non-refundable fee to the franchisee to enter the franchise network; or non-refundable upfront payments for exclusive distribution rights to drug manufacturers that sell their products in other countries by signing an agreement with local third parties.

17 At the time of writing the latest document is the "feedback statement" of September 2024. Available at <https://www.ifrs.org/content/dam/ifrs/project/pir-ifs-15/pir-ifs15-feedbackstatement-portrait-sept2024.pdf>

18 Available at [efrag.org](https://www.efrag.org).

Also, for example, prototypes that must be designed or manufactured before being delivered to the customer raise the question of whether pre-production costs are costs to fulfil a contract or are separate performance obligations or items that should be recognised in accordance with IAS 38 Intangible Assets.

Finally, the challenge of identifying performance obligations also arises in the accounting for contracts involving licences, as discussed later when addressing that specific topic.

EFRAG recommends that the IASB, to help resolve these cases, consider updating the illustrative examples. The IASB has decided not to take any action for the time being. Although the possibility of incorporating some explanations contained in paragraphs¹⁹ and BC116K²⁰ into the Standard was considered, the IASB staff recommends not to do so, since although it would clarify some matters, in their view the cost of amending the standard with the consequent "due process" does not justify the potential clarification.

Determining the transaction price

On the determination of the transaction price, the most frequently commented practical application issues include, among others, aspects related to (i) variable consideration, and (ii) the amount payable as compensation to a customer that exceeds the amount to be charged as revenue (negative revenue).

Variable consideration

The main problems identified in practice in estimating variable consideration are: a) the definition of the "highly probable" threshold, and b) the lack of historical information to make the estimate.

(i) "Highly probable"

In the first case, in accordance with IFRS 15 (paragraph 56): *"An entity shall include in the transaction price some or all of an amount of variable consideration estimated in accordance with paragraph 53 only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved."* IFRS 15 (paragraph 57) states: *"In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur once the uncertainty related to the variable consideration is subsequently resolved, an entity shall consider both the likelihood and the magnitude of the revenue reversal..."*

The "highly probable" requirement (which was not included in the first draft of the Standard and was added on the grounds of prudence in response to comments received by the IASB)²¹ appears to be a challenge for its application in many cases, as it is being interpreted in a way that was not intended. It appears that the notion of "highly probable" with respect to revenue reversal in the future tends to

19 BC105: Consequently, the boards (IASB and FASB) decided to specify in paragraph 27(b) of IFRS 15 that the objective in identifying whether a promised good or service is distinct within the context of the contract is to determine whether an entity's promise to transfer that good or service is separately identifiable from other promises in the contract. The notion of 'separately identifiable' is based on the notion of separable risks in paragraph BC103 (i.e. whether the risk that an entity assumes to fulfil its obligation to transfer one of those promised goods or services to the customer is a risk that is inseparable from the risk relating to the transfer of the other promised goods or services). The boards observed that determining whether the entity's promise to transfer a good or service is separately identifiable requires judgement, taking into account all of the facts and circumstances. The boards decided to assist entities in making that judgement by including the factors in paragraph 29 of IFRS 15.

20 BC116K: The boards previously considered the concept of 'separable risks' (see paragraph BC103) as an alternative basis for assessing whether an entity's promise to transfer a good or service is separately identifiable from other promises in the contract. Although the boards decided not to use this terminology in IFRS 15, the notion of separable risks continues to influence the separately identifiable principle. The evaluation of whether an entity's promise is separately identifiable considers the relationship between the various goods or services within the contract in the context of the process of fulfilling the contract. Therefore, an entity should consider the level of integration, interrelation or interdependence among the promises to transfer goods or services. The boards observed that rather than considering whether one item, by its nature, depends on the other (i.e. whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract.

21 The rationale for its inclusion can be seen in BC207.

be applied in a manner that is extremely “conservative” and inconsistent during the recognition and measurement of variable consideration, both at initial recognition and subsequently. This gives rise to a diversity of practices in accounting for similar transactions.

This excess “conservatism”²² arises from the (incorrect) interpretation that revenue is recognised only when it is invoiced to the customer, rather than when the threshold of “high probability” that revenue will not reverse has been exceeded. An example highlighted by EFRAG of the requirements not being applied as intended during initial recognition comes from the construction industry, where variable consideration arrangements (i.e. penalties) are common and should reduce the total transaction price unless the likelihood of incurring them is remote. However, in practice, many contractors do not recognise these penalties until near the end of the construction phase.

Preparers also appear reluctant to apply the “highly probable” threshold when there is significant uncertainty about the amount and timing of revenue, or when no observable or historical data are available.

Some preparers have stated that assessing whether it is highly probable that revenue will not be reversed in the future is a challenge, and external legal or technical advisors are sometimes engaged to assess this criterion. Furthermore, this requirement is sometimes not correctly applied at the initial moment, nor is there a reassessment after that initial measurement.

As EFRAG notes, the fact that few changes have been observed as a result of the new variable consideration requirement compared with previous revenue recognition requirements suggests that the standard’s requirements are not being applied as intended, given that this requirement clearly differs from previous standards.

Although illustrative examples and/or improvements to the application guidance have been requested, the IASB staff have recommended taking no action for now, arguing that variable consideration always involves estimation, and that guidance or examples would not reduce the uncertainty inherent in estimation, with this being a fundamental feature of IFRS 15. Indeed, the term “highly probable” is also used in other standards (for example, IFRS 5). It should be acknowledged that for certain business models, the result of applying the “highly probable” threshold to constrain the estimate of variable consideration may be similar to the restrictions on the recognition of contingent assets, so the issue of judgement in estimates may not differ significantly in this case from others under IFRS.

(ii) Negative revenue

Another problematic aspect is the case in which the consideration payable to a customer exceeds the consideration expected to be received from them. This would apply, for example, in a three-party arrangement, where a company may pay an incentive to attract end customers that exceeds the consideration it receives from the supplier, although this issue is not limited to three-party arrangements. It would also be the case where a company (e.g. an airline) is obliged to compensate customers for service disruptions or issues (e.g. delayed or cancelled flights), in situations where the compensation exceeds the ticket price. This (the airline case) has already been addressed by the Interpretations Committee, although the Committee did not address whether the amount of compensation recognised as a reduction of revenue is limited to bringing the transaction price down to zero, nor whether any compensatory payment above the ticket price should be recognised as an expense or as negative revenue.

EFRAG considers this issue to be a high priority for the Interpretations Committee to address, as it affects the presentation of revenue amounts and could impact profitability analysis and entity valuation. The IASB has decided to take no action on this issue.

22 In this context, it reflects a form of conservatism that does not correspond to the type contemplated in the Conceptual Framework, but rather a deliberate understatement (unconditional conservatism) of revenue to be recognised, something generally viewed as reducing the quality of accounting information.

Determining when to recognise revenue

Although, in general, no practical difficulties have been identified in determining when to recognise revenue (i.e. over time or at a point in time), following the assessment of the pattern of transfer of control of a good or service, some challenges have been noted in certain cases, such as: (i) consideration of legal aspects or customary business practice to determine when control transfers; and (ii) evaluation of the “alternative use” notion (i.e. IFRS 15.35(c), 36 and 37)²³.

Specifically, regarding the assessment of alternative use, examples have been raised in the automotive industry and the ship-building industry, where certain components of a good might be resold in a secondary market. The key issue is whether the secondary market for certain parts or goods constitutes an alternative use for the entity, as in many cases an entity may encounter difficulties in readily redirecting the asset to another use, as this could entail significant economic loss. As a result, there is diversity in practice in how revenue is recognised in these cases.

In general, it is considered that clarification of the guidance and/or additional illustrative examples would be helpful. EFRAG considers this an issue for the Interpretations Committee to address. As in previous cases, the IASB staff recommend taking no further action.

Principal versus agent considerations

In various industries, preparers have raised challenges arising from IFRS 15’s principal versus agent (PA) considerations, particularly in situations involving multiple intermediary layers, such as in fintech, construction, telecommunications, software, and pharmaceuticals. However, it is specifically the difficulties in applying the indicators of control transfer (IFRS 15.B37) that have led to diversity in practice. Three criteria in particular are problematic:

- a) *Primarily responsibility for fulfilment* (IFRS 15.B37(a)): there is no link between prior control as defined in IFRS 15.B35 and the question of whether the entity or the supplier is primarily responsible towards the customer. The fact that an entity is primarily responsible for fulfilling the contract, including providing customer support, resolving customer complaints, and accepting responsibility for the quality or suitability of the product or service does not always provide evidence that it controls the good or service before is transferred to a customer.
- b) *Inventory risk* (IFRS 15.B37(b))²⁴: the Standard refers to risk “after transfer of control to the customer (for example, if the customer has a right of return)”. Having the inventory risk does not provide any evidence as to whether an entity controls the goods or services before they are transferred to the customer.
- c) *Price discretion* (IFRS 15.B37I): whether or not an entity has discretion in determining the selling price does not technically indicate prior control.

23 35. An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met: ... (c) the entity’s performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date (see paragraph 37). 36. An asset created by an entity’s performance does not have an alternative use to an entity if the entity is either restricted contractually from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at contract inception. After contract inception, an entity shall not update the assessment of the alternative use of an asset unless the parties to the contract approve a contract modification that substantively changes the performance obligation. Paragraphs B6–B8 provide guidance for assessing whether an asset has an alternative use to an entity. 37 An entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 35(c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the customer or another party for reasons other than the entity’s failure to perform as promised. Paragraphs B9–B13 provide guidance for assessing the existence and enforceability of a right to payment and whether an entity’s right to payment would entitle the entity to be paid for its performance completed to date.

24 B37. Indicators that an entity controls the specified good or service before it is transferred to the customer (and is therefore a principal [see paragraph B35]) include, but are not limited to, the following: (b) the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits itself to obtain, the specified good or service before obtaining a contract with a customer, that may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer.

Therefore, an entity that is primarily responsible for fulfilling the promise to provide the specified good or service to the customer, has inventory risk (especially after the transfer of control to the customer) and has the discretion to establish the price will likely have to assess whether it controls the underlying goods or services before they are transferred to the customer to analyse whether it is principal or agent.

EFRAAG sets out two examples of specific cases where issues arise in assessing whether or not control exists at the time prior to the transaction with the customer (i) where an entity sells a licence of intellectual property and does not have physical possession of the good (for example, an eBook publisher that sells digital eBooks to end customers through an online retailer); and (ii) where an entity sells a service through another (for example, an online newspaper that sells advertisement space to end customers through an advertisement agency).

Furthermore, EFRAAG considers that the May 2022 decision of the IFRS Interpretations Committee, related to IFRS 15 (Principal versus Agent: **Software Reseller**) evaluated the various indicators in IFRS 15.B37, but did not conclude whether the reseller was acting as a principal or an agent. EFRAAG believes that clarification on the application of the indicators is necessary.

The IASB decided, in principle, to consider (albeit classified as low priority) whether to incorporate into the body of the Standard some clarifications that are currently located in the Basis for Conclusions (specifically, BC385E and BC385H)²⁵. The problem is that many new businesses have emerged since IFRS 15 was issued, particularly in the intangible and digital services space, which has led to growing difficulties and an increasing number of entities struggling to interpret the requirements of the Standard consistently. However, the IASB staff consider that further examples or clarifications will not resolve the practical difficulties encountered. In their view, IFRS 15 already requires sufficient disaggregation of information to enable users to understand the circumstances of each business model.

Licensing

For licences, the most problematic aspects identified include: determining whether a licence is a separate performance obligation; whether it grants a right to use or a right to access; whether it is the predominant component of a single performance obligation; and the distinction between a licence and a sale in the context of renewals.

Determining whether a licence is a separate performance obligation: This issue arises in complex, multi-element intellectual property licensing arrangements under which additional services are provided in connection with the granted rights (for example, manufacturing services, updates to the intellectual property, research and development activities). For instance, it can occur for a drug manufacturer that licenses the rights to the distribution of its drugs and also promises to manufacture the drug for the customer/licensee. For this fact pattern, determining whether the drug manufacturer's right to sell the product is a distinct performance obligation and the appropriate accounting thereafter can be challenging, and the accounting treatment differs significantly depending on the conclusion, as it determines whether revenue is recognised at a point in time or over time.

Similarly, in cases where **software** developers enter into contracts with customers to transfer **software** licences and provide related maintenance services, significant judgement is often required to determine whether the licence is a distinct performance obligation.

25 BC385E. In addition, the boards noted that an entity that itself manufactures a good or performs a service is always a principal if the entity transfers control of that good or service to another party. Such an entity does not need to evaluate whether it is a principal or an agent using the guidance in paragraphs B34–B38 because the entity transfers the good or provides the service directly to its customer, without the involvement of another party. If the entity transfers a good or provides a service to an intermediary that is a principal in providing that good or service to an end customer (whether individually or as part of a distinct bundle of goods or services), the entity's customer is the intermediary.

BC385H The boards' considerations (explained in paragraph BC382) highlight that the indicators in paragraph B37 were included to support an entity's assessment of whether it controls a specified good or service before transfer in scenarios for which that assessment might be difficult. The indicators (a) do not override the assessment of control; (b) should not be viewed in isolation; (c) do not constitute a separate or additional evaluation; and (d) should not be considered a checklist of criteria to be met, or factors to be considered, in all scenarios. Considering one or more of the indicators will often be helpful and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.

Determining whether a licence is a right of use or a right to access: In some complex licensing arrangements (e.g. the sale of a *software* licence together with a promise to deliver continuous updates), there are difficulties in applying the tests in IFRS 15.B58²⁶ to determine whether the licence provides a right to use or a right to access. Illustrative examples have been requested from the IASB to guide practical application; however, the IASB does not plan to make any changes, with the staff arguing that additional guidance or examples would not eliminate the need for professional judgement in complex cases.

Determining whether licensing of IP is the predominant component of a single performance obligation: Assessing whether a licence is a primary or predominant component of a single performance obligation has been problematic in practice. For example, under IFRS 15. B63A, the "sales-based or usage-based royalties constraint" applies when the royalty relates to either a licence of IP or to a performance obligation of which a licence of IP is the predominant component (e.g. when the entity has a reasonable expectation that the customer would ascribe significantly more value to the licence than to the other goods or services to which the royalty relates). Though the Basis for Conclusions discusses the assessment of whether the licence is the primary or dominant component of a single performance obligation, the Standard does not provide any specific criteria for making this determination.

Licence renewals: Accounting for the renewal of right-to-use licence agreements, which commonly arise in the software and pharmaceutical industries, may also present practical challenges, as it is necessary to determine whether revenue should be recognised at the time the renewal is agreed or when the new licence period begins. A lack of guidance on this matter in the Standard has been highlighted. EFRAG recommends that the IASB amend paragraph B61²⁷ to provide clarification. It should be noted that the FASB has amended its Standard in this regard and explicitly requires that revenue be deferred until the renewal period begins, accompanied by an illustrative example. The IASB does not currently intend to take action on this issue on the grounds that there is no clear evidence of significant diversity in practice. It considers the current wording to be sufficient and does not believe that further examples would resolve the inherent need for professional judgement in complex situations, such as where licence renewals are combined with other changes to contractual terms.

Licensing arrangements versus sales. In the pharmaceutical industry, it can sometimes be difficult to distinguish licensing agreements, which often include sales-based royalties if the drug is successfully developed, from the outright sale of a patent for a drug (intangible asset). In practice, there is diversity in accounting treatment and outcomes depending on whether entities focus on the legal form or the economic substance of the transaction.

EFRAG suggests that the IASB provide additional illustrative examples and that the IFRS Interpretations Committee could offer guidance, but the IASB has no current plans to take action, as the staff considers the definition of a licence and the existing guidance to be clear. relevant guidance are clear.

Interaction with other standards

The main comments received from preparers relate to IFRS 16 Leases.

26 B58 The nature of an entity's promise in granting a licence is a promise to provide a right to access the entity's intellectual property if all of the following criteria are met: (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights (see paragraphs B59 and B59A); (b) the rights granted by the licence directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and (c) those activities do not result in the transfer of a good or a service to the customer as those activities occur (see paragraph 25).

27 B61 If the criteria in paragraph B58 are not met, the nature of an entity's promise is to provide a right to use the entity's intellectual property as that intellectual property exists (in terms of form and functionality) at the point in time at which the licence is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the licence at the point in time at which the licence transfers. An entity shall account for the promise to provide a right to use the entity's intellectual property as a performance obligation satisfied at a point in time. An entity shall apply paragraph 38 to determine the point in time at which the licence transfers to the customer. However, revenue cannot be recognised for a licence that provides a right to use the entity's intellectual property before the beginning of the period during which the customer is able to use and benefit from the licence. For example, if a software licence period begins before an entity provides (or otherwise makes available) to the customer a code that enables the customer to immediately use the software, the entity would not recognise revenue before that code has been provided (or otherwise made available).

Interaction with IFRS 16

Comments have been raised about some difficulties in identifying whether a contract falls within the scope of IFRS 15 or IFRS 16, particularly in cases where it is difficult to distinguish between the sale of assets with deferred payments and a lease, which has sometimes resulted in diversity in practice, even within the same industry.

The most significant issue is the difficulty in assessing whether, in a sale and leaseback transaction, the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor qualifies as a sale. IFRS 16 lacks specific or additional guidance on how to perform this assessment. It has been observed that, to determine when a performance obligation in a contract is satisfied (i.e. when control of an asset is transferred to the customer), entities tend to apply IFRS 15 (paragraphs 31–34 and 38). In some cases (e.g., a sale contract which includes a call option), the lessee to lessor asset transfer leg (leaseback) clearly does not meet the IFRS 15 requirements and the transaction is accounted for as a financing transaction. However, there could be circumstances where some contractual conditions (e.g., if the lessee has a renewal option to extend the lease term to be substantially equivalent to the remaining economic life of the underlying asset) could impact the economic substance of the leaseback transaction. The IASB has decided, in this case, to wait for the evidence gathered during the Post-implementation Review of IFRS 16 before making any decisions on potential clarifications.

Other interactions

Additional application issues have also been identified due to the interaction with IFRS 3 (Business Combinations), IFRS 9 (Financial Instruments), IFRS 10 (Consolidated Financial Statements), and IFRS 11 (Joint Arrangements), although these issues have been raised more frequently by auditors and regulators than by preparers. Possible interactions with IFRIC 12 (Service Concession Arrangements) have also been noted.

Regarding IFRS 3, comments have been received about inconsistencies in the recognition of contract assets and contract liabilities in the context of a business combination. Specifically, the accounting for such assets and liabilities of the acquiree (measured at fair value) may differ from that applied to the revenue contracts originated by the acquirer, even when the contracts are similar, as may their subsequent measurement. The FASB has specifically decided that the revenue Standard should be applied to such measurement even in a business combination²⁸. However, the IASB has acknowledged that, although it is indeed difficult to compare entities that grow organically with those that grow through acquisitions, it does not intend to revisit this matter within the scope of business combinations and does not consider it to be a significant issue.

In relation to IFRS 9, it has been observed that, in cases where, for various reasons, a reduction in the amount receivable from a customer is accepted, it is unclear whether IFRS 15 should be applied and the reduction considered a reduction in revenue, or IFRS 9 and considered a credit loss. In some cases, double counting has been observed. Accounting for liabilities arising from loyalty programmes or gift cards that can be redeemed by the customer across multiple entities at the customer's discretion can also be problematic. In the first case, the IASB considers that the requirements are clear, as IFRS 15 should be applied once any potential credit loss on net receivables or contract assets has been assessed, and it is at that point that any changes in variable consideration or contract modifications should be considered (which would then affect the amount of revenue recognised). In the case of such debts, all facts and circumstances should be considered in each case and IFRS 9 paragraph 2.1(j) should be applied if appropriate, which states that IFRS 9 does not apply to debts within the scope of IFRS 15 unless expressly required.

Other practical issues have been identified arising from the interaction with IFRS 10, as in some cases similar contracts are accounted for under IFRS 15 or IFRS 10, resulting in diversity in practice. This would be the case, for example, for the sale of assets through corporate wrappers in the real estate

28 The FASB has amended ASC Topic 805 (*Business Combinations*) which now requires application of Topic 606.

sector²⁹. Although the IFRS Interpretations Committee concluded in 2019³⁰ that IFRS 10 should apply, that is, the transaction should be treated as a loss of control of a subsidiary and not as the sale of inventory, it did not issue an Interpretation. However, in practice, IFRS 15 is in many cases being applied, consistent with the FASB guidance under Topic 606. The IASB has decided to address this matter more broadly in its agenda, but not as part of the IFRS 15 PIR.

There are also difficulties in determining whether certain collaborative arrangements fall within the scope of IFRS 11 or whether they are customer-supplier contracts and IFRS 15 applies. While the FASB provides guidance on this in Topic 808 (Collaborative Arrangements), the IASB has opted not to do so and instead refers to the need for professional judgement to determine which requirements apply in each case.

Finally, comments have also been received regarding the interaction with IFRIC 12, as it is considered that the recognition of obligations to maintain or restore concession infrastructure is not aligned with the content of IFRS 15, IFRS 9 and IFRS 17 (Insurance Contracts), although the IASB has considered the possibility of addressing the topic of IFRIC 12 in its future agenda.

In summary, preparers consider that the main issues of practical application or interpretation leading to diversity in practice are the application of the **'highly probable' reversal threshold in variable consideration** (which tends to delay recognition until realisation); the interpretation of **principal versus agent**, particularly in intangible and digital services businesses; and **licences**, especially in the case of complex contracts, and the distinction between right to use and right to access, as well as renewals. Other aspects, such as the presentation of 'negative revenue', the assessment of 'alternative use', or interactions with other standards when determining the scope (IFRS 16, IFRS 3, IFRS 10 or IFRS 11) are also considered problematic in certain sectors. However, the IASB has not to date considered that IFRS 15 should be amended (or that additional guidance or examples should be added) as a result of any of these issues identified in practice by preparers.

EFFECTS OF IMPLEMENTATION ON INTERNAL CONTROL AND DECISION-MAKING SYSTEMS

PREPARER FEEDBACK: SURVEYS

This section presents and analyses the main findings and conclusions regarding preparers' perceptions of the impact of implementing IFRS 15, primarily on their IT and information systems and on management control systems, but also on the financial statements and on the usefulness of the information for external users.

Our hypothesis is that the implementation of IFRS 15, and in particular the new and expanded disclosure requirements in the notes, has meant that many companies have had to adapt or improve their accounting information systems in order to provide the required information. This may in turn imply that the new requirements not only have heterogeneous accounting effects (depending on the sector), but also, as already mentioned, involve substantial implementation costs, as well as the potential to induce changes in how companies operate, due to changes in accounting systems and the availability of new information (Napier and Stadler, 2020).

29 These are special-purpose entities, referred to in the real estate sector as corporate wrappers. These are corporate real estate transactions that typically involve the acquisition or disposal of an entity that holds one or more real estate assets. The entity in question is usually a non-operating entity that holds only (or almost exclusively) the real estate asset.

30 See IASB *agenda paper* at [ifrs.org](https://www.iasb.org)

Respondent profile

The total number of respondents (preparers) who fully completed the survey was 196.

//// **FIGURE 12** Breakdown of participants by preparer type

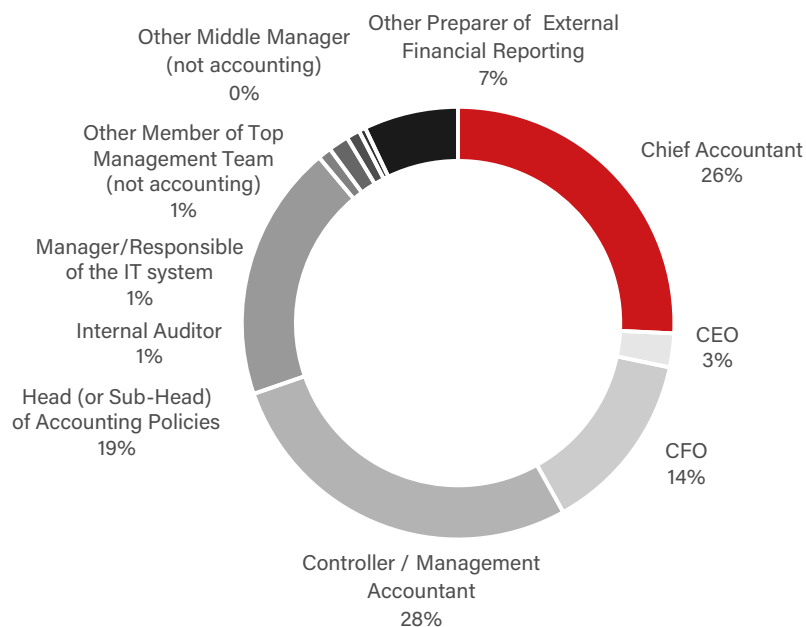


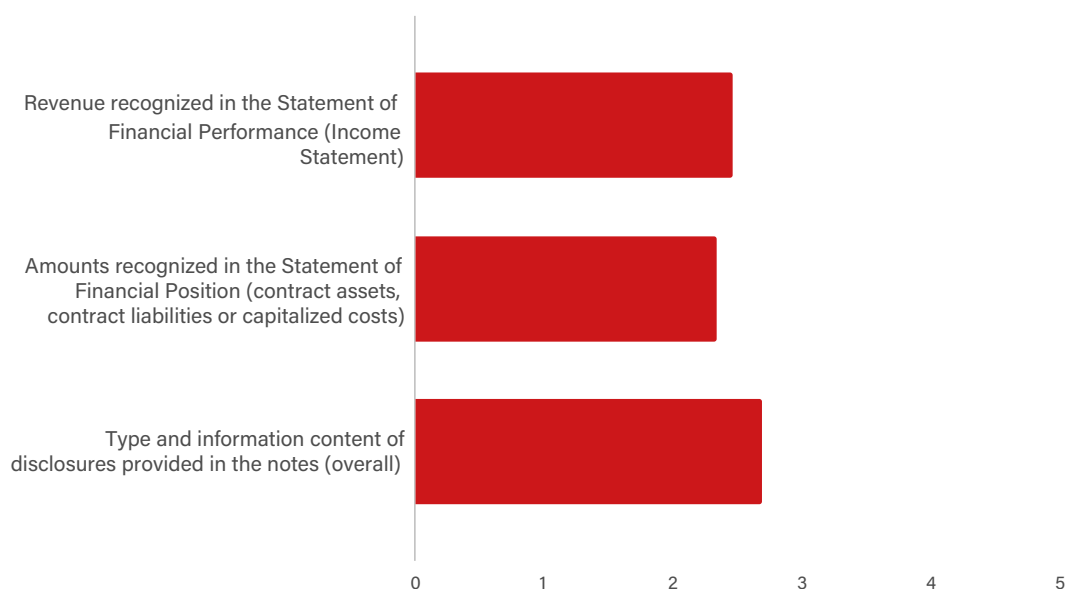
Figure 12 provides a visual representation of the distribution of responses (i.e. the percentage composition) by type of preparer, including controllers (28%), chief accountants (26%), heads of accounting policy departments (19%), chief financial officers (14%), chief executive officers (3%), and other preparers, including internal auditors and IT system managers (10%).

Impact on the financial statements

Preparers were asked about the impact of applying IFRS 15 on the financial statements: Revenue recognition (Income Statement), amounts recognised in the Balance Sheet (contract assets, contract liabilities or capitalised costs), and the type and content of the disclosure in the notes (0 – No impact, 1 – Low impact to 5 – High impact).

The results are presented in Figure 13 and show that, on average, the impact on the financial statements is perceived to be between low and moderate. Preparers, like users, indicated that the notes (type and content of disclosures) are the most affected by IFRS 15.

//// **FIGURE 13** Impact on the financial statements



In summary, according to the respondents, the changes introduced by IFRS 15 have on average a **slightly greater than low impact on the statements of financial performance and financial position** and, on average, a slightly less than moderate **impact on disclosures**.

Impact on IT and MCSs

Preparers were asked whether the changes in disclosure requirements resulting from the adoption of IFRS 15 had affected IT systems (information technologies) and management control systems (MCSs).

Overall impact on IT and MCSs

Preparers were asked about the overall impact of adopting IFRS 15 on their company's IT systems. The results are shown in Figure 14. Only 18% indicated that there had been no impact, while almost 25% reported a moderate to high impact.

//// **FIGURE 14** Overall Impact on IT Systems

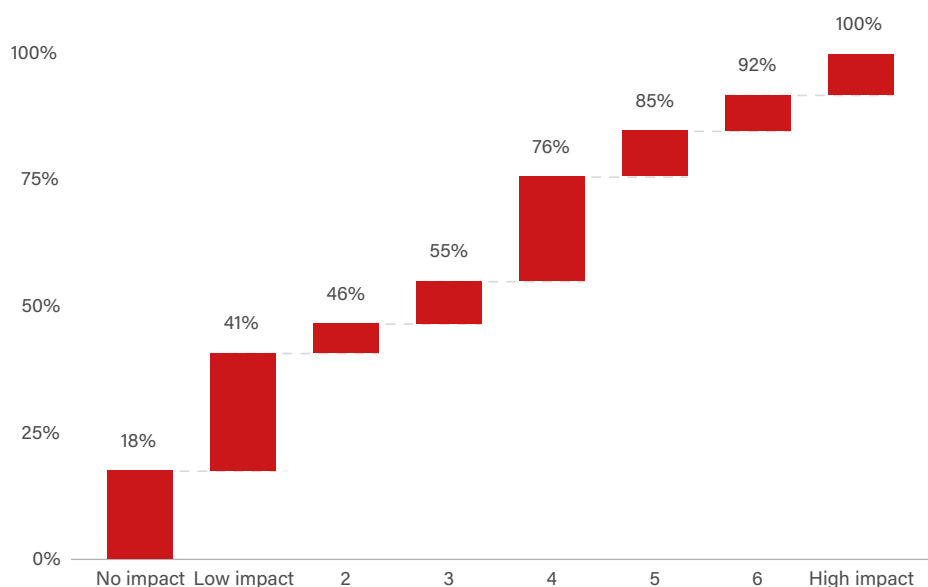
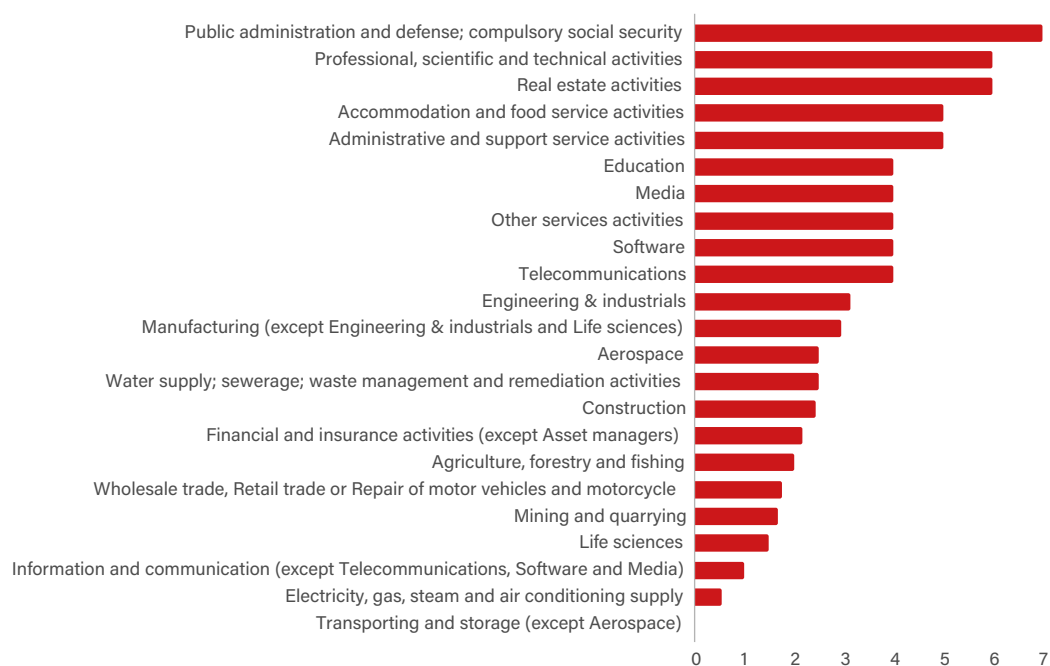


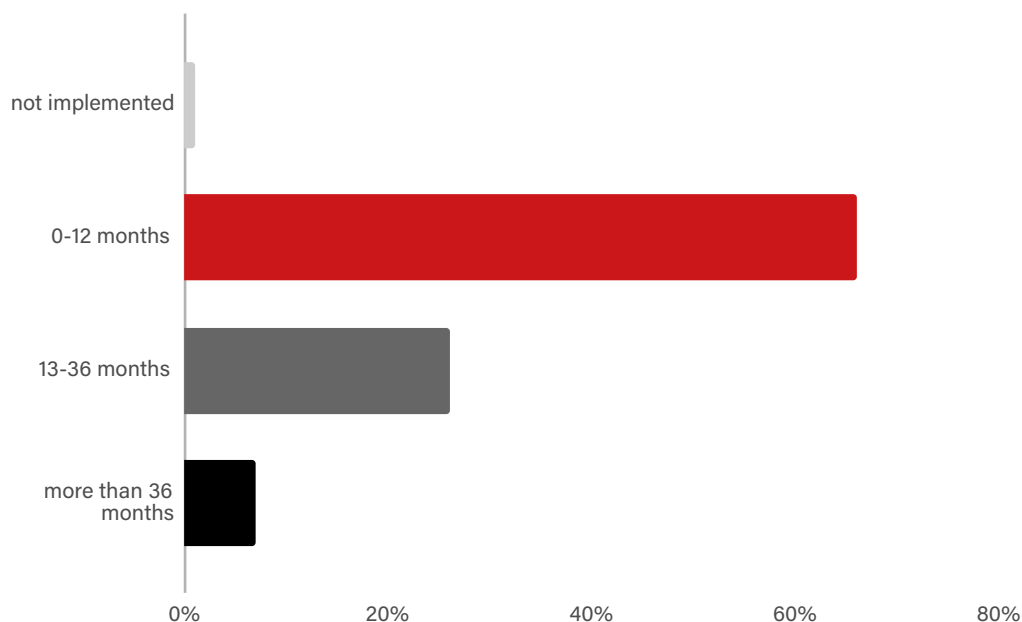
Figure 15 shows the average perception of respondents by sector. However, the ranking shown in the figure should be interpreted with caution, as some sectors have very few respondents, and the order does not necessarily reflect relative differences across industries. It is also worth noting that the user views presented in the first part of the report regarding the most affected sectors mainly refer to the impact on the financial statements, while the views of preparers refer exclusively to IT and MCSs. Even so, there is a strong correlation between the responses, with a few exceptions. This is to be expected, as the companies or sectors required to provide substantially different information are those likely to have to change their IT and MCSs accordingly.

//// **FIGURE 15** Overall Impact on IT Systems

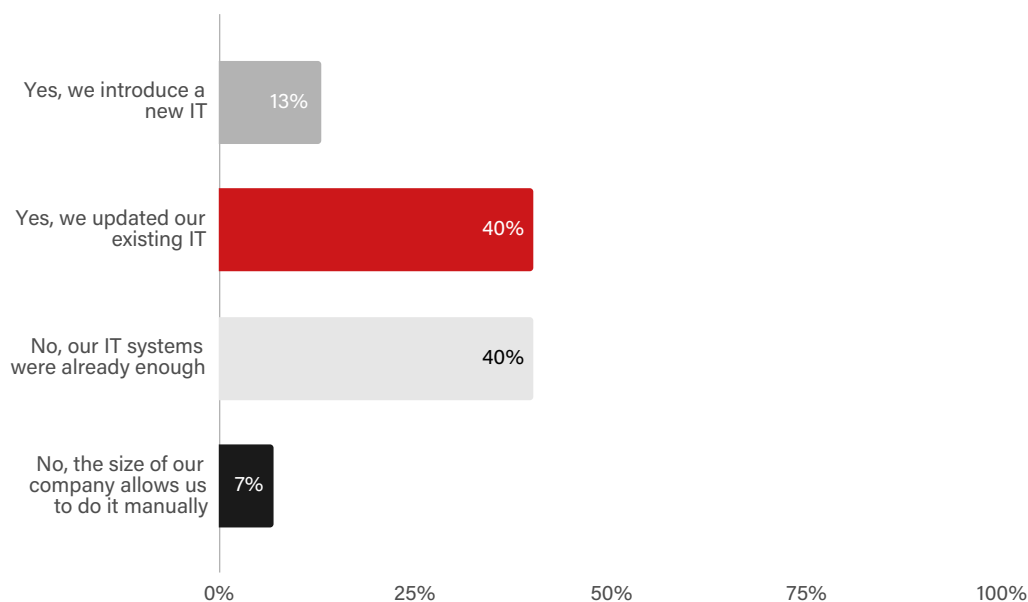


Respondents were asked how long the implementation process lasted. Figure 16 shows that most companies completed implementation in under 12 months. However, more than 25% reported that the process took up to 36 months, and over 7% stated that implementation took longer than 36 months.

//// **FIGURE 16** Implementation time



//// **FIGURE 17** Changes in IT Systems

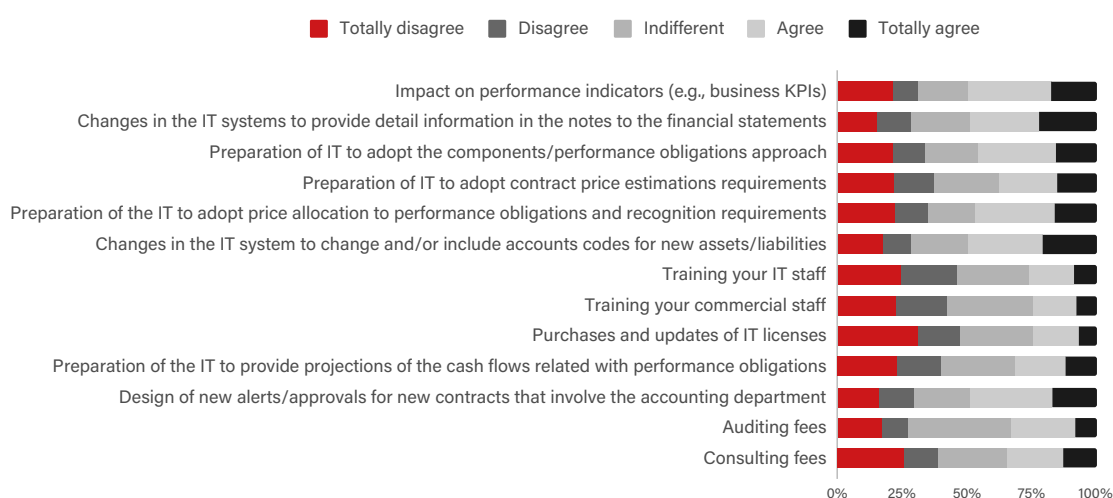


The survey included a question about changes introduced in IT systems (e.g. Excel spreadsheets, SAP, Oracle, Tagetik) as a result of applying IFRS 15. As shown in Figure 17, over half of the companies (53%) had to either update their systems (40%) or implement a new system (13%). 40% stated that their current systems were sufficient, while 7% noted that, due to their size, they perform this process manually.

One-off impacts on IT and MCSs

One of the main concerns of preparers throughout the development and implementation of IFRS 15 has been the associated costs. We asked about the main one-off impacts of this implementation process on IT systems. Figure 18 shows that the main ones were: (i) impact on performance indicators (e.g. business KPIs); (ii) changes in IT systems to provide detailed disclosures in the notes to the financial statements (disclosure requirements); (iii) changes in the IT system to change and/or include account codes for new assets/liabilities; and (iv) design of new alerts/approvals for new contracts involving the accounting department. Other impacts, although less significant, include: (i) Training of IT staff; (ii) Training of sales staff; and (iii) Purchase and upgrade of IT licences.

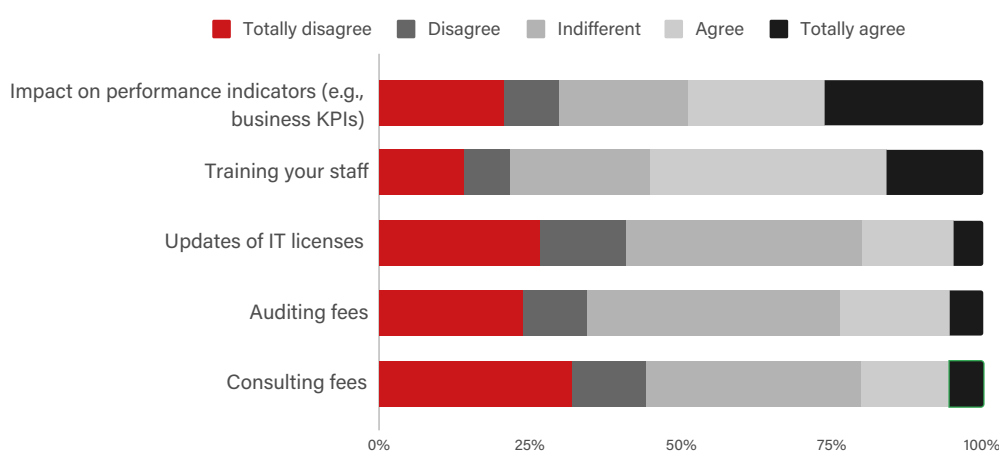
//// **FIGURE 18** One-off impacts on IT systems



Ongoing impact on IT and MCSs

Similarly, we also asked about ongoing impacts. As shown in Figure 19, the impact on performance indicators (e.g. business KPIs) and staff training are the most significant ongoing impacts reported by preparers.

//// **FIGURE 19** Ongoing impact on IT systems

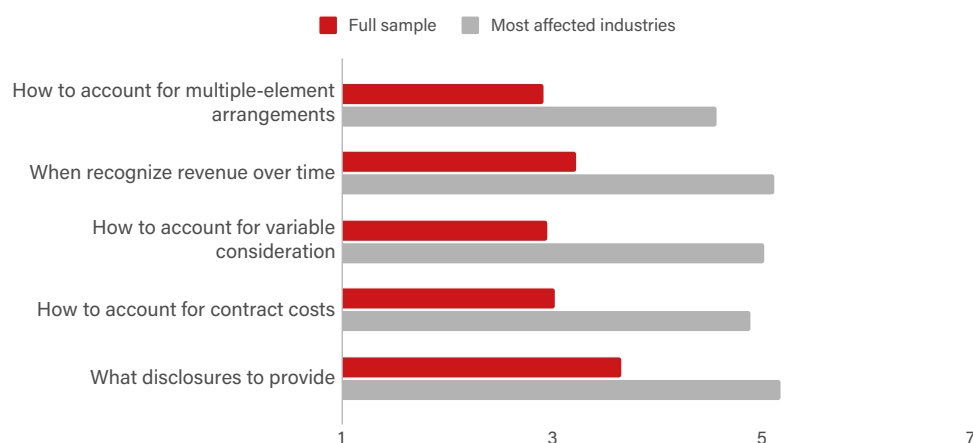


Recognition or disclosure requirements affecting IT and MCSs

Participants also gave their views on which specific aspects or requirements arising from IFRS 15

have affected their IT systems. Figure 20 shows that (i) “what information to disclose” and (ii) “when to recognise revenue over time” have the greatest impact. However, when considering all sectors on average, the impact of each requirement ranges from low to moderate. When focusing only on the most affected sectors, however, all impacts were substantially higher. This suggests that a small number of sectors have been significantly affected (particularly considering the finding that implementation lasted more than 36 months), while for many sectors the impact has been considerably lower.

//// **FIGURE 20** Impact of the new requirements on IT systems

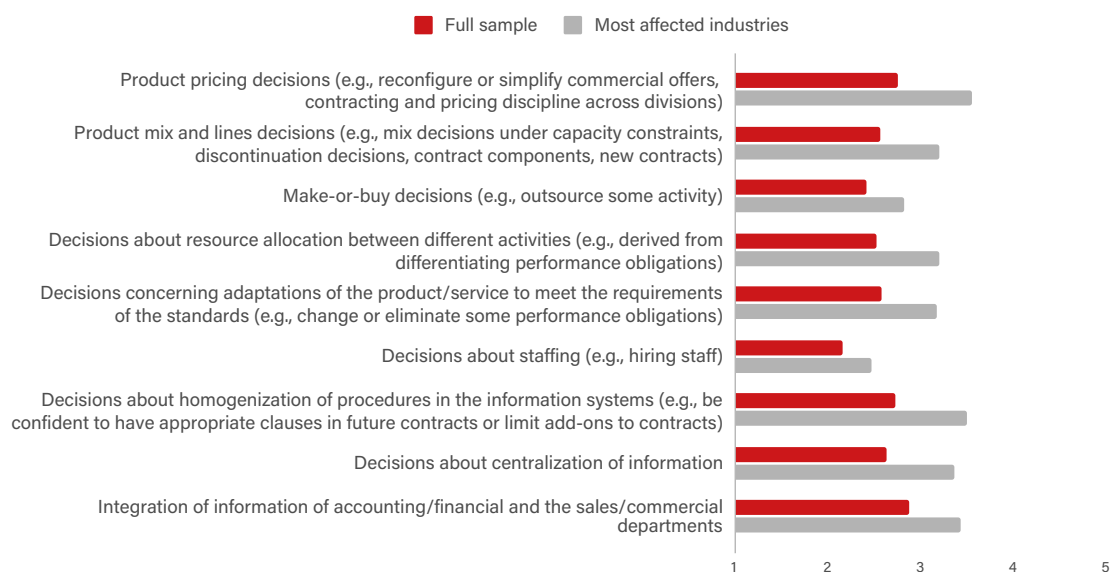


In summary, preparers consider that the changes introduced by **IFRS 15 have had an impact on MCSs and IT systems**, with significant variation across sectors. The **disclosure requirements**, followed by the **timing of revenue recognition over time** and the accounting for **variable consideration**, are the main aspects of the Standard generating impact. The most significant one-off impacts are those related to IT system changes, while changes to performance indicators and **staff training (sales staff)** are considered the most significant ongoing costs.

Impact on decision-making

The application of IFRS 15 required, in most cases, the creation of new or updated IT systems connected to several databases (performance obligation database, standalone selling price database, transaction price calculation tool, etc.). We therefore also asked about the impact of this change on business decision-making. Preparers indicated that the most significant impacts are as follows: (i) Decisions on product pricing (e.g. reconfiguring or simplifying commercial offers, contracting, and pricing discipline across divisions); (ii) Decisions on harmonising procedures in information systems (e.g. ensuring appropriate clauses are included in future contracts or limiting additions to contracts); and (iii) Integration of information between the accounting/finance department and the sales/commercial department. As shown in Figure 21, companies in the most affected sectors (average score above 4 in Figure 21) report a greater impact on all aspects of decision-making, with the impact being above moderate in all areas except “make or buy” decisions and hiring.

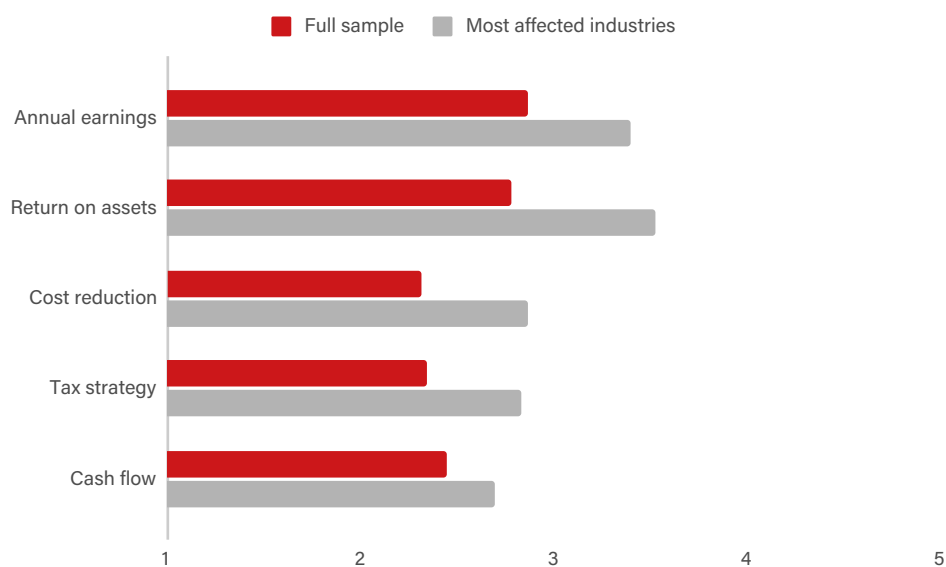
//// **FIGURE 21** Impact on Decision-making



Impact of changes in IT and MCSs on financial aspects

Due to the application of IFRS 15, the commercial implications of a transaction may be reflected more explicitly in the accounting figures. We therefore asked to what extent changes in management control systems resulting from the IFRS 15 implementation process have had financial consequences in themselves. The results in Figure 22 indicate that the effects are concentrated mainly in annual profits and ROA.

//// **FIGURE 22** Impact of changes in MCSs on financial figures



In summary, preparers consider that changes in MCSs resulting from the adoption of IFRS 15 have had an effect on many aspects of **decision-making** in the most affected sectors, with **real consequences for organisational structures and procedures**. These changes may also yield **internal benefits in terms of efficiency**³¹.

PREPARER FEEDBACK: INTERVIEWS

In the semi-structured interviews conducted prior to the survey, we observed that executives were generally willing to report substantial changes in MCSs and to highlight the costs associated with implementing IFRS 15 (and also IFRS 16). However, they were less willing, or reluctant, to acknowledge, at least explicitly, the potential benefits of implementation for internal control and decision-making.

The main costs highlighted by interviewees at this stage were, as expected, those identified in the comment letters and the studies cited above, such as the amounts paid for software licences and system adaptation, the resulting changes to MCS, audit and consulting fees, and the opportunity cost of human capital (i.e. time spent on staff training), among others. Interviewees explicitly mentioned substantial changes in MCSs and their consequences, although, as already noted, in most cases they did not acknowledge any resulting changes in decision-making or significant positive effects. In general, for companies significantly affected by both Standards, IFRS 15 and IFRS 16, and consistent with our earlier discussion, interviewees stated that implementing IFRS 15 was more complex than implementing IFRS 16, even though its impact on the financial statements was less significant.

In this second phase of the study, the interviews were conducted using the final questionnaire, so interviewees added clarifications and comments to their numerical ratings. These are the interviews we analyse below in relation to the various sections of the survey.

General aspects of the implementation process and changes in IT and MCSs

Regarding the general aspects of implementing IFRS 15, all interviewees agreed that the impact on figures in the balance sheet and the income statement was not significant. The main impacts are concentrated in disclosures in the notes. In general, implementation of the Standard took between 12 and 36 months, highlighting the costly nature of the process. Aside from the accounting and consolidation departments, all participants emphasised the special involvement of internal control departments, as shown in the following quotes:

"In addition, the internal control department (was heavily involved) because when there is a new standard, we always work together with accounting and internal control, since we certainly also have to assess the impact on key performance indicators and the internal reporting process." (E8)

"In applying (IFRS 15) the question arises: do people understand the standard, and do they understand the business model and the sales contracts? And, of course, this affects internal controls." (E9)

As previously mentioned, in general, most of the preparers' comments regarding the implementation process had a negative tone. All agreed that there was an impact on IT systems, to accommodate the new disclosure requirements, but they generally stated that they did not see the potential benefits of such change in IT systems, in staff training, or in the overall slowness of the implementation, all perceived as high-cost, especially given the limited anticipated impact on the figures. The attitude of those involved in the implementation process can be seen in the following quotes:

"Nobody wants to change, especially if it is imposed, right? So they (the staff) were not saying: 'I welcome the changes!'", because it is additional work, and implementation of IFRS 15 has not brought big benefits to our business. It just made it more complicated. (E3)

31 See García Osma, Gómez-Conde and Mora (2024), which empirically demonstrates the positive effects of changes in management systems as a result of adopting IFRS 15 and IFRS 16.

"It was not that people were not receptive. It was that there was no interest, because we were not able to say it was important for our company, because it wasn't. (E2)

However, some interviewees did acknowledge changes in the amount and quality of information used, the estimates made, and internal procedures and policies, factors that can be considered effects of implementing IFRS 15, as illustrated by the following quotes:

"Recognizing (revenue) over time or at a point in time, in the financial statements, did not have an impact, but in our procedures, it did have an impact" (E3)

[Impact on the statement of financial performance] "On the whole, did not have a material impact because of IFRS, but on the way of procedures and assessing contracts, it did have an impact on the training, on the understanding of how you should be drawn up the contract to get the results you intend to have" (E3).

When referring to staff training costs, preparers did not refer so much to technical accounting matters or to accounting personnel (whose training is required with any standard change), but to other types of training, particularly for staff in other departments (mainly the sales department), as illustrated in the following comments:

"This educational aspect (related to the Standard itself) is all in an accounting manual". But this is not the point... (The question is): Do people realise, when they enter into sales contracts and agreements, their accounting effects? Do they make the connection?" (E9)

Beyond training of sales staff, another noteworthy procedural impact was the involvement of the accounting department in commercial offers and contract design, specifically mentioned as follows:

"It can happen that when preparing a contract... involvement of the accounting department is (now) required in order to the interpretation of application of IFRS (15)". (E8)

Integration of information of accounting, financial and sales-commercial department a "3" (refers to Likert scale). The main impact is the last one because for sure following the IFRS 15 implementation means more integration between these functions. More dialogue has been established." (E8)

This increased dialogue between departments due to IFRS 15 seems to have had a clear impact on internal procedures, referred to, in one way or another, by all interviewees affected by the IFRS 15.

Implications for internal decision-making and organisational behaviour

Interviewees' Likert-scale responses suggested a very low (numerical) potential impact. However, a certain disconnect arises between the numerical scores and the elaborated answers given during the interviews. What they stated during the interviews is consistent with the view that IFRS 15 does have an impact on decision-making. Specifically, they mentioned that both training of commercial staff and the involvement of the accounting department in contract design (previously rare or non-existent) were aimed at improving the drafting of contracts or commercial offers, as shown in these quotes:

The education of the commercial staff has the objective of understanding how you should draw up the contract to get the results you intend to have (E3)

... the most important thing is training our staff and make them aware of these [IFRS] rules. By large, I make sure that (the commercial staff) make the right decision at the right time. (E3)

Two specific IFRS 15 topics were explicitly mentioned as having an impact on contract design: sales incentives (also referred to as "free goods", giveaways, or promotional incentives) and royalties. One of the interviewees acknowledged that the accounting for sales incentives was not so different from the previous standard, but in practice, the lack of prior guidance meant they were accounted for differently. As a result, the clearer guidance in IFRS 15 could have real effects, not only on the MCS

through the standardisation of procedures, but also on decision-making by affecting contract design, as illustrated in the following comments:

"I think also the treatment of these 'free goods' that are given in relation to sales hasn't actually changed that much with IFRS 15. It's just that the guidance is a little clearer and more specific about what we need to do. Simply the guidelines are a little clearer and more specific about what we need to do. And therefore, also internally, we want to make sure that our organisation understands it and that it is done consistently. So I think now it is much more prominent, the topic of revenue, and these kinds of things like 'free goods,' which basically all entities have, or all commercial entities have, so it is much more prominent, much more discussed..." (E9 b)

"So, this (sales incentives) is an example where I think we are still facing the need to train (the sales department)". (E9)

Possible future changes in contract design as a result of IFRS 15 were also considered, as illustrated by the following quote:

"What can I say... The company does what it thinks it should do, regardless of what the standard says. Therefore, I do not agree that the Standard has any impact on how this is viewed. Of course, in some areas they are aware, so we try to avoid sales-based rights that are not in the licensing agreements. It is a decision we try to avoid; it is something we try to avoid. But when we say 'no impact,' it means no impact on the process, the systems, or the way we account for it, but maybe these gift and incentive programmes... have to change." (E9)

Regarding the impact of the new disclosure requirements on internal decision-making, although interviewees stated that it was zero or very low on the Likert scale in the survey, the following comment highlights a potential benefit:

"In general, look, for us, the impact was not significant so I could easily say I do not have a view. But, in general, I think... the standard it does have some additional mandatory disclosures, and you need to restructure your thinking about revenue recognition. We also did that. So, it is much more clear for the future what the direction is..." (E3)

Impact of IFRS 15 on the usefulness of external financial reporting

Although all agreed that the impact of applying IFRS 15 on the amounts reported in the financial statements was low or null, interviewees tended to evaluate very positively its impact on usefulness for users. This is illustrated, for example, by the following quote in response to the impact on usefulness on a scale from 1 to 7:

"I would say relevance, faithful representation, and comparability within the same sector, I would say 5 (high), and comparability with US GAAP, 6 (even higher)" (E2)

While some preparers initially considered that, apart from comparability, the adoption of IFRS 15 had no impact in terms of usefulness, during the interviews their perception shifted from a negative or neutral tone to a positive one:

"Overall, the usefulness, I mean, it hasn't increased, but maybe it's more comparable (E9a) ... Yes, it's about US GAAP versus IFRS. It is now more harmonised. I think it has a big impact. I think I generally like IFRS 15. It is clearer, much more complete. It is clearer, much more complete." (E9b)

Conclusions

In summary, we consider that the adoption of IFRS 15 has led to an improvement in public information for external users, primarily due to the additional disclosures provided in the notes. In addition, we consider that implementation has had an impact on internal systems, very significant in some sectors, which, beyond the cost, has also resulted in substantial changes to control systems. These changes have led to differences in decision-making (real effects), which could in turn have a net positive impact on efficiency.

Specifically, in relation to external users, based on the empirical evidence and the user surveys conducted, we conclude that the predictive ability of information has increased. However, there appear to be mixed temporary effects until analysts and investors become familiar with the Standard, something that, according to the evidence, has taken longer in this case than for previous standards. It appears that the disaggregated disclosures in the notes are what have provided the greatest increase in usefulness, while the variable consideration component and the principal versus agent distinction have caused the greatest uncertainty, although the latter seems to be temporary. These results are confirmed by the user survey responses and the interviews with analysts. They agree that predictive ability and managerial oversight have increased, and they perceive that these new requirements may generate additional benefits in internal management.

For preparers, the adoption of IFRS 15 has presented significant challenges, particularly in sectors such as telecommunications, *software*, pharmaceuticals, and certain services.

Beginning with practical implementation issues, this principles-based Standard has given rise to interpretation difficulties that have, in specific cases, resulted in diversity in practice. Notably, for some transactions, it is difficult to determine whether they comprise separate performance obligations within a contract. There are also uncertainties in interpreting whether there is an alternative use in certain circumstances, and the accounting treatment of negative revenue is not clearly established. These issues have been identified in specific sectors and situations. Another important and contentious point is the general tendency to use the “highly probable” threshold for the non-reversal of variable consideration as a green light to apply an erroneous notion of conservatism, which in many cases has deferred recognition of this income component until collection. More generally, there are difficulties in estimating variable consideration when there is no historical evidence. The principal versus agent distinction has caused some interpretation difficulties. These controversial aspects are consistent with studies showing increased analyst uncertainty in making forecasts under this standard. Regarding interactions with other standards, the lease Standard (IFRS 16) seems to cause the greatest uncertainty in practice for specific transactions in relation to whether they fall under one or the other standard. This is relevant, as the accounting treatment would differ in each case.

There have been calls for implementation guidance, illustrative examples, and, in some cases, intervention by the IFRS Interpretations Committee. However, aside from the possibility of including clarifications in the Basis for Conclusions within the body of the standard, the IASB does not currently prioritise these issues and refrains from taking additional action.

As for implementation and its effect on control systems, preparers consider that the changes introduced by IFRS 15 have been costly in certain sectors and complex to implement. In general, they have affected both MCSs and IT systems, with significant differences across sectors. The disclosure requirements, followed by the timing of revenue recognition over time and the accounting for variable consideration, are the main elements of the Standard that have caused impact. It is also worth highlighting that the training of sales staff and the interaction of the accounting department with other departments, particularly in the contract design phase, is a key consequence of this standard.

In general, preparers believe that the changes to internal systems have affected many aspects of decision-making in the most affected sectors, which may in turn lead to net positive effects on efficiency. In our view, these deserve to be studied in greater depth as part of the post-implementation reviews (PIRs).

As a general conclusion, we can say that IFRS 15 is a comprehensive and complex standard, but one that achieves a consistent and complete framework, improving the usefulness of information for users. Despite the implementation cost in many sectors, it has enabled the reorganisation of internal systems with potential management benefits. However, as with all principles-based standards, there are interpretation issues in specific cases that give rise to diversity in practice. Many of these problems are likely to diminish as preparers and their auditors become more familiar with the standard, and some could potentially be resolved with illustrative examples and application guidance.

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