The new IFRS 15 standard : implementation challenges for Belgian companies

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Overview

Index of Abbreviations

ASC	Accouting Standards Codification
BC	Basis for Conclusions
BDO	Binder Dijker Otte & Co.
BS	Balance Sheet
EEA	European Economic Area
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IN	Introduction
IP	Intellectual Property
IT	Information Technology
KPMG	Kllynveld Peat Marwick Goerdeler
NBB	National Bank of Belgium
P/L	Profit & Loss Statement
PWC	PricewaterhouseCoopers
R&D	Research and Development
SAP	Systems, Applications and Products
SNECMA	Société Nationale d'Etude et de Construction de Moteurs d'Aviation
TA	Techspace Aero
US	United States
Appendix	
ERP	Entreprise Resource Planning

Introduction

1. Context

In 2014, the International Accounting Standards Board[1] (IASB) and the Financial Accouting Standards Board[2] (FASB) published a common standard introducing new requirements for the revenue recognition arising from contracts with customers: *IFRS 15* (IASB) / *ASC 606* (FASB) *Revenue From Contracts With Customers*. Initially foreseen for 1 January 2017, IFRS 15 will be applied from 1 January 2018 and will supersede *IAS 11 Construction contracts, IAS 18 Revenue* and their interpretations. It is noteworthy that the standard still needs to be endorsed by the European Union (EU) for use in the EU and the European Economic Area (EEA) (EFRAG, 2016).

Nowadays, revenue is seen as the first factor that needs to be considered when making investment decisions. Moreover, because of the globalization phenomenom, an increasing number of companies are jointly using United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) for accouting purposes, according to the IASB member Ms McConnell (2014). Ms. McConnell (2014) also explained that a new revenue standard was needed to remove weaknesses and inconsistencies of the current set of revenue rules. Furthermore, in their Basis for Conculsions (BC), the IASB and FASB explained that a common revenue standard was a milestone in the creation of «a single set of high-quality global accounting standards» (BC15).

2. Research Problematic

IFRS 15 will introduce new requirements compared to the standards it will supersede (IAS 11, IAS 18 and their related interpretations). The aim of this dissertation is to present the main requirements of IFRS 15, to identify its main differences and novelties compared to current IFRS and to highlight the challenges its implementation represents for Belgian companies.
Hence, the present research has the following objectives:

- Explaining the main requirements of IFRS 15;

[1] The IASB is a body of the IFRS Foundation whose members are in charge, amongst others, of the development and the publication of IFRS Standards (source: http://www.ifrs.org/About-us/).
[2] The FASB is an orgnaization responsible for establishing accouting standards that nongovernmental entities will use for reporting purposes in the United States (source: http://www.fasb.org/)

- Identifying the main differences and novelties brought by IFRS 15 compared to current IFRS, on a general and sectorial approach;
- Discucssing the current progress of Belgian companies in their implementation process of IFRS 15;
- Analyzing which IFRS 15 requirements are the most significant challenges, from a general and sectorial point of view;
- Presenting the consequences of IFRS 15 for Belgian companies beyond the accounting;
- Reflecting the opinion of the Belgian companies on this new accounting standard.

3. Intellectual interest of the research

Since its publication in 2014, loads of papers have been detailing the new requirements introduced by IFRS 15. The majority of them also emphasizes that IFRS 15 will go beyond the accounting and will impact other dimensions of an entity business model. However, since the initial date of application is 1 January 2018, there is still uncertainty on how entities will be affected, in practice, by IFRS 15 and what they will have to do to prepare their reporting under this new standard.

Furthermore, this dissertation also aims to verify if the challenges theoretically identified for companies of particular industries correspond to the challenges those entities actually face in practice.

4. Structure of the dissertation

The dissertation starts with a literature review divided into two parts:

- First, a general approach of IFRS 15 is envisioned. It begins with the history and objectives of the standard. After that, the main requirements of the standard will be presented. Simultaneously, a comparison with *IAS 18 Revenue* is provided. Finally, the transition methods to IFRS 15 are introduced and commented.
- The second chapter consists of a sectorial approach of IFRS 15. In this part, industry specific accounting challenges are identified and analyzed for the four following industry sectors: telecommunications, construction, aerospace and pharmaceuticals. More specifically, the section related to the construction sector is also used to compare

IFRS 15 and *IAS 11 Construction Contracts*. The final section of this chapter takes a look at other business dimensions that could be impacted by the arrival of IFRS 15.

The literature review is followed by an empirical part divided into two parts:

- The first part is an illustrative example of how Techspace Aero, a Belgian company, prepares itself for the arrival of IFRS 15. This part presents the IFRS 15 project of Techspace Aero and the requirements of the standard that are expected to be the most significant challenges.
- In the second part, the results of an on-line survey among Belgian entreprises are presented and discussed. First of all, an update of the progress of IFRS 15 in the different companies will be made. The accounting impacts, on a sectorial basis, and extra accounting impacts of the standard are then presented and analyzed. The final section summarizes the different opinions on IFRS 15. The results of the survey are complemented by a face-to-face interview with the Solvay IFRS manager.

The end of the thesis will deal with an overall conclusion of the approach. Reflections are also provided.

5. Remarks on vocabulary

As part of this thesis, the terms «current IFRS» and «current guidance» (if not stated otherwise) refer to the current IFRS on **revenue recognition**, specifically *IAS 11 Construction Contracts*, *IAS 18 Revenue* and their related interpretations. When refering to a particular standard, the reference is as follows: e.g. IAS 18 or IFRS 15. The presentation of a reference to a specific paragraph of a standard is as follows: e.g. IFRS 15.11 actually refers to «IFRS 15, paragraph 11». The same treatment applies for the IASB Basis for Conclusions: e.g. BC45 actually means «Basis for Conclusions, paragraph 45».

The terms Belgian GAAP and US GAAP respectively refer to Belgian and American accounting law.

Literature Review

CHAPTER 1: A GENERAL APPROACH OF IFRS 15

1.1. The history and the reasons of the IFRS 15 standard

It took the IASB and the FASB several years to elaborate their common revenue project. Indeed, already in 2002 the IASB and FASB added a project over revenue on their agenda (Deloitte, 2014). At the end of 2008, a first Discussion Paper on the topic was issued. This paper was followed by two Exposure Drafts in 2010 and 2011. For each draft, companies were allowed and encouraged to give both the IASB and FASB feedback, to help them finalize the revenue standard. Finally, once the final standard issued, the IASB and FASB set up a Transition Resource Group (TRG) to help entities with their transition process.

The aim behind the creation of a new revenue standard was to allow entities to rely on a single comprehensive revenue recognition model, that could be applied to all contracts with customers (Allocco et al, 2014). IFRS 15 would, in addition to better align entity's revenue and performance (and therefore better reflect the nature, timing, amount and uncertainty of revenue), help stakeholders to better undertand the financial statements. It would not only ease comparisons between industries, but also across capital markets (Allocco et al, 2014).

However, questions quickly arrived on why both the IASB and the FASB judged the implementation of a new revenue standard necessary (BC14). Their answer was the following: current IFRS, due to a lack of guidance, has led to an important range of practices, resulting in similar transactions being accounted for differently. It was also added that those practices are not necessarily reflecting entities' true performances.

Yet, some IFRS users pointed out that the IASB could simply have added requirements for significant issues (e.g. multiple-elements transactions) to its current guidance, rather than totally replace it (BC14 b). While acknowledging the truthfulness of this statement, the IASB (BC15) replied (as already expressed in the introduction) that IFRS 15 was a first step to «a single set of high-quality global accounting standards».

1.2. The scope of IFRS 15

IFRS 15 will thus replace the existing standards *IAS 11 Construction Contracts* and *IAS 18 Revenue* and their related interpretations.

IFRS 15 will apply to all contracts with customers[3], with the excpetions of:

- The lease contracts (IAS 17 now and IFRS 16 from 1 January 2019), the insurance contracts (IFRS 4) and the financial instruments and contractual rights or obligations (IFRS 9 to11, IAS 27 & IAS 28).
- Nonmonetay exchanges between entities in the same line of business to facilitate sales to customers.

It is worth mentioning that dividends and interests are excluded from the scope of IFRS 15[4] while they were previously part of the scope of IAS 18 (Deloitte, 2015).

Iniside a single contract, some elements might fall within the scope of IFRS 15 while others might belong to another standard. To separate those elements, the other standard would first be applied and IFRS 15 would be afterwards. If the other standard does not explain how to separate the elements, IFRS 15 will be applied to make the separation (IFRS 15.8).
Furthermore, a portfolio approach can be envisioned for contracts with similarities in terms and conditions to the extent that this portfolio approach would not materially differ from an individual treatment of all the contracts (IFRS 15.4).

1.3. The five-step model

IFRS 15 is centered around the following core principle: «an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for transeferring goods or services to a customer» (IFRS 15).
Under current guidance, the recognition model is related to the type of transactions[5] (EFRAG, 2015). Conversely, the model under IFRS 15 aims to be the same for goods and services. In

[3] Accorindg to IFRS 15, a customer refers to “a party contracting with an entity to obtain goods or services that are an output of the entity’s ordinary activities” (Appendix A).
[4] IFRS 15 focuses on revenue arising from an entity’s ordinary activities. Dividends and interests rather correspond to financial revenues and do not come from an entity’s ordinary activities.
[5] IAS 11 only focuses on the construction contracts. IAS 18 makes a distinction between the sales of goods, the render of services and the receipt of dividends/interests.

addition, the model will focus on the attributes of the goods and services and the terms of the contract rather than just on the type of the contract (BC465).

The revenue recognition model of IFRS 15 is built around five steps (IFRS 15 IN7):

- Step 1 : Identification of the contract with the customer
- Step 2 : Identification and separation of the performance obligations[6] in the contract
- Step 3 : Determination of the transaction price
- Step 4 : Allocation of the transaction price to the performance obligations
- Step 5 : Recognition of the revenue when the performance obligations are satisfied

The following sections will give additional information over those five steps and their related key requirements.

1.3.1. Step 1 : Identification of the contract with the customer

1.3.1.1. Definition of a contract

The first step is to identify which contracts enter the scope of the standard. IFRS 15 states that those can be either written, oral or implied by commom business practices.

Naturally, contracts had to be clearly defined by the new standard to avoid any confusion. Under IFRS 15, a contract is defined as «an agreement between two or more parties that creates enforceable rights and obligations» (IFRS 15 Appendix A). Contracts must also meet five conditions (IFRS 15.9):

- The contract has been approved by the respective parties, each one being committed to respect their obligations.
- The rights and obligations regarding the goods/services can be identified for each transaction party.
- The payment terms are identifiable.
- The contract has a commercial substance.
- The entity expects (= it is probable) to recieve its entitled consideration in exchange for the transfer of goods or services.

[6] A performance obligation is a promise to transfer to the customer a distinct good or service or a series of substantially similar distinct goods or services, with the same pattern of transfer (IFRS 15 Appendix A).

The definition implies that contracts under IFRS 15 must be underpinned by law (BC31). This is one of the factors explaining the existence of several definitions of the term «contract» in the IFRS literature. For instance, a contract under *IAS 32 Financial instruments* also includes elements which are not enforceable by law.

1.3.1.2. Contracts combinations and modifications

Contracts are often combined with each other. Their scope or price can also be modified after renegociations between sellers and customers. Due to the new requirements of IFRS 15, entities might have to adapt their current practices in terms of contract combinations or modifications.

a. Combinations

Currently, IAS 18 does not state anything regarding as to when contracts must be combined.
On the other hand, IFRS 15 introduces criteria[7] that entities will have to apply to their contracts automatically. Contracts meeting those criteria will ultimately be combined even though they are not under IAS 18.

b. Modifications

Contract modifications, whether in scope or in price are a common practice in the business world. However, IAS 18 does not contain much guidance about them (if any).
IFRS 15 not only defines contract modifications[8] but also explains how entities should account for them.

Deloitte (2014) sums up the process expressed in the official IFRS 15 text this way:

- Case 1. The new performance obligations are distinct and *sold at their stand-alone selling prices*: the new performance obligations create a **new contract**.
- If the new performance obligations are not sold at their stand-alone selling price, remaining performance obligations (new and not yet performed ones) are evaluated.
  - ❖ Case 2. The remaining performance obligations are distinct from the already-performed ones: a new contract is created with all the remaining performance obligations (prospective accounting).

[7] See IFRS 15.17 for more details about the criteria.
[8] A change in scope and/or price in the orignial contract, creating new or adapting existing enforceable rights and obligations, which has been approved by the respective parties to the contract (IFRS 15.18).

- Case 3. The remaining performance obligations are not distinct from the already-performed ones: the new performance obligations are added to the itinial contract. Afterwards, the entity updates its measure of progress, by taking account of the new components (retrospective accounting).

According to EY (2014), contract modifications represent a significant challenge for entities as there was no related guidance previously. Identifying the nature of the remaining goods (distinct or not) will be a key element because of the diversity of the accouting treatments. This is even more true for entities often entering multiple-elements transactions.

1.3.2. Step 2 : Identification and separation of the performance obligations in the contract

The second step consists in identifying the different goods and services forming the contract. Those are usually explicitly stated in the contract, but may also be implied by customary business practices (IFRS 15.24).

IFRS 15 requires entities to consider as separate performance obligations, distinct goods or services (IFRS 15.22). Goods or services are distinct when they are profitable to the customer on their own, or with readily available resources (IFRS 15.27). In addition, goods and services are only recognized as distinct if doing so depicts the entity's performance in that contract (BC102). This means that similar goods/services may be distinct in a contract but not in another («distinct within the context of the contract», see IFRS 15.27 b).

IFRS also states that distinct performance obligations satisfied over time that would be «substantially similar» and have «the same patterns of transfer» could be recognized as a single performance obligation satisfied over time (IFRS 15.22).

Finally, good or services that cannot be distinct on their own are combined with each other up to the point their combination meets the criteria of a separate performance obligation[9].

Splitting contracts into separate performance obligations is one of the biggest changes of IFRS 15. Previously, IAS 18 only stated that transactions should be broken down in certain circumstances, to reflect the nature of the transaction better (IAS 18.13). However, as stated by in the Basis for Conclusions (BC470), there was no indication as to how to separate those elements. IFRS 15 is thus way more prescriptive on this matter.

[9] In this paper, separate performance obligations and distinct performance obligations refer to the same concept.

Yet, the IASB noted that some entities already use processes to break contracts down, which correspond to the requirements of IFRS 15. Therefore, the distinction of performance obligations would not result in significant hurdles to overcome for those entities (BC472).

1.3.3. Step 3 : Determination of the transaction price

1.3.3.1. The transaction price

The third step of the model consists in assessing the transaction price that will be allocated to a contract. IFRS 15 defines the transaction price as «the amount of consideration an entity expects to be entitled to in exchange for transferring the promised goods or services, excluding amounts collected on behalf of a third party» (IFRS 15 Appendix A).
The transaction price is only assessed in the current conditions of the related contract. Therefore, future orders for additionnal goods or services (and their related consequences) do not come into play during the assessment phase.

According to Allocco et al. (2014), measuring the transaction price might, in some cases, result in a difficult task for entities. Indeed, the price in a contract might be influenced by:

- variable considerations,
- significant financing components,
- non-cash considerations[10], or
- considerations payable to customers[11].

As this paper aims to be a general introduction to IFRS 15, only variable considerations and significant financing components will be examined. The literature, whether it is the IASB or the Big Four publications tend to give more attention to these two matters while explaining the assessement of contract transaction prices.

1.3.3.2. Variable consideration

Rebates and performance bonuses are usual examples of variable consideration.
Under IAS 18, revenue is only recognised when «it is probable that the economic benefits associated with the transaction will flow to the entity» (IAS 18.18 & IAS18.22). The same

[10] See IFRS 15.66-69 for the treatment of non-cash consideration.
[11] See IFRS 15.70-72 for the treatment of consideration payable to a customer.

applies to variable considerations. Furthermore, revenue, fixed or variable, should be reliably measurable to be recognized (IAS 18.14).

Under IFRS 15, variable consideration will have to be estimated[12]. Then, entities will include it in the transaction price only if «it is highly probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved[13]» (IFRS 15.56).

Variable revenue is actually expected to be recognized earlier under IFRS 15 than under IAS 18. Currently, recognition of variable consideration is regurarly deferred until the related uncertainty is totally removed or until payment from the customer is recieved. Indeed, revenue becomes reliably measurable at this time. Under IFRS 15, variable consideration does not need to be reliably measured to be recognized, since its estimation is sufficient. Furthermore, (part of) the variable consideration can be included in the transaction price even though the related uncertainty is **NOT FULLY** removed. Therefore, revenue is likely to be recognized earlier under IFRS 15 than under current IAS 18.

When assessing variable consideration at contract inception, entities are expected to use all their available information. Certain amounts might become variable consideration while they were considered fixed amounts under IAS 18 (Allocco et al., 2014). Entities will thus assess significantly each of their contracts to determine if a modification in their accounting is necessary (Deloitte, 2014). However, as IAS 18 was not providing any guidance on how to specifically account for variable amounts, entities may have already developped different practices in line with IFRS 15.

1.3.3.3. Significant financing component

A contract is said to contain a financing component when the respective timings of the payment and the corresponding transfer of goods and services do not match with each other.

In the case of payments in advance, entities are provided financing. If a payment in arrears is scheduled, entities are providing financing to their customer(s) (EY, 2014).

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[12] The estimation of variable consideration will be compulsory. The proposed estimation methods are the expected value (for a large number of possibilities) or the most likely amount (when the number of possible outcomes is limited to two or three). See IFRS 15.53-54 for further details.

[13] This is called the constraint on variable consideration.

Should they be significant to a contract, financing components will work for adjustments[14] in the promised amount of consideration, to reflect the price a customer would pay at the time of transfer of the goods or services (IFRS 15.61). The identified financing components would be accounted for as interest expenses or interest revenues[15] and presented separately from revenue from contracts with customers (IFRS 15.65).

The aim of the IASB by taking account of significant financing components is to correctly represent related revenue. (BC229). Therefore, it also acknowledged that not all financing components would materially affect the amount of revenue recognized (BC234). Those financing components are said to be insignificant and do not work for adjustments in the transaction price. Furthermore, entities do not need to adjust transaction prices for significant financing components if the period between the transfer and the payment does not exceed a year (IFRS 15.63).
This practical expedient will reduce the number of contracts to be adjusted for time value of money compared to IAS 18. Indeed, entities have currently to treat differences between nominal amounts and faire value of considerations, in any circumstances (see IAS 18.11).

1.3.4. Step 4 : Allocation of the transaction price to the performance obligations

1.3.4.1. The relative stand-alone selling prices method

Once the transaction price has been determined, it must be allocated between the different distinct performance obligations identified during the second step.
To do so, entities will use what is called the relative stand-alone selling prices method (IFRS 15.75). Entities will first determine the different stand-alone selling prices[16] of the identified separate performance obligations.

Afterwards, the stand-alone selling prices will be summed altogether. Each distinct performance obligations will then be allocated a part of the transaction price, based on the percentage of its respective stand-alone selling price in this particular sum.

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[14] Transaction prices shall be adjusted by a discount rate that would be used in a separate financing transaction between the entity and its customers at the start of the contract (IFRS 15.64)

[15] Interest expenses would be recognized for a payment in advance and interest revenues for a payment in arrears.

[16] The stand-alone selling prices are the prices a customer would pay for a promised good or a service if it was sold separately to him (IFRS 15 Appendix A). Those are either directly observable or have to be estimated (see IFRS 15.78-79).

1.3.4.2. Allocation of variable consideration

The allocation of variable consideration is an exception to the relative stand-alone selling price method as it might only be related to a specific part of a contract (IFRS 15.84). In other words, entities do not not always need to allocate a variable element to all distinct performance obligations in a contract if it only relates to some of them. In some circumstances[17], variable consideration may even relate to a single performance obligation.

1.3.4.3. Reaction towards this new method of allocation

EY does not see these new requirements so differently as the relative faire value approach of IAS 18 (2014). However, it expects entities to face difficulties for contracts containing variable consideration. Deloitte (2014) even goes further: entities entering an important number of different contracts will face important hurdles, as calculation and allocation of revenue can differ for every single contract.

This point is underpinned by the reactions the IASB received regarding the method. In its Basis for Conclusions, the IASB admitted having received complains from entities, explaining that the stand-alone selling prices allocation method might be complex to apply and not helpful to their financial users (BC287-288).

1.3.5. Step 5 : Recognition of the revenue when the performance obligations are satisfied

1.3.5.1. The notion of control

The last step consits of recognizing revenue in the entity accounts. IFRS 15 expresses that entities will recognize revenue «when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer». Goods and services are considered to be transeferred to a customer when he gets control[18] of the related assets (IFRS 15.31).

Under current guidance, revenue is only recognized when risks and rewards have all been transeferred to the buyer (IAS 18.14 a). That is why Allocco et al. (2014) consider that the timing of revenue recognition is likely to change, as IFRS 15 and IAS 18 recognition models focus on different notions. For example, a customer might get control of an asset while the selling entity is still carrying risks related to the transfer of this asset. In that case, revenue would be recognized before the transfer under IFRS 15 and after the transfer under IAS 18.

[17] See IFRS 15.85 for details as to when variable consideration relates to a single performance obligation.

[18] Under IFRS 15, control is the “ability to direct the use of, and obtain substantially all of the benefits from, an asset (IFRS 15.33).

In its Basis for Conclusions, the IASB explains the decision to focus on control due to the fact that it would ease the identification of distinct performance obligations and lead to more consistent decisions on the transfer of goods and services (BC118). The assessement of revenue recognition would also be more objective if based on the the notion of control (BC 465). Besides, this decision was approved by many respondents to the 2010 and 2011 Exposure Drafts (BC119).

1.3.5.2. When is control transferred?

Deloitte describes the method of recognition of IFRS 15 as really different from the current requirements (2014). IAS 18 contains different rules for revenue recognition whether the contract is about selling goods or rendering services.

IFRS 15, for its part, does not make a distinction between goods and services. The recognition model only distinguishes between (IFRS 15.32):

- Performance obligation satisfied (control transferred) over time. In this case, revenue is progressively recognized following the pace of the transfer to the customer.
- Performance obligation satisfied (control transferred) at a point in time. The customer gets control of the good or service at a given time and revenue is entirely recognized at one go.

Entities will first assess if revenue should be recognized over time (IFRS 15.38).
Under IFRS 15, a performance obligation is satisified, and thus revenue recognized, over time if at least one of the following criteria is met (IFRS 15.35):

- While the entity is performing, benefits resutling from this (these) particular performance(s) are simultaneously received and consumed by the customer.
- As the entity performs, an asset is being created or enhanced and the customer gets control of this asset as the creation or the enhancement is progressing.
- The asset created by the entity's performance has no alternative use for the entity. Moreover, the entity benefits from an «enforceable right» to payment for performances already completed.

If a performance obligation does not satisfy any of these criteria, related revenue is then recognized at a point in time.

Deloitte mentioned that, depending on facts and circumstances, performance obligations previously satisfied over time might very well be satisfied at a point in time under the new guidance, and conversely (2014).

1.4. Contract costs

The official text of IFRS 15 describes what treatment entities are required to give to obtention and fulfillment costs of contracts.
According to Allocco et al. (2014), contract costs under IFRS 15 would be capitalized more often than under IAS 18. The capitalized costs would then be amortised at a rate that depicts «the transfer to the customer of the goods/services » to which they relate (IFRS 15.99).

1.4.1. Obtention costs

They will be recognized as an asset to the extent of being *expected to be recovered* and *incremental* to the contract[19] (IFRS 15.91). Incremental costs correspond to costs only incurred because of the obtention of a contract, such as a sales commission (IFRS 15. 92).
EY (2014) and KPMG (2014) agree to say that these new requirements might be challenging for companies. Companies currently expensing obtention costs might find it difficult to captitalize them under IFRS 15. The same reasoning applies to entities currently capitalizing obtention costs that are not incremental under IFRS 15 requirements.

It is interesting to mention that the IASB initally considers every obtention cost to be recognized as an expense. However, many respondents to both Exposure Drafts claimed that obtention costs might meet the definition of an asset. Furthermore, the IASB noted that other standards require the inclusion of obtention costs in the carrying amount of an initially recognized asset. At the same time, recognizing all obtention costs as expenses would have been inconsistent with the IASB projects on leases and insurance contracts (BC 298 & 299).

[19] The incremental costs of obtaining a contract can be expensed as incurred when the asset, which should be recognized for those costs, would be amortized in one year or less (IFRS 15.94).

1.4.2. Fulfillment costs

Assuming that the fulfillment costs do not fall in the scope of any other standards, an asset will be recognized to the extent that all of the following criteria are satisfied (IFRS 15.95):

- There is a direct relationship between the costs and a specifically identifiable contract, current or anticipated.
- Resources are generated or enhanced thanks to those costs. Furthermore, enitites will use those resources to satisfy future performance obligations.
- Entities expect to recover those costs.

For instance, direct labour and materials could be capitalized under IFRS 15 (IFRS 15.97) while general and administrative expenses would always be expensed when incurred (IFRS 15.98).

The IASB stated in the Basis for Conclusions that these cost requirements aim, amongst others, to improve current practice, regarded as too diversified (BC305). Nevertheless, KPMG stated in its «First Impressions: Revenue from contracts with customers» (2014) that entities might have some difficulty understanding some of the fulfillment cost requirements.

1.5. Disclosures

It was important for the IASB that revenue disclosures pursued a clear and specific objective (BC330). Indeed, in its «Project Summary and Feedback Statement» (2014), the IASB mentioned that revenue disclosures under current IFRS were often inadequate and cohesion-lacking with other items disclosures.

Therefore, IFRS 15 was issued with the objective of enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, by disclosing sufficient information (IFRS 15.110). Those requirements should, in addition, allow users to take better economic decisions (BC484) as they would improve comparisons across entities, industries and periods (BC483).

Therefore, entities are now required to publish quantitative and qualitative information about:

- Their contracts with customers.

- The significant judgements[20] made in applying the standards.
- The assets related to the costs of obtaining and fulfilling a contract with a customer.

These new requirements are much more significant than current ones[21]. They could therefore lead to the implementation of new processes and systems to capture information that was not previously needed for financial reporting purposes (Allocco et al., 2014).

1.6. The transition to IFRS 15

Each company required to publish figures under IFRS will have to adapt its P/L and balance sheet (BS) to the new requirements of IFRS 15.
Once entities have set their initial application date, they will apply the standard by means of one of these two methods (IFRS 15 Appendix C 3)

- The Full Retrospective Method
- The Cumulative Effect Method

1.6.1. The Full Retrospective Method

This method was originally the lone proposed in the 2010 and 2011 Exposure Drafts, as both the IASB and users of financial statements believed it to be the best for providing comparable information across comparative periods (BC435).

If choosing for this transition method, entities will select a number of periods, prior to the period of initial application, which they will apply IFRS 15 to (KPMG 2014). Therefore, figures under IFRS 15 and current guidance will exist for the selected periods, enabling comparisons and illustrating differences between IFRS 15 and current revenue standards.

The IASB also implemented three practical expedients[22] entities can use to ease their transition to IFRS 15, assuming the Full Retrospective Method is chosen. Those expedients were introduced because of entities' feedback in which they claimed the Full Retropsective Method was too bundersome (BC 436).

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[20] By significant judgements, IFRS 15 refers to the timing of satisfaction of performance obligations and the determination and allocation of the transaction price.
[21] See IAS 18.35 for the details of the disclosure requirements under current revenue recognition model.
[22] See IFRS 15 for a despcription of the three practical expedients available for entities choosing the Full Retrospective Method.

1.6.2. The Cumulative Effect Method

Preparers and auditors notified the IASB that the practical expedients would not reduce much of the burden represented by the Full Retrospective Method. That is why, in accordance with both users and preparers of the financial statements, the Cumulative Effect Method was created (BC 440).

The effect of initially applying IFRS 15 will be shown by an adjustment of the retained earnings at the date of initial application. There will be no adjustments for prior comparative periods presented. Furthermore, this method will only be applied to non-completed contracts at the date of intitial application (IFRS 15 Appendix C 5).

However, as this method does not really enable comparisons, the IASB requires entities to disclose «the amount by which each financial statements line item is affected following the use of IFRS 15» and «an explanation of the reasons for those those significant changes» (IFRS 15 BC 442).

1.6.3. Choice of the transition method

At first sight, it might appear easier to implement the Cumulative Effect Method than the Full Retrospective Method (BDO, 2014), less work being required. It would thus be tempting for entities to go for the Cumulative Effect Method without further reflexion.

However, the Full Retrospective Method provides «stronger trend information» that might be more attractive to investors (Allocco et al., 2014). Furthermore, EY (2014) estimates that applying the Cumulative Effect Method might not be as easy as it seems in certain circumstances. For instance, distinct performance obligations under IFRS 15 are different from the elements/deliverables under IAS 18 and adjusting opening equity at the date of intitial application my need significant judgement and research.

There is no straight-forward solution while choosing the transition method, as it depends on each entity facts and circumstances. Nonetheless, KPMG (2014) states that the Full Retropsective Method would suit entities expecting significant changes in their revenue accounting and willing to present comparable trend inofrmation, while the Cumulative Effect Method is suitable for entities expecting a limited impact from IFRS 15.

CHAPTER 2: A SECTORIAL APPROACH OF IFRS 15

Since it targets revenue, each entity applying IFRS for reporting purposes will be affected by IFRS 15. Yet, each entity is likely to be differently impacted according to its particular circumstances. This last point is particularly emphasized in the literature as, in addition to general publications, many sectorial publications can be found.

The following sections will therefore present the main particularities[23] of IFRS 15 for entities of the four following sectors: telecommunications, construction, aerospace and life sciences – pharmaceuticals.

2.1. Telecommunications

In McConnell's mind (2014), telecommunications will be one of the industries that is likely to be particularly affected by IFRS 15. Several paragraphs from the Basis for Conclusions[24] also explain that the IASB paid particular attention to the feedback received from entities of this industry. It explained that their concerns were taken seriously when elaborating the final version of IFRS 15.

2.1.1. Identification of performance obligations

Sales of service packages often take place in the telecommunications industry. Handsets and monthly services are indeed often included within the same contract. Should they meet the definition of distinct[25], they would be accounted for as separate performance obligations. However, entities, despite a related limited guidance, are already distinguishing between handsets and services under IAS 18 (Barrett et al., 2015).

2.1.1.1. Non-refundable upfront fees

Those fees, such as activation fees, are often required by companies. Under IFRS 15, entities will have to assess if those fees provide goods or services to the customers. It is possible to imagine an entity charging an activation fee for laying a physical line to the customer's premises, in a contract including a handset and monthly services. If the customer can still use

[23] This chapter does not intend to be exhaustive and present every aspects of each sector. Furthermore, elements of IFRS 15 presented in the first chapter will not be repeated if nothing specific could be added compared to their previously devoted section.
[24] See Basis for Conclusions 287-293, 457 and 473-476.
[25] See Chapter 1, section 1.3.2.

the line when changing his telecommunications provider, the line represents a distinct service. The related activation fee will therefore be accounted for as a separate performance obligation (Barret et al., 2015). If the upfront fee does not represent a distinct performance obligation, it is included in the transaction price and allocated between the handset and the monthly services plan (EY, 2015).

Furthermore, the recognition period from upfront fees might differ between IFRS 15 and IAS 18. Under IAS 18, upfront fees are usually recognized over the initial contract period while they might be recognized over a longer period of time under IFRS 15. If a contract is renewable and provides a material right[26] to a customer, part of the upfront fee will be recognized over the renewed period (KPMG, 2014).

2.1.1.2. Customer options to acquire additional goods or services

Under IAS 18, options granted to customers to acquire additional discounted goods are always accounted for separately from the rest of the transaction (Barrett et al., 2014). Consideration is thus spread between initial goods/services and the option. Under IFRS 15, those options are only accounted for as a separate performance obligation to the extent they provide a material right to customers (IFRS 15 B40). In this case, part of the transaction price is allocated to the options based on their stand-alone selling price. Yet, according to EY (2015), options granted by telecommunications entities are usually not providing this kind of rights[27] to customers.

Due to their important range of offers, telecommunication entities are thus expected to have to spend a significant amount of time analyzing how to divide their contracts into distinct performance obligations.

2.1.2. Allocation of the transaction price and revenue recognition

The allocation of the transaction price might be the most impacted matter by the creation of IFRS 15 for telecommunications entities.

Under IAS 18, revenue recognized for an item is almost always limited to the amount billed to the customer for that particular item (Deloitte, 2014). In fact, telecommunications entities

[26] A material right is a right that a customer recieved because he entered a contract (IFRS 15 B40). An example of material right is a discount a customer gets for byuing additional goods, higher than the usual range of discounts for those particular goods.

[27] «Options in the telecommunication industry are usually priced at their stand-alone selling price» (EY, 2015). Telecommunications entities do not offer any discounts and, therefore, options do not stand for a material right.

are using a contingent revenue cap method. Revenue recognized for an item is limited to the amount that was not related to the other items of the contracts (Barrett et al., 2014). As an example, no revenue was recognized on a handset sold for free part of a contract with monthly services.

This practice will change under IFRS 15. According to the new model, a handset, even discounted or sold for free, represents a separate performance obligation. A part of the total transaction price will thus be allocated to the handset based on its stand-alone selling price (Barrett et al., 2014).
This will have several consequences on the profile of the recognized revenue. Under IFRS 15, the link existing between revenue and billed amounts, present under IAS 18, will be broken. Revenue recognized for an item will always be based on its stand-alone selling price regardless of its actual price in the contract. Therefore, more revenue shall be recognized at the start of the contract, when the handset is delivered, while less revenue will be as the contract keeps going, when the monthly services are provided (BDO, 2014). For instance, revenue related to a handset sold for free will be recognized at contract inception, when the customer gets control of it, even though the customer has not made any payment yet.

2.1.3. Contract modifications

It is quite usual for customers to request changes to their service plans, such as additional data or additional minuts, leading to modifications of the original contract.
Under current IFRS, contract modifications are usually seen as new contracts, which entities account for prospectively (Barrett et al., 2014). EY believes that most contract modifications will also meet the criteria to be accounted for prospectively[28] under IFRS 15 (2015) but entities should not take this reasoning as granted. In any case, changes in the Information Technology (IT) system and the accouting practices are likely to be needed because of the important frequency of contract modifications and the huge range of potential offerings.

[28] See cases 1 and 2 in the section 1.3.1.2 of Chapter contract modifications. The choice between case 1 and case 2 will depend on the particular circumstances of the contract and its modificiations.

2.2. Construction

The construction sector is also interesting to consider when analyzing IFRS 15. Indeed, construction contracts had their own dedicated standard: *IAS 11 Construction Contracts*. This section will thus mainly analyze how IFRS 15 differs from currently applied IAS 11.

2.2.1. Contract combinations and modifications

IAS 11 and IFRS 15 are providing guidance on when and how contracts should be combined or modified[29]. The purpose of this section is thus to compare their respective requirements.

2.2.1.1. Contracts combinations

Even if the requirements are not exactly similar, they seem to be alike. They both emphasize that the different contracts should form a single project (IAS 11.9) or performance obligation (IFRS 15.17). Contracts are negotiated «as a single package» (IAS 11.9) or «with a single commercial objective» (IFRS 15.17). Therefore, as Dodyck et al. (2014) concluded, contract combinations will probably not be a significant source of changes for construction entities.

2.2.1.2. Contract modifications

According to KPMG (2014), variations and claims will meet the conditions for a retrospective accounting[30] under IFRS 15 as traditional claims and variations in the construction sector do not add distinct performance obligations. A retrospective accounting would be relatively similar to IAS 11 requirements. That is why the accoutning treatment is expected to remain mainly unchanged.

However, modifications in the scope happen to be approved while modifications in the price can be, at first, refused. IAS 11 does not provide any guidance for these unpriced modifications (Dodyck et al., 2014), which led to an important diversity of practices. IFRS 15, on the other hand, prescribes the use of variable consideration requirements in such cases (KPMG, 2014). Dodyck et al. (2014) do not think the treatment of unpriced modifications will significantly change under the new guidance though.

Finally, IFRS 15 may work for a delayed recognition in revenue as contract modifications are only included when approved under IFRS 15 (IFRS 15.18) while a probability of approval is sufficient under IAS 11 (IAS 11.13).

[29] See IAS 11.9 for contract combinations and 13 to 15 for contract modifications.
[30] Case 3 of contract modifications in section 1.3.1.2 of Chapter 1.

2.2.2. Multiple performance-obligations

Construction entities often enter mutliple-elements contracts with their customers. IAS 11.8 introduced criteria determining as when contracts have to be divided into their different components. However, as KPMG stated it (2014), construction accounting is often done at the contract level, contract components being usually highly inter-related (components might therefore not even have an observable stand-alone selling price). Dodyck et al. (2014) explain that this accounting at contract level could still be relevant under IFRS 15. Entities will still have to assess each contract to determine which performance obligations meet the criteria to be distinct, which will require significant work.

For example, a contract can provide developing and building services. Those services can be distinct in some contracts, while constituting a single performance obligation in others, depending on the contract terms and circumstances (Deloitte, 2014).

2.2.3. Variable consideration

Awards and incentive payments are common variable elements in the construction industry, capable of impacting the amount of recognized revenue.

Today, variable consideration is included in contract revenue if «it can be reliably measured» and if « it will probably result in revenue» (IAS 11.11). As already mentioned in the first chapter, variable revenue is recognized if it is highly probable that it will not reverse under IFRS 15. Furthermore, estimation methods are provided (IFRS 15.53), meaning that variable revenue does not need to be reliably measured.

This last point is particularly important as it may lead to an early recognition of a part of the variable revenue (Allocco et al., 2014). Indeed, variable consideration, probable to result in revenue, would not be recognized as revenue under IAS 11 if it had not been reliably measured. Under IFRS 15, should the certainty level be reached, this variable revenue would be recognized regardless of it being reliably measurable.

However, later recognition is also a possibility as *highly probable* under IFRS 15 is a higher hurdle compared to *probable* under IAS 11 (KPMG, 2014).

2.2.4. Timing of revenue recognition

According to IAS 11.22, revenue for construction contracts is always recognized over time. Even though revenue will probably still be recognized over time under IFRS 15, this treatment will not be automatic.

Should the criteria for a progressive recognition not be met (see Chapter 1 section 1.3.5.2), revenue will be recognized at a point in time. Dodyck et al. (2014) and KPMG (2014) agree that there might not be much change for entities compared to current practice. Yet, entities will still be entitled to assess their contracts against the new criteria of IFRS 15.
The reasoning *what automatically applies for IAS 11 will also systematically apply to IFRS 15* will therefore not be authorised.

2.2.5. Contract Costs

Under IAS 11, contract costs are capitalized to the extent entities will probably recover them (IAS 11.34) while IFRS 15 enables contract costs capitalization if those are expected to be recovered (IFRS 15.91 & 96 (c)). From KPMG's point of view (2014), *probable* and *expected to be recovered* represent two similar notions for entities.
Nevertheless, differences in scope exists between IAS 11 and IFRS 15 regarding contract costs.
Under IAS 11, obtention costs do not need to be incremental to be capitalized, which is the case under IFRS 15. As a result, the range of capitalizable costs will be reduced under the new revenue recognition model.
Fulfillment costs requirements are also different under IAS 11 and IFRS 15. IAS 11.18 allows costs related to contract activites in general to be considered capitalizable costs. On the other hand, IFRS 15 states that fulfillment costs must «directly relate to a specific contract» (IFRS 15.95 (a)). Again, the new standard seems to reduce the variety of capitalizable costs[31], even though this is subject to the respective assessment of entities.

2.2.6. Other considerations

2.2.6.1. Time value of money

IAS 11 does not give any guidance regarding the time value of money[32]. The requirements of IFRS 15 shall force construction entities to check whether or not their long-term contracts (with shifted payments) contain significant financing components. As a result, the accounting practices of construction entities might have to be modified (EY, 2015).

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[31] In Chapter 1, section 1.4, it was mentioned that more costs would be capitalized due to the new requirements of IFRS 15. This seems to be the opposite in the construction industry.
[32] Construction entities are thus using IAS 18 to take the time value of money into account.

2.2.6.2. Methods for recognizing revenue over time

Recognizing revenue over time is not going to change much considering both standards allow the same kinds of methods for measuring progress (e.g. survey of work performed). However, the method chosen under IFRS 15 will have to «appropriately depict the entity's performance(s)» (IFRS 15.39), which is not compulsory under IAS 11 (KPMG, 2014). Therefore, methods might still be subject to change, with revenue acceleration or deferral as a result.

2.3. Aerospace

We selected the aerospace industry as a section of our empirical part is directly related to Techspace Aero, a company active in that area. Furthermore, contracts for aerospace companies often cover multiple years, with a complexe structure (Coleman et al., 2014), which also justifies our choice to present this sector.

2.3.1. Contract Combinations – Modifications

KPMG (2012) as well as Deloitte (2015) regard those two operations as matters aerospace entities should pay close attention to.

2.3.1.1. Contract combinations

As mentioned in the first chapter, there were no clear requirements under IAS 18, as when contracts should be combined. Yet, entities in the Aerospace industry often enter separate contracts with a single customer (Deloitte, 2015). This is why IFRS 15 and its specific guidance over contract combinations might work for changes compared to current processes (KPMG, 2012). Contract combinations are indeed compulsory under IFRS 15, should criteria be satisfied. Entities must thus be able to assess when their contracts are in the scope of the combination criteria.

2.3.1.2. Contract modifications

Aerospace entities' customers often request changes in contract specifications or requirements (Coleman et al., 2014). According to those authors, contract modifications are not going to be a massive change for aerospace entities, against current practice. On the other hand, Deloitte (2014) explained that the accounting for (un)approved change and claims, under IAS 18, is likely to vary with IFRS 15. Indeed, entities, before recognizing any revenue, will have to determine which accounting treatment to give to the modification, while they almost systematically use a prospective accoutning, regardless of the nature of the modification, under current guidance (KPMG, 2012).

2.3.2. Separate Performance Obligations

Dividing a contract into distinct performance obligations might be a difficult task for aerospace companies due to the complex substance of their contracts (Coleman et al., 2014).

2.3.2.1. Bundle of multiple performance obligations

Aerospace contracts often include goods and services integrated into a bundle (Deloitte, 2015). The challenge, under IFRS 15, will be to determine which components of the bundle are distinct performance obligations and which are not. For example, design and production services within a same contract might represent distinct performance obligations in particular circumstances, and form a single performance obligation in others (Coleman et al., 2014).

2.3.2.2. Distinct goods or services substantially similar

On the other hand, aerospace contracts may contain a significant number of similar items (Deloitte, 2015). Under specific conditions (see IFRS 15.22 & 23), those items must be accounted for as a single performance obligation satisifed over time, rather than as multiple performance obligations satisfied over time. Entities must thus ensure the suitable treatment is applied to those performance obligations.

2.3.3. Variable Consideration

Variable elements, in the form of performance bonuses for instance, are often included in the aerospace contracts (KPMG, 2012). As already mentioned[33], some entities might have to perform significant adjustments to adapt their accounting policies to the new requirements. (Deloitte, 2015). Conversely, others entities may not need to change anything, their policies being already appropriate.

Coleman et al. (2014) expected many aerospace contracts not to be significantly impacted by the new requirements for variable consideration. However, entities still have to assess the terms of all their contracts. The treatment might indeed be different for each of them, because of their respective particular structure and conditions.

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[33] See section 1.3.3.2 of Chapter 1.

2.3.4. Long-term maintenance contracts

Long-term maintenance services are a common practice in the aerospace industry (Coleman et al., 2014) and are usually accounted for as separate deliverables under IAS 18. Nevertheless, entities will have to assess whether or not their maintenance service can be considered spearate performance obligations under IFRS 15 (Deloitte, 2015). Furthermore, entities will have to determine whether maintenance services consist of a single performance obligation satisfied over time or several performance obligations satisfied at the time of when maintenance is provided (Coleman et al., 2014).

In addition, there is often a timing difference between the respective timings of payment and performance in this type of contract. For example, consideration might be monthly billed/paid to the customer on basis of product usage or aircraft flight hours, while maintenance services are provided when problems actually occur. Under IFRS 15, revenue is likely to be recognized when maintenance is provided while it is usually recognized at the time of the billing under IAS 18. Furthermore, the mentioned timing differences might lead to the existence of a signifianct financing component. If so, adjustments will be needed to reflect the time value of money (Coleman et al., 2014).

2.3.5. Contract costs

Long-term maintenance services are often part of contracts including a loss leader. This is a common practice in the aerospace industry: a core product is sold at loss because entities expect related revenue streams to be generated, such as maintenance services, in the future. The costs of the initial loss are sometimes capitalized under IAS 18 as a cost of obtaining a customer, but are unlikely to meet the needed criteria for capitalization under IFRS 15[34] (Deloitte, 2015).

Other typical costs of the industry are the «learning-curve» costs. Coleman et al. (2014) and Deloitte (2015) agree that, assuming they do not fall in the scope of another IFRS standard, those costs meet the conditions for capitalization. However, proving the link between them and future performance obligations shall be a difficult task for entities. Should the mentioned link not be proved, those costs would be expensed as incurred.

[34] Deloitte (2015) considers that a loss generated on a sale of a core product, assuming that this core product is a distinct performance obligation, will not be capitalized because it would simply result from the costs of sales.

Authors agree that the treatment of contract costs of aerospace companies might be impacted by the contract costs requirements of IFRS 15. Those may indeed lead to fewer costs being capitalized and therefore less amortization[35] (Coleman et al., 2014 & Deloitte, 2015).

2.4. Life Sciences – Pharmaceutical

The life sciences industry is a really specific field, with many specific transactions. *IFRS 15 Revenue from Contracts with Customers* might thus stand for significant challenges for the entities being part of this sector. This is why it was chosen as one of the sectors to be highlighted in the present section.

2.4.1. Collaborative Arrangements

Particular contracts are excluded from the scope of IFRS 15 (such as lease agreements or insurance contracts). On this note, assessing what contracts should be treated in accordance with IFRS 15 might be critical for life sciences entities.
Indeed, IFRS 15 is only applicable for contracts entered with customers (IFRS 15.5). In the life sciences industry, it is common for entities to enter collaborative agreements[36], in which risks and benefits are shared by the different parties (Barsanti et al., 2014). Such agreements are likely not to constitute a vendor-customer arrangement.
As explained by Watchman (2014), a party is a customer if they received goods or services, resulting from the ordinary activities of the entity. This is rarely the case in a collaboration.

However, despite the fact that most arrangements will likely be excluded from IFRS 15, entities cannot take this statement as granted. Some arrangements might be partially in the scope of IFRS 15 and the separation guidance will have to be applied (Barsanti et al., 2014). Furthermore, mutliple parties can be involved in the collaboration. EY (2015) sees this as a potential hurdle for entities. Indeed, it is difficult to determine who the customer is in such cases, even more since the standard does not provide any help on this point.
Assessment of collaborative arrangements might thus not be as straightforward as it initially looks.

[35] In Chapter 1, section 1.4, it was mentioned that more costs would be capitalized due to the new requirements of IFRS 15. This seems to be the opposite for the aerospace industry.
[36] It is common for two separate entities to share their resources and develop together a new drug.

2.4.2. Licences of Intellectual Property

Licences of IP are frequently included in life sicences entities' contracts.
The first step for entities would be to determine if those licences represent distinct performance obligations. Licences are, for instance, often combined with R&D services. Entities will thus need to evaluate whether or not the licenses are distinct from those R&D. As usual, the particular circumstances of a contract will play a major role in this assessement (Deloitte, 2014).

In the case of a distinct license, entities will next be required to determine its pattern. IFRS 15 distinguishes between a licence granting a right to use[37] the IP and those granting a right to access[38] the IP (IFRS 15 B56). Assuming certain criteria are met[39], the licence grants a right to access and revenue is recognized over the period of access. Otherwise, the licence provides a right to use and revenue is recognized at once, at the time of the granting.
The only exceptions are sale-based or usage-based royalties arising from licenses of IP, where revenue is recognized «when the later of the following events occurs» (IFRS 15 B 63):

- the relevant sales or usage and;
- the satisfaction of the related performance obligations.

Barsanti et al. (2014) expect entities to devote a significant amount of time in assessing how to account for licenses.

2.4.3. Milestone Payments

Variable elements are common in the health sciences contracts. This sub-section will focus on milestone payments as they are more specific to the industry rather than on usual discounts or rebates.

The milestone payments are made by customers when specific steps are taken in a project. Under current revenue model, entities recognize milestone payments as income «when they are probable receivables, under the terms of the contract» (Barsanti et al., 2014).

[37] A right to use an IP grants a customer to use a licence as it exists at the time of the granting. Therefore, the licensee can not benefit from novelties brought to the IP by the licensor before the granting (IFRS 15 B56).
[38] A right to access an IP consists in using the IP as «it exists» throughout the licence period. The licensee can therefore benefit from all the changes brought to the IP by the licensor during its period of access (IFRS 15 B56).
[39] See IFRS 15 B58.

However, the new revenue recognition method may complicate the treatment of the milestone payments (Deloitte, 2014).

Under IFRS 15, entities will have to estimate milestone payments based on the variable consideration requirements. Milestone payments will be included in the transaction price only to the extent that it is highly probable that revenue will not significantly reverse when the related uncertainty is removed (IFRS 15.56).

This means that entities with established experience on achieving a milestone for similar contracts without a significant revenue reversal can include milestone payments in the transaction price. They would then be able to recognize revenue before the actual achievement of the milestone. Indeed, part of the milestone payment can be recognized as revenue as the related performance obligation is being satisfied, while entities have to wait for the completion of the milestone before recognizing related revenue under current IFRS.

Nonetheless, determining whether a significant revenue reversal would happen or not might be a complicated task for entities. Attrition rates[40] are indeed really high in that industry (Deloitte, 2014). Products often go through several evaluation stages before being commercialized and might fail in the process at some point. Therefore, entities will have to be really careful when assessing if milestone payments can be part of the transaction price.

2.4.4. Reseller and distributor arrangements

It is common for life sciences to sell their products through distributors or resellers. Under IAS 18, entities recognize revenue arising from this kind of transactions when distributors or resellers sell the products to the end-customers, all the risks and rewards of ownership having been transferred (EY, 2014). This process is called the sell-through approach and is used by life sicences entities for different reasons.

First of all, when selling through a distributor, entities are still carrying the risks to see their products returned because distributors were unable to sell them (Barsanti et al., 2014). Then, the final selling price may only be reliably measured (see IAS 18.20 (a)) at the time of the sale to the end-customer.

[40] "Percentage at which something is lost or reduced by, over a period" (source: http://www.businessdictionary.com/definition/attrition-rate.html)

Under IFRS 15, entities using sell-through approaches are likely to recognize revenue earlier than under IAS 18. IFRS 15 requires entities to recognize revenue when the customer gets control of the asset being transferred (IFRS 15.31). When assessing their contracts, entities will probably realize that resellers and distributors receive control of a product at the time of the transfer and, therefore, will not wait until the sale to the end-customer to recognize revenue.

Furthermore, reliable measures of revenue are no longer required under IFRS 15. The standard is indeed providing estimation methods to estimate revenue with variable outcomes.

An early revenue recognition is thus a very probable possibility for life sciences entities using sell-through approaches under IFRS 15.

2.5. Beyond the accounting

Whether it is a member from the Big Four or the IASB itself, it is commonly agreed that IFRS 15 will not only impact the accounting of a business. This section aims thus at highlighting which business components may be subject to changes according to Deloitte (2015), EY (2014), KPMG (2014).

- Systems and processes: IFRS 15 is requiring entities to collect a broader amount of data, notably because of the estimates of variable consideration or because of the information to be issued in the disclosures. Furthermore, the treatment of certain transactions will change with the new requirements introduced by IFRS 15. Entities must ensure their systems and processes are adapted as these are supposed to enable them to gather the information they need quickly. Current systems and key processes might thus be updated. If IFRS 15 revolutionizes the accounting of an entity, new systems and processes are likely to be created, such as new IT systems. There may even be changes in the entities' contract structures and contracting procedures.

- Employees' training: the changes brought by IFRS 15 in the accounting of revenue will certainly affect the daily work of different employees, such as internal controllers, accountants, sales or IT staff. Entities must make sure that their staff understand the requirements and the impacts of the new standard. Entities might thus spend some time providinig training to their employees so that they can keep performing under the new revenue recognition model.

- Tax planning: the timing and amount of revenue might be subject to changes under IFRS 15. For entities whose profile of revenue will be significantly different after the implementation of the standard, it will be important to look at the fiscal part of their business. If the profile of revenue is different, the profile of tax cash payments, the recognition of deferred tax liability and deferred tax asset might differ as well for entities (compared to current practice and IFRS). Current tax planning and strategies might thus have to be adapted to take account of the potential impacts of IFRS 15 on revenue.

- Communication with Stakeholders: Stakeholders (such as the Board of Directors, the shareholders or the investors) might want explanations about the impact of the new revenue standard on the business, whether it is on the profile of revenue, the cost of implementation or the changes brought to the business model. As this task might be difficult, depending on the demands of each particular stakeholder, entities had better anticipate how key constituents and key performance indicators might be impacted and change because of IFRS 15.

- Bonus and Compensation Plans (employees' benefits): Employees' benefits sometimes depend on profits or revenues. If profits or revenues are subject to changes, employees' benefits will utlimately be impacted as well. Therefore, entities will probably have to align bonus and compensation plans with the new revenue recognition model, in order to stay fair to their employees.

Nevertheless, the impact degree of IFRS 15 will be different according to the considered entity (Deloitte, 2015). According to the transactions, the sector, the company or even the jurisdiction (McConnell, 2014), the preparation to IFRS 15 can be either really straightforward or, instead, really time-consuming and effort-demanding.

Empirical part

1. THE PREPARATION TO IFRS 15: THE CASE OF TECHSPACE AERO

The implementation of IFRS 15, whether from an accounting or extra-accounting point of view, might be a big challenge for a company. To illustrate how a company deals with this, the case of Techspace Aero (abbreviated «TA»), operating in the aerospace sector, will be presented. To gather the relevant information, an interview was conducted with Mr. Benoît Lambert, one of the people in charge of the IFRS 15 project. The questions aimed to highlight the company's progress in the implementation process, the most impactful requirements of the standard and the consequences on several dimensions of the business model. The whole transcript of the interview is available in appendix 1.

1.1. The core business of Techsapce Aero

The core business of TA consists in the conception, development, manufacturing and sale of components of aircraft engines. However, the situation of the company is specific as it is not in touch with its end-customers (the aircraft companies) at contract inception. Indeed, TA delivers its components to an engine manufacturing company, which will assemble all the components in order to shape the final engine. This engine will then be sold to an aircraft manufacturing company, such as Airbus or Boeing.
Hence, the remuneration of TA will total a percentage of the sales price of the engine, corresponding to the proportion of its components in this engine[41]. Furthermore, the company will be responsible for the maintenance services related to the engine and the replacement of its defective and worn parts.

1.2. Techspace Aero and the reporting under IFRS

TA, as a Belgian stand-alone company, does not need to report under IFRS. Reporting under Belgian GAAP is totally sufficient regarding its publication obligations towards the National Bank of Belgium (NBB) and the Belgian auditors.

[41] For instance, TA recieves 5% of the sales price if a manufactured component represents 5% of the engine.

Therefore, the IT system used by the company for accounting and reporting purposes is programmed under Belgian GAAP, as they represent the set of rules the company uses internally or externally, to meet its Belgian obligations.

However, TA is a subsidiary of the French group Safran. As a listed company on the stock exchange (CAC 40 and Euronext), Safran is required to publish consolidated financial statements under IFRS.

Furthermore, the Group (Safran) is composed of more or less 300 subsidiaries and sub-subsidiaries around the world, reporting under 200 different local GAAPs. Therefore, IFRS enables Safran to report under a unique set of rules, making the consolidated decisions easier. That is why TA must also report under IFRS. The company is using non-accounting reconciliation for the restatements and reclassifications from Belgian GAAP to IFRS, at the end of each month.

1.3. The IFRS 15 project of Safran

The aim of the group Safran is to apply IFRS 15 on 1 January 2017[42], a year before the official date of application (1 January 2018). Indeed, as a quoted company, Safran is required by the markets to provide comparative figures for the years N and N-1. Hence, if Safran is reporting under IFRS 15 in 2018, markets will require Safran to do the same in 2017. Furthermore, Safran has already forecasted its budgets up to 2020 under current IFRS, which means that those predictions will be incorrect at least for the years 2018, 2019 and 2020. The sooner IFRS 15 is applied, the quicker Safran will be able to correct its forecastings and communicate appropriate information to its different stakeholders.

Safran is taking IFRS 15 and its potential impacts really seriously and has set up a specific related implementation project. The first IFRS 15 information meeting took place in November 2014, with representatives of the nine first-rank subsidiaries, among which TA. A copil IFRS 15 was also created, with the mission of helping all first-rank subsidiaries in their implementation process.

The implementation project was divided into three phases.

[42] There is no official decision yet on this matter though.

The first one has been completed and consisted in analyzing a sample of 32 contracts[43] and describing how current IFRS is applied throughout the group. The second phase aimed to identify and quantify the divergences between current IFRS and IFRS 15, on the basis of the above-mentioned sample of 32 contracts. As of today, all the analyses on that contract sample are completed and have been validated by external auditors.
Finally, the analysis has been extended to each contract amongst the group and the changes IFRS 15 requires will have to be made (e.g. the update of the information systems, the training of the employees, etc.).

To perform this implementation, Safran decided to hire external consultants, in addition to its internal experts. Their task was to work together on the standard to bring a similar application to light in each first-rank subsidiary.

In addition to its internal work, Safran is also collaborating with all the other major actors of its markets (e.g. General Electric, Pratt & Whitney, Rolls-Royce). Indeed, if IFRS 15 impacts the profile of the revenue, the share price of Safran might be, as a result, impacted as well. Moreover, if Safran chooses a different approach compared to its competitors, its share price might lag behind its competitors' share price, or conversely. This is why, Safran and its competitors must agree on how IFRS 15 (and the corresponding *ASC 606*) should be applied. This stands for other proof of how seriously IFRS 15 is taken by the Safran group.

1.4. The current status of the IFRS 15 project of Techspace Aero

TA has to analyse ten contracts in total. At the time of the interview (17 March 2016), the company had completed the analysis of its first contract.
The structure of this contract is as follows: the company is responsible for manufacturing and delivering two different types of components. These two types of components are delivered at the same time to the engine manufacturer and each of them has its own stand-alone selling price, which includes the delivery costs. However, the components are not billed at the same time, one type being two weeks before the delivery and the other type being right after the delivery. Under current IFRS, TA recognizes revenue for both types of components at the time of their respective billing to the customer.

[43] Those contracts were selected among those of the nine first-rank subsidiaries.

After performing the analysis of the contract, the revenue recognition will remain identical under IFRS 15. The accounting should actually be different though.
First of all, the two types of components sold are inter-related as an engine cannot be built without one of them. This means that a component without the other is of no use. Therefore, the bundle of the two components is a single performance obligation. Furthermore, TA acknowledges that the delivery costs also meet the definition of a distinct performance obligation. Under IFRS 15, TA should thus identify two distinct performance obligations: the bundle of components and the delivery costs.

However, the delivery costs, as part of the transaction price, are hardly valuable on a stand-alone basis. Furthermore, TA knows that those represent an insignificant part of the total value of the components[44]. That is why, the company decided not to recognize them as a distinct performance obligation. Then, it was chosen not to group the two components into a single performance obligation and to keep the two-weeks gap between their respective revenue recognition. Here again, this gap only has an insignificant impact on the quarterly and yearly revenue of TA, notably because of the numbers of engines sold monthly and yearly. The company therefore decided to keep its current revenue recognition. Making the expected changes will not bring any improvements, except for additional complications. Both Safran and external auditors have validated this decision.

1.5. Techspace Aero and the requirements of IFRS 15

1.5.1. The Five-Step Model

TA regards the identification of the distinct performance obligations in its contracts as the most difficult step of the new revenue recognition model.
The company will have to determine if the components it manufactures can represent distinct performance obligations. Indeed, the components of an engine are usually useless on their own as an engine cannot work if one of its components is missing. Yet, this conclusion cannot be taken as granted and each contract must be assessed case-by-case. The question of the distinct performance obligation will also arise for the delivery services, because their treatment in the first contract might not pass for the other contracts.

[44] Less than 0,5% of the stand-alone selling prices

Once the determination of the distinct performance obligations completed, TA expects the determination and the allocation of the transaction price to flow more easily. The determination of the transaction price should not be difficult as TA is always paid with a percentage of the selling price of the full engine. Since each manufactured component is worth a specific proportion of the engine, it is easy to allocate the transaction price[45]. When components are combined into a bundle, TA would just have to sum the proportions of these components together and make the allocation according to the obtained percentage.

As far as the revenue recognition is concerned, TA is convinced that it will almost happen systematically[46] at a point in time. The challenge for the company will be to find at which moment exactly[47].

Finally, determining which contract is a contract under IFRS 15 will not present any difficulties for TA. Contract combinations and modifications will still be further detailed in the next section.

1.5.2. Contract combinations and contract modifications

1.5.2.1. Contract combinations

Under current IFRS, contract combinations are really rare for TA, but the new criteria of IFRS 15 might change things completely.

As mentioned earlier, TA is not only responsible for manufacturing the components of the initial engines but also for the maintenance services and the replacements of the worn and used components. All these obligations are often divided into different contracts, which means that several contracts are entered with a single customer. TA is well aware that those types of contracts might have to be combined, since they strongly seem to pursue a single commercial goal (one of the criteria for contract combination under IFRS 15), but has not reached any conclusion on this point yet.

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[45] For instance, TA recieves 11% of the selling price of the engine, if a contract contains a component worth for 8% and another worth for 3% of an engine. The allocation of these 11% will be of 8/11 for the first component and 3/11 for the other.

[46] Revenue arising from some contracts of its subsidiary Cenco might be recognized over time but this point still needs to be assessed.

[47] More details shall be given regarding revenue recognition in sections 1.5.3 and 1.5.4.

1.5.2.2. Contract modifications

The contracts of TA are rarely modified. In fact, a contract modification would be costly and time-consuming from a legal point of view because these are long-term contracts with a fixed structure.

When a contract is modified, it is often because a customer orders additional studies. Those additional studies are likely to be accounted for as a new contract because they are an additional task asked to TA, distinct from the rest of the contract. Furthermore, they have their own stand-alone selling price and are always priced at it, which also supports the hypothesis of the new contract.

1.5.3. The long-term maintenance services

The difficulties TA expects to face regarding the long-term maintenance services are similar to those presented in the literature review.

Currently, revenue is recognized at the time of monthly billing (when TA receives the authorization to invoice). However, the company does not know yet when revenue will be recognized for those services under IFRS 15 (at the invoice time or when maintenance services are effectively provided).

Even though the impacts have not been quantified yet, a divergence between the current accounting and the accounting under IFRS 15 would significantly impact the P/L and the BS of the company. Revenue arising from maintenance services is indeed worth around 50%[48] of TA's yearly turnover.

In the assumption of early revenue recognition, the receivables would skyrocket because consideration would still be paid at the same time. The changes in receivable would then work for material changes in the working capital requirements and distort the current analyses of the company. At the same time, changes in revenue will also work for changes in the costs of sales and impact the resulting margin. A change in the revenue recognition of maintenance services would actually result in more than just an adjustment of the company's turnover.

The importance of the maintenance services is also emphasized by the meeting set between TA and SNECMA[49] in the coming months to make sure that the subsidiaries of the group are aligned with each other when applying IFRS 15 to the maintenance services.

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[48] This represents more or less €3,000,000.

[49] SNECMA is another first-rank subsidiary of the Safran group. It sells engines to aircraft companies and uses TA as partner for the manufacturing of certain engine components.

1.5.4. The notion of control

TA acting as a partner in all its contracts raises the question of when the company should recognize revenue: when the engine manufacturing company receives them or when the final engine is sold to the aircraft companies?

For certain contracts, the answer will be straightforward. Revenue will be recognized when the engine manufacturing company receives the components of the engine, because TA has transferred the control of the components it has manufactured.

However, the notion of control will be closely analyzed because its interpretation by TA might work for different scenarios in practice. Nowadays, TA enters more and more «if and when contracts», where the company is authorized to bill the engine manufacturing companies only when the engines have been billed as well (to the aircraft companies).
Determining when control is transferred in such contracts might be tricky. Technically, once the components have been delivered to the engine manufacturing company, TA does not have any remaining control on them. Furthermore, those components are assembled to by the engine manufacturer to form an engine, which also supports the above hypothesis. Nonetheless, from a legal point of view (in the contract), the components still belong to TA.

Considering the above elements, the notion of control appears to be more ambiguous than at first look and will therefore be a focal point of the analysis of TA.

1.5.5. Other consideration

1.5.5.1. Variable consideration

TA did not identify any variable elements in its first contract. Besides, the company thinks that this conclusion will reoccur itself for its other contracts.
The consideration TA received always corresponds to a percentage of an engine-selling price. The amount resulting from this percentage is admittedly variable as it depends on the selling price negotiated by the engine manufacturing entity and the aircraft manufacturing company. However, TA knows, at contract inception, the amount it will receive and that there is no uncertainty regarding its collection.
That being said, variable consideration is likely to be a non-event for TA.

1.5.5.2. Significant financing component

Significant financing components are also likely to represent a non-event according to TA's opinion.

Nevertheless, the if and when contracts previously mentioned might very well contain significant financing components. Indeed, the engine manufacturing entity, by postponing TA's billing after its own billing, is, to some extent, providing itself financing. This last argument is debatable though, depending on how TA will assess its contracts. In any event, the time gap between the delivery of the components and the payment of the related consideration is never longer than a year. The received consideration would thus not have to be adjusted even if a financing component was part of the contract[50].

1.5.5.3. Contracts Costs

TA does not incur expenses that could meet the definition of obtention costs. The aerospace market is a really limited one in terms of the number of actors and the relationships TA has with its customers[51] have been in place for a long-time. TA does not need to look for (new) customers. Therefore, obtention costs, such as sales commissions, are very unlikely to be incurred, which means that the requirements of IFRS 15 regarding obtention costs will have no effect on TA.

As far as the fulfillment costs of its contracts are concerned, TA is currently capitalizing some development costs according to *IAS 38 Intangible Assets*. At first sight, the entity does not expect to capitalize more costs than now, because of IFRS 15. However, this point still needs to be checked, since only a single contract has been analyzed yet.

1.6. The extra-accountning dimension of IFRS 15

During the interview, it was particularly emphasized that IFRS 15 was much more than just a simple change in the turnover measurement. The business components introduced in the literature review were discussed during the interview and here is how TA expects IFRS 15 to impact them.

[50] There is a practical expedient regarding significant financing components when the period between the transfer and the payment does not exceed a year. See Chapter 1 Section 1.3.3.3 and IFRS 15.63.

[51] We refer here as the direct customers of TA, which are the engine manufacturing companies.

1.6.1. Systems and processes

As mentioned in section 1.2 of this part, the IT system of TA is programmed under Belgian GAAP. More generally, the systems and processes of the company are all programmed under Belgian GAAP since it is the set of reporting rules used internally.

IFRS 15 is expected to bring changes to the current IT system but, as of today, TA is unable to quantify the scale of those changes. However, the company already has an idea of what might change (following the arrival of IFRS 15). The invoicing system might be adapted in order to help the accounting department report more quickly under IFRS 15. For instance, the components of a contract forming distinct performance obligations could be highlighted.

Furthermore, according to the impact of IFRS 15, TA might have to gather more information than it actually does for disclosure purposes. If so, the IT system will have to be adapted to allow this extra information to be quickly found amongst all entity's data.

As mentioned in the first paragraph, TA is still unable to quantify the impact of IFRS 15 on its systems and processes. Yet, the entity believes that there will be no half-hearted measures. The IT system will remain mostly unchanged[52] until a certain degree of impacts. Beyond that degree, the IT system will have to be totally changed. Should the entity have to go for the second scenario, the implementation of a SAP[53] software would be considered.

1.6.2. The impact of IFRS 15 on employees

Enabling impacted employees to have the relevant knowledge is one of the main concerns of TA and, more generally, of the whole Safran group.

As mentioned earlier, a first information meeting was held in November 2014 at the group level, with the people in charge of the implementation of IFRS 15 in the nine first-rank subsidiaries. A second information meeting took place in November 2015, which brought more concrete information on how the implementation of IFRS 15 in the Safran group is envisioned.

However, the implementation of the standard will impact the daily work of more employees than only those in charge of the implementation process. Today, the differences between IFRS and Belgian GAAP figures of the company are limited so that some accountants and

[52] IFRS reclassifications and restatements would thus remain being done by extra-accounting reconciliation.

[53] A SAP software would enable TA to hold its accounting under Belgian GAAP and IFRS at the same time.

people in charge of the budgets have never been in touch with the IFRS figures of the entity. The adjustments between Beligan GAAP and IFRS figures are actually made by a limited number (three or four) of people.
Should the impact of IFRS 15 be material to the current IFRS figures of the entity, it would be impossible to leave all the adjustments to be made in the hands of three or four people. IFRS 15 is therefore likely to spread the use of IFRS amongst the employees of TA.
Although some decisions regarding employees still need to be made, since the impact assessment has not been completed yet, an IFRS 15 training is already foreseen for the budget department. It is also realistic to expect, at some point, one for the accountants.

In addition, IFRS 15 will require a deeper collaboration between different departments. Accountants might not be able to account for a contract on their own without a significant risk of error. With this in mind, it has already been planned, at some point in the analysis, to tackle IFRS 15 with the sales department, which might be an important relay in the registration of contracts in the entity's accounts.
Finally, sentences or even just words within contracts could be modified in order to avoid potential troubles (e.g wasting time to know if a performance obligation is distinct) when accounting under IFRS 15. That is why requests at the legal department cannot be excluded.

1.6.3. The tax policy of Techspace Aero

As a Belgian stand-alone company, TA is taxable on the basis of its Belgian GAAP result. The IFRS profit of the company does not play any role in the determination of the payable tax at the Belgian state.
However, when possible, TA tries to align its Belgian GAAP policy with IFRS principles. It will seemingly not be the case with IFRS 15. Aligning the Belgian GAAP revenue with the IFRS 15 requirements might lead to an early revenue recognition and therefore higher advance tax payment. Yet, as already mentioned, early revenue recognition would not influence the receipt of the related consideration. Therefore, the company might suffer from a lack of cash if aligning Belgian GAAP with IFRS 15.

1.6.4. Communication with stakeholders

This point is more of a concern for Safran, than for TA. The group will indeed have to explain the impact of IFRS 15 on its consolidated financial statements in the annual report. As far as

TA is concerned, each communication with the local stakeholders is based on the statutory accounts (made under Belgian GAAP). As a result, the company does see the communication with its local stakeholders as a major concern.

1.6.5. Bonus and compensation plans

Bonus and compensation plans will not be impacted either by the arrival of IFRS 15. As IFRS is only used for consolidation purposes and the company does not intend to align Belgian GAAP with IFRS 15, the policy regarding bonus and compensation plans will remain unchanged. These are indeed determined according to the Belgian GAAP figures.

1.7. Concluding remarks

IFRS 15 is taken really seriously by Safran. The group has been working on a well-elaborated project since 2014 and is even collaborating with its competitors. TA, for its part, is still in the early stages of its IFRS 15 project. However, a major difference was already identified in the first contract analyzed. Indeed, the entity chose to keep its current revenue recognition while it normally should have been changed under IFRS 15. Based on the structure of the contract, it is true, however, that adapting the accounting of the contract to IFRS 15 would not have significantly changed the revenue patterns, on a quarterly and yearly basis.

Now, while comparing the answers/expectations of TA with the literature review (section 2.3 of Chapter 2) common points as well as divergences were observed.

- The **long-term maintenance services** are the main concern of the company, especially because of their significant proportion in its turnover. A change in their recognition would thus significantly impact the BS and the P/L. TA is currently considering an issue mentioned in the literature review for these services: when must they be accounted for as revenue?
- **Identifying the distinct performance obligations** of a contract has been assessed as the most challenging step of the model for TA. Due to the specificity of the components and the engines, the answer to the question «is this component a distinct performance obligation?» is more complicated than a simple yes or no. This is consistent with the literature review, which states that identifying the distinct components is one of the main challenges IFRS 15 will offer to Aerospace companies.

- In the literature review, it was mentioned that aerospace entities are used to entering different contracts with a single customer. As a result, the **contracts combination** criteria of IFRS 15 might change the current treatment of certain contracts. This argument was confirmed by the answers from TA. The entity has indeed foreseen to pay particular attention to the different contracts entered with the same customer to see if those must be combined or not.
- On the other hand, **contract costs requirements**, at first sight, will not change TA practices while the literature review was talking about less costs being capitalized.
- **Variable consideration** is likely to be a non-event as well for TA. Each contract will be assessed but, due to the nature of its revenue, TA will presumably not find any elements meeting the definition of variable consideration under IFRS 15.
- **Contract modifications** are not seen as a major concern by TA either, because they are uncommon for the entity. This contradicts the literature review, which explains that contract modifications often take place in the aerospace industry. The case of TA is not necessarily similar to other entities of the industry though. Should contract modifications take place, they would presumably be accounted for prospectively, similarly to current practice.
- Finally, **the position of TA in its contracts** highlights the difficulty of determining when control is transferred. This issue is, to some extent, similar to the problematic entities from the pharmaceutical industry might face when selling their products through distributors and resellers.

Fom an extra-accounting point of view, answers provided by TA confirm what the literature review was suggesting: IFRS 15 is going to affect the overall business model. However, since the impact assessment has not been completed yet, TA does not know yet the extent of the changes that will have to be made. At the present time, the areas where (significant) work would be requested are the IT system and the staff’s training. IFRS 15 will also demand a more narrow communication between the different divisons of TA.

2. Survey among Belgian entreprises

2.1. Research Methodology used

Even though it focuses on a large number of entreprises, several sectors are excluded in order to determine the challenges represented by the implementation of IFRS 15. The results will thus not be inferred to the whole population (i.e. the Belgian companies), which means the objective of this survey is not purely quantitative.

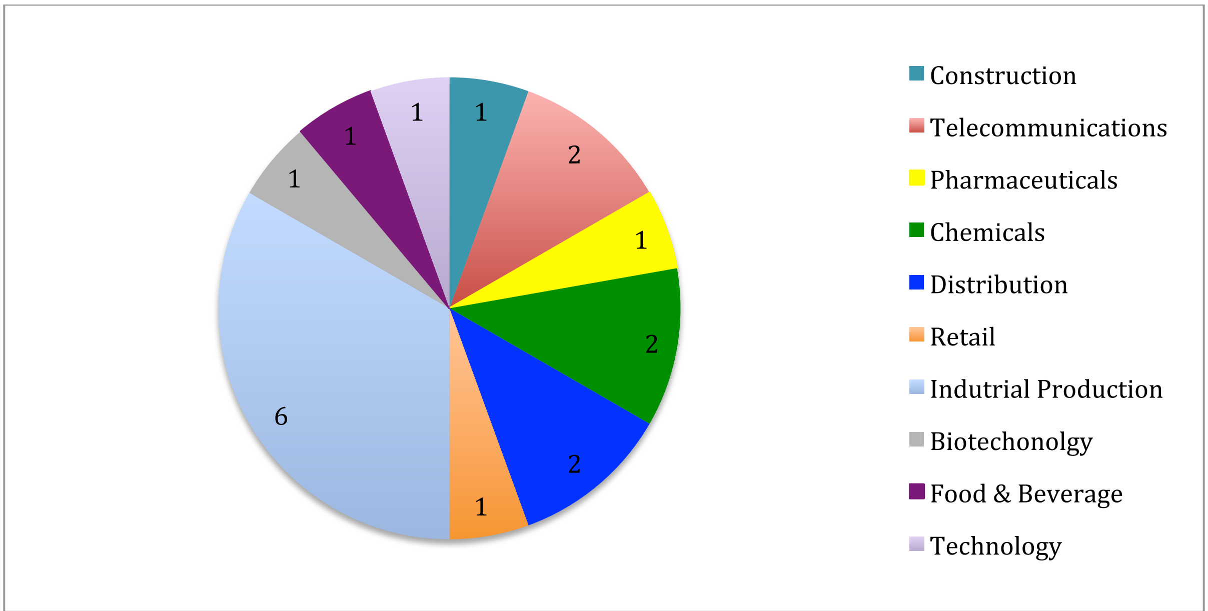
To obtain the data, an on-line questionnaire was prepared and sent to the companies selected in the sample. The sample was constituted on the basis of a file published by the NBB, where all the companies publishing consolidated financial statements in Belgium were listed. Among those publishing their consolidated accounts in IFRS (those using other GAAP were excluded), the companies belonging to the sectors presented in the literature review (telecommunications, construction, aerospace and pharmaceutical) were primarily selected. To have a more complete overview of the Belgian business world, other sectors were added in the sample (e.g. retail, industrial production) with the exception of the banks, the insurance companies, the holdings and the investment companies. Due to their specificity, those companies are not the best examples to illustrate the impacts of IFRS 15. Finally, a sample comprising 102 companies was obtained (see appendix 4).

As a result of the sample size (and to maximize the number of solutions), the questionnaire had a multiple-choice format, with several commentary fields (commentaries were not mandatory but encouraged). This questionnaire was sent by email to the investor relations or the general administration, asking to forward it to the appropriate division (finance or accounting). Companies had the choice between an English and a French version (leaving comments in Dutch was also possible, if preferred). The questionnaires were first sent in early February, a second time in early March and a last reminder was sent in early April. At the end of March, as no Belgian telecommunications entity had replied to the survey yet, the questionnaire was submitted to the French entity Orange. As the parent company of Orange Belgium (its conclusions regarding IFRS 15 are likely to apply to its Belgian subsidiary) and a member of the Eurostoxx 50, Orange is a relevant example to illustrate the problemaitc faced by telecommunications entities.

From February to April, 18 (including Orange) answers were received. Amongst the participants, there are 3 IFRS managers, 3 Chief Executive Officers (CFO), 4 Finance Managers, 3 Group or Finance Controllers, 2 Consolidation and Reporting Managers, an Accounting Principles Director, a Finance Expert and a Group Tax Manager (in charge of the IFRS policy).

The respondents are spread between different sectors (the numbers in the portions are the number of respondents per sector):

Fig. 1. Repartition of respondent companies across sectors



A detailed list of the respondents is available in appendix 5.

In March 2015, a face-to-face interview was conducted with the IFRS Manager of Solvay (Ms. Farah De Rouck) where the questions of the survey were deepened. Solvay was a relevant choice because:

- as a quoted company, IFRS is mandatory for Solvay. Furthermore, as Solvay is an international group, IFRS is a key for good internal management.
- as operating with customers from different sectors, IFRS 15 might affect Solvay differently according to the considered contracts. Therefore, analysis and implementation efforts are likely to be significant even if the impacts on figures stay limited.

2.2. Presentation and discussion of the provided answers

Before presenting and commenting the provided answers, it is important to mention that the small number of respondents does not allow us drawing definitive and scientific conclusions about IFRS 15 (from a general and sectorial point of view), worth for the entire Belgian business world. However, this sample still enables us to make some trends emerge.

2.2.1. The progress of IFRS 15 among Belgian companies

Amongst the 18 respondents, **nine** of them have started an inital impact assessment (entities such as Solvay, Bpost, Atenor and Proximus) while Orange was the sole respondent already busy with the concrete implementation of IFRS 15. The eight remaining respondents had not started any actions yet regarding IFRS 15.
The reasons for not having started any analysis yet differ from entity to entity. At the time of its answer (February 2016), UCB Biopharma was still finalizing its current year annual reporting (the company was on the verge of starting its assessment though). TI Automotive Systems Belgium and Colruyt were awaiting additional guidance on certain requirements. Sioen and Magotteaux did not expect major changes while NV Bekaert SA had other priorities (the entity does not expect major changes though).

Even though sectorial conclusions are impossible to draw, some remarks can still be made. Solvay and Borealis Polymers, two chemical entities, have started an initial impact assessment. In the same vein, Orange is alreay done with its initial analysis while Proximus has also started its. On the other hand, in the distribution sector, the analysis of Bpost is in progress while Euronav[54] has not looked at the standard yet. The respective activities and business models[55] of Bpost and Euronav are really different though.

In this sample, none of the companies (except Orange, which is not a Belgian company) had completed its analysis. Some were only barely started. For instance, D'Ietereen and Nyrstar answered that they had started an initial impact assessment. Yet, they were unable to mention which of the standard requirements would be the most challenging for their business model.

[54] Euronav did not answer the questionnaire because they were not busy considering IFRS 15 at the time of the questionnaire posting.
[55] Bpost provides distrubtion services of goods while Euronav ships crude oil.

Finally, 10 respondents out of 15 (Celyad, Greenyard Foods and NV Bekaert SA have not looked at the standard yet) estimate that they have a clear understanding of the text. The five entities with an unclear understanding are Colruyt, D'Ietereen, Magotteaux, Proximus and Sipef.

2.2.2. IFRS 15: the required efforts and the resulting impact on the BS and P/L

This section will be dedicated to establishing a link between the degree of efforts entities expect to put on to adapt their reporting policy to IFRS 15 and the impact of the adjustments on the BS and the P/L.

UCB Biopharma and **Proximus** think that IFRS 15 will both require significant efforts and significantly modify their BS and P/L. **Orang**e assessed that significant efforts will be required to implement the standard. However, unlike Proximus, only the P/L will be significantly impacted. Changes are awaited in the nature (more revenue on handsets, less on services) and the timing (earlier revenue recognition for an handset sold at discount at contract inception) of revenue.
On the other hand, Solvay, although expecting significant compliance efforts to be made, does not expect IFRS 15 to materially change its balance sheet and P/L. According to the IFRS Manager, it would take much to significantly affect a BS and a revenue of, respectively, €25 and €11 billion (see Solvay 2015 annual report). Borealis Polymers, Atenor and Barco share the same opinion as Solvay: IFRS 15 will require significant efforts to be implemented but with very limited impacts on their BS and P/L.
TI Automotive Systems Belgium[56] (industrial entity) and Sipef (agro-industrial entity) see IFRS 15 as an insignificant (in terms of efforts and impacts) standard for their business. Sipef explains that these limited (or even zero) impacts are due to the simple structure of their customer contracts (the entity delivers X tons of a product at a price Y to an incoterm Z).
Colruyt and D'Ietereen expect significant effort to be made to adapt their reporting practices but were unable to predict the impact of IFRS 15 on their balance sheet and P/L. The significant implementation efforts expected by Colruyt are surprising as it was stated in the IASB's Basis for Conclusions that IFRS 15 should have a very limited (or even void) effect on the retail transactions[57].

[56] TI Automotive has not started an initial impact assessement but has already a first understanding of the standard. The entity is actually waiting for additional guidance to start a concrete analysis.
[57] See BC462.

Magotteaux, Bpost and Sioen (a technical textile company) are currently unsure of the level of effors that will have to be put on in order to implement IFRS 15 but expect their BS and P/L to remain unchanged.

Finally, Celyad, Greenyard Foods, Nyrstar and NV Bekaert SA are currently unsure about both the impacts of IFRS 15 on their BS and P/L and the efforts its implementation will require.

2.2.3. The importance of the main IFRS 15 requirements

In the on-line questionnaire, entities were asked to rank the five steps of the revenue recognition model **from the most challenging to the least challenging**. Similarly, entities also had to rank, **from the most to the least challenging**, a list of IFRS 15 main requirements[58] (presented in the literature review). This section will be divided in two parts:

- The first will look at the sectors presented in the literature review. The answers will then be compared with what was said in the literature review.
- The second will give consideration about sectors, which were not presented in the literature review.

Although its analysis has already started, the answers from Sipef will not be presented. Indeed, this entity expects a very limited (if not void) impact and insignificant efforts to be made. It might thus have fulfilled the questions with a ranking by default. The answers from Greenyard Foods, which has not looked at IFRS 15 yet, Maogtteaux, Sioen and TI Automotive Belgium Systems, which have not started anything yet, will not be presented in this section either (the answers of those five companies are available in **Appendix 6**). Celyad, Colruyt, NV Bekaert SA, Nyrstar and d'Ietereen did not answer those particular questions.

2.2.3.1. Sectors presented in the literature review

a. <u>The telecommunications sector</u>: Orange and Proximus

For the five-step model question, Orange distinguishes between contracts entrered with private individuals and contracts entered with companies.

[58] Those requirements were those related to variable consideration, the significant financing components the contract modifications, the contracts costs, the disclosures and the distinct nature of a good/service.

Table 1. Orange's ranking of the five-step model

Contracts with the public	Contracts with companies
1. Allocation of the transaction price	1. Determination of the contracts
2. Determination of the transaction price	1. Determination of the transaction price
3. Determination of the contracts	3. Allocation of the transaction price
4. Identification of performance obligations	4. Identification of performance obligations
5. Revenue recognition	5. Revenue recognition

Table 2. Proximus' ranking of the five-step model

1. Identification of performance obligations
2. Allocation of the transaction price
3. Determination of the transaction price
4. Recognition of revenue
5. Determination of contracts

Table 3. Orange and Proximus' ranking of IFRS 15 main requirements

Orange	Proximus
1. Accounting for variable consideration	1. Accounting for contract modifications
1. Accounting for contract modifications	2. The distinct character of a good/service
3. The distinct character of a good/service	3. Accounting for contract costs
4. The new disclosure requirements	4. Accounting for variable consideration
5. Accounting for contract costs	5. Significant financing components
6. Significant financing components	6. The new disclosure requirements

Revenue recognition is an easy step for both Orange (regardless of the type of customers) and Proximus. Even though the link between revenue and cash will be broken[59] (point raided by the literature review and confirmed by Orange and Proximus' answers), both telecommunications entities assessed limited trouble determining how and when recognizing revenue under IFRS 15 (compared to the other steps).

In light of **Table 1**, identifying the performance obligations, appears to be easy to perform in the case of Orange (compared to the other steps). The entity still believes that determining the

[59] Reminder: more revenue is recognized at contract inception when a handset, part of a package including monthly services, is sold at discount.

distinct nature of a good/service is a sensitive judgment (see **Table 3 left column**). Different good faith interpretations are indeed possible, especially for the criteria «distinct within the context of the contract» (IFRS 15.27 b). It is the opposite for Proximus, which regards the determination of performance obligations as the most difficult step of the model (see **Table 2**).

Determining the transaction price has been ranked as another significant step to perform by Orange (see **Table 1**), regardless of the type of customers. This is underpinned by the importance given to variable consideration (see **Table 3 left column**): Orange's contracts often contain variable elements, whose variability can differ from a contract to another. On the other hand, the determination of the transaction price is average for Proximus (see **Table 2**), which expect fewer difficulties with variable consideration than Orange (see **Table 3**).

Orange, in the case of *contracts with private individuals* (see **Table 1 left column**), and **Proximus** (see **Table 2**) have assessed the allocation of the transaction price as the most challenging step, but for different reasons: in the case of Orange, it seems linked to the variable consideration while it seems more linked with the distinct character of goods and services in the case of Proximus.

Orange assessed the determination of contracts as the most significant step of the model *when entering contracts with companies* (see **Table 1 right column**), because of the challenge represented by contract modifications. Orange faces a significantly great volume of requests, and thus contract modifications, when dealing with companies. Considering the requirements of IFRS 15, regarding contract modifications, the difficulties expected by **Orange** seem logical. However, contract modifications remain challenging for Orange in the case of transactions with private individuals (see **Table 3 left column**), because of the huge number of contracts the company enters. **Proximus** also highlighted the challenge represented by contract modifcations (see **Table 3 right column**). Nonetheless, the company ranked the determination of contracts under IFRS 15 as the easiest step of the model (see **Table 2**). This paradox can be explained by the fact that Proximus, unlike Orange, makes a difference between contract modifications, which happens during the life of a contract, and initial contract determination.

As operating in the same sector, common points between the two are observed such as the importance of contract modifications, the difficulties of allocating the transaction price or the (relative) ease of revenue recognition. However, significant differences between Orange and Proximus can also be observed, such as the importance given to variable consideration. Another difference worth being pointed out concerns the accoutning for contract costs (see **Table 3**). Proximus ranks them before variable consideration, while Orange rather regards them as a non-event.

b. The construction sector: Atenor

Table 4. Atenor's ranking of the five-step model (left) and IFRS 15 main requirements (right)

1. Determination of contracts	1. Significant financing components
2. Allocation of the transaction price	2. Accounting for contract costs
3. Identification of performance obligations	3. The new disclosure requirements
4. Determination of the transaction price	4. The distinct character of a good/service
5. Revenue recognition	5. Accounting for variable consideration
	6. Accounting for contract modifications

The determination of contracts will be the most difficult step to adapt to for Atenor. Indeed, Atenor is not only selling but also leasing properties, which do not belong to the IFRS 15 scope. However, contract modifications are seen as the least impactful requirements of IFRS 15 (from the proposed list). This last point confirms what was written in the related section of the literature review[60].

In the case of a construction company, the identification of performance obligations and the allocation of the transaction price are linked together and their respective spot (see **Table 4 left column**) is logical. This ranking also confirms what was written in the literature review about multiple-performance obligations: under current IFRS, construction companies (and therefore Atenor), mainly do their accounting of revenue at contract level because contract components are often inter-related. Therefore, components of contracts are not sold separately on a regular basis and presumably have no stand-alone selling price.

[60] See chapter 2, section 2.2.1.2. The treatment of contracts modifications is likely to remain unchanged as they already are accounted for retrospectively.

The place given by Atenor to the determination of the transaction price (see **Table 4 left column**) is consistent with the importance Atenor allocates to variable consideration (see **Table 4 right column**). The place given to the significant financing components (see **Table 4 right column**) is, by constrast, more surprising. Indeed, significant financing components were linked with the determination of the transaction price in the literature review. On the other hand, the importance given to the significant financing components is in line with the literature review. Indeed, it was explained that the potential shifted payment terms in a construction contract might represent a hurdle for entities when dealing with the time value of money.

Revenue recognition has been chosen as the least challenging step of the revenue recognition model. This is consistent with the literature review where it was mentioned that the potential changes in revenue recognition should stay limited for construction entities.

The accounting of contract costs and the new disclosure requirements are seen as important matters to be considered. Those have indeed been ranked above determining if a good/service is distinct, which relates to the determination of separate performance obligations (see **Table 4 left and right column**). The importance given to contract costs underpins the argument that the scopes of IAS 11 and IFRS 15 (regarding contract costs) differ from each other.

c. The pharmaceutical sector: UCB Biopharma

Although UCB had not started any assessment yet at the time of its response, we decided to present its answers because IFRS 15 is expected to lead to significant changes and to require significant implementation efforts.

Table 5. UCB Biopharma's ranking of the five-step model (left) and IFRS 15 main requirements (right)

1. Recognition of revenue	1. Accounting for variable consideration
2. Determination of the transaction price	2. The distinct character of a good/service
3. Allocation of the transaction price	3. Significant financing components
4. Identification of performance obligations	4. Accounting for contracts modifications
5. Determination of contracts	5. Accounting for contract costs
	6. The new disclosure requirements

Determining how and when revenue should be recognized is going to be the focal point of the IFRS 15 analysis at UCB Biopharma . As a result, defining the revenue recognition patterns of the elements presented in the literature review (licences of IP, sales of medicines through resellers and distributors and milestones payments) will be the most challenging task for the entity.

Then, a logic is observed between the left and the right column of **Table 5**. The recognition of revenue, the determination and the allocation of the transaction price (see **Table 5 left column**) refer all, at some point, to a common issue: variable consideration. Indeed, the literature review illustrated (in Chapter 1) that, under IFRS 15, variable consideration is included in the transaction price and recognized as revenue only when particular conditions are met. Furthermore, variable consideration has its own dedicated determination/estimation methods and constitutes an exception to the general allocation method. The importance of variable consideration (see **Table 5 right column**) makes thus perfect sense with the ranking of the different steps, and vice-versa. This also confirms that variable elements (e.g. rebates, milestone payments, etc.) seem to be omnipresent in the pharmaceutical contracts (at least in those of UCB Biopharma), as suggested in the literature review.

On the other hand, it is surprising to find out that the identification of the distinct character of a good or service is at the top of its ranking (see **Table 5 right column**) while the determination of separate performance obligations[61] is at the end of its (see **Table 5 left column**). Considering this, it is logical to think that the significant financing components, the contract modifications, the contract costs and the disclosure requirements will be insignificant matters for UCB Biopharma, at least compared to the treatment of variable consideration.

Finally, identifying the contracts is the least difficult step of the revenue recognition model for UCB Biopharma. To make the link with the literature review, this means that distinguishing between contracts (in the scope of IFRS 15) and collaborative arrangements (not in the scope of IFRS 15) will be easier to perform than the rest of the analysis.

[61] Identifying the performance obligations in a contract directly depends on which goods/service have been determined as distinct in the context of this particular contract.

2.2.3.2. Sectors not presented in the literature review

a. The chemical sector : Borealis Polymers and Solvay

Table 6. Borealis Polymers and Solvay's rankings of the five-step model

Borealis Polymers	Solvay
1. Determination of contracts	1. Determination of the transaction price
2. Allocation of the transaction price	2. Allocation of the transaction price
3. Identification of peformance obligations	3. Identification of performance obligations
4. Determination of the transaction price	4. Determination of contracts
5. Recognition of revenue	5. Recognition of revenue

Borealis Polymers expects to face the most significant hurdles in determining which contracts fall in the scope of IFRS 15. On the other hand, determining which contracts should be accountded for under IFRS 15 will be really straight-forward for Solvay.

Similarly, computing the transaction price represents the most effort-demanding step of the model for Solvay, because of the omnipresence of variable elements in their contracts[62] (e.g. price concessions, rebates, etc.) while Borealis Polymers ranked this step only at the 4th place out of five.

For the remaining steps of the revenue recognition model, the results are similar for Borealis Polymers and Solvay. The revenue recognition patterns, for instance, will be straightforward to determine because the core business of the chemical industry is the sales of products. Revenue recognition should thus mostly happen at the time of shipment to the customers. Regarding the case of Solvay, it is important to note that the entity expects to focus nearly all its attention on determining the transaction price. Only limited work will be performed for the other four steps.

Table 7. Borealis Polymers and Solvay's rankings of IFRS 15 main requirements

Borealis Polymers	Solvay
1. Contract modifications	1. Variable consideration
2. Variable consideration	2. Contract modifications
3. Contract costs	3. Distinct character of a good/service
4. New disclosure requirements	4. New disclosure requirements

[62] Solvay is also afraid that elements of their contracts, considered as fixed amounts under IAS 18, meet the definition of variable elements under IFRS 15.

5. Significant financing components 6. Distinct character of a good/service	5. Contract costs 6. Significant financing components

Except for the determination of the distinct character of a good/service and the contract costs requirements, there are no significant differences when comparing how Solvay and Borealis Polymers envision the main requirements of IFRS 15. Variable consideration[63] and contract modifications[64] are the two areas where attention is mostly needed while significant financing components are a non-event for the two entities. Indeed, the period between the payments and the performance satisfactions rarely exceeds a year.

Finally, two additional remarks need to be made on **Borealis Polymers**.

- The respective spots of variable consideration (see **Table 7 left column**) and the determination of the transaction price (see **Table 6 left column**) are inconsistent with the literature review, which linked the computation of variable consideration with the determination of the overall transaction price.
- This argument is also valid for the determination of the distinct nature of a good/service (see **Table 7 left column**) and the identifaction of the performance obligations (see **Table 6 left column**) in a contract.

b. Other consideration: Barco and Bpost

Table 8. Barco's ranking of the five-step model (left) and of IFRS 15 main requirements (right)

1. Determination of the transaction price 2. Allocation of the transaction price 2. Recognition of revenue 4. Identification of performance obligations 5. Determination of contracts	1. Variable consideration 2. Contract modifications 3. Contract costs 4. New disclosure requirements 5. The distinct character of a good/service 6. Significant financing components

[63] The comment made for Proximus and Orange regarding contract modifications and determinations is also valid for Borealis Polymers and Solvay.
[64] The IFRS Manager of Solvay explained that the new requirements of IFRS 15 regarding contract modifications are important because current IFRS is limited on this matter. This has lead each entity to currently account for contract modifications in its own way.

Barco's ranking of the five-step model is logical when we consider the challenge represented by the requirements about variable consideration. Identifying the performance obligations is therefore seen as a less significant challenge compared to the steps concerned with the treatment of variable amounts (i.e. the first three steps in the left column). Contract modifications are also considered a significant hurdle. Finally, as Barco does not capitalize incremental obtention costs under current IFRS, attention will also be given to the contract costs requirements.

Since it does not know yet the degree of efforts IFRS 15 will require, only quick consideration will be given to the answers of **Bpost**.

Table 9. Bpost's ranking of the five-step model (left) and of IFRS 15 main requirements (right)

1. Determination of the transaction price	1. Variable consideration
2. Allocation of the transaction price	2. The distinct character of a good/service
3. Recognition of revenue	3. Contract modifications
4. Identification of performance obligations	4. New disclosure requirements
5. Determination of contracts	5. Contract costs
	6. Significant financing components

Bpost's ranking of the five-step model is similar to Barco's one. Variable consideration, as for Barco, is the most significant hurdle of the standard and had a major influence on the ranking of the five steps. Considering the respective spots of the «identification of performance obligations» and the «distinct character of a good/service, we can assume that the other listed requirements are insignificant hurdles compared to variable consideration.

2.2.4. Beyond the accounting

In the online questionnaire, comapnies were asked to rank the different dimensions presented in the literature review (IT system, employees' training, tax policy, communication with stakeholders, employees' benefits plus the structure of their contracts) from the most impacted to the least impacted (by IFRS 15). The results will be presented in the follwoing sub-sections, dimension by dimension. Celyad, Colruyt, Nyrstar, NV Bekaert SA, and D'Ietereen did not answer this question because their analysis was at its early stage or had not even begun. The answers of Greenyard Foods, Magotteaux, Sioen, Sipef and TI Automotive Systems Belgium will not be taken into account for the same reasons as in section 2.2.3 (see **Appendix 6** for their answers).

2.2.4.1. The IT system

For **Orange**, **Proximus** and Solvay, the IT system is the dimension of their business that will be impacted the most. Solvay explained that the IT is always an issue in an international group. It compared the arrival of IFRS 15 to the arrival of *IFRIC 21 Levies*. At that time, it took months to adapt the IT system while the accounting impact was very limited. Therefore, the entity expects its IT system to be significantly impacted with IFRS 15[65], whose impact will be greater than IFRIC 21. The IT system was also a major concern for Borealis Polymers (a SAP implementation is considered) and a medium concern for Barco and Bpost (both ranked it as 3rd). Conversely, UCB Biopharma and Atenor assessed the IT system as an insignificant matter in the implementation process of IFRS 15. This means that the significant efforts those two companies expect to perform will be dedicated to other dimensions of the business.

2.2.4.2. Employees' training

The training of its employees to IFRS 15 will be the focal point of Atenor's efforts compared to all the other mentioned dimensions. In the case of Orange, employees' training is also considered a top priority. Barco, and Solvay also emphasised the importance of having well-trained employees (second priority). Solvay will organize different IFRS training sessions and a collaboration with the legal department is also foreseen. Furthermore, accountants will systematically need the aid of the sales department to account for a contract correctly. The time dedicated by Borealis Polymers, UCB Biopharma and Proximus to their employees will be medium (third priority) while the employees' training is an insignificant hurdle from Bpost's point of view (Bpost ranked it as fifth).

2.2.4.3. The tax policy/planning

The tax policy is not considered a much impacted business dimension as its average ranking is a fifth position out of six possible (without taking the answers of the excluded entities into

[65] On that note, the one year postposal of the standard application is a relief for Solvay. The company was busy dealing with another project and acknowledged that it would have been difficult to be ready by 2017, the year of application initially foreseen.

account). However, Solvay will try, as far as possible, to match its revenue recognition under Belgian GAAP and under IFRS 15. An important alignment would then affect the tax policy of the group but an impact quantification is impossible at the time being. For its part, Orange acknowledged that the tax impact of IFRS 15 was still unknown in the jurisdiction where the tax base is historically related to the accounting basis calculated on the basis of IFRS figures.

2.2.4.4. The communication with stakeholders

Communicating the impacts to stakeholders is seen as the top priority for Barco and Orange (Orange ranked the communication to its stakeholders, the IT system and the employee's training all at number one). Bpost, UCB Biopharma and Proximus also highlighted the importance of a good communication to stakeholders (second most impacted dimension) In the case of Proximus and Orange, good communication with stakeholders is necessary, considering the significant impact of IFRS 15 on figures. In the pharmaceutical sector, the revenue recognition is very specific so that UCB Biopharma had to expalin how revenue is recognized under IAS 18. The company is planning to do it again under IFRS 15. Solvay will make a press release to inform its stakeholders only if the standard has a material impact on the financial statements. Borealis and Atenor regard the communication with stakeholders as an insignificant issue.

2.2.4.5. Employees' benefits (bonus and compensation plans)

Employees' benefits are seen (by the considered entities for this section) as a dimension that IFRS 15 will have no impact on. This conclusion cannot be drawn for the entire Belgian business world, but, seeing the presence of Bpost, Solvay, UCB Biopharma and Proximus (members of the BEL 20) and Orange (member of the Eurostoxx 50) in the sample of respondents, it could be expected that the impact of IFRS 15 on employees' benefits will stay rather limited.

2.2.4.6. The structure of contracts with customers

Since IFRS 15 introduces a new model of revenue recognition, entities might be trying to adapt the structure of their contracts to bring to light the important elements under IFRS 15. The contract structure is expected to be the most impacted aspect of the business for Bpost, UCB Biopharma and Borealis Polymers. Besides, UCB Biopharma outlines that the new guidelines of IFRS 15 will probably be taken into account in the negotiations of new contracts with customers. Solvay, for its part, will try to simplify and adpat the structure of its contracts to IFRS 15 requirements. However, the importance Solvay will give to the structure of its contracts is limited (fifth priority) and minor compared to Borealis Polymers. Finally, both Orange (fifth) and Proximus (fourth) do not expect the structure of their contracts to be a significantly impacted dimension of their business.

2.2.5. The transition to IFRS 15

2.2.5.1. The transition method

In the literature review, it was explained that entities had the choice between two different methods: the Full Retrospective Method and the Cumulative Effect Method. This choice is generally made at the end of the initial impact assessment.

Atenor was the only company whose choice was firmly set. It opted for the Cumulative Effect Method. UCB, Sioen, Bpost, Barco and **Proximus** tend to choose for the Cumulative Effect Method, although their choice is not definite yet, while **Orange** plans to make the transition via the Full Retrospective Method (this choice must also be confirmed though). The remaining respondents had no idea yet of which method would be chosen to transition to IFRS 15. Among those respondents, Solvay still explained that the Full Retrospective Method would be picked in the case of material changes to the financial statements, to be able to make relevant yearly comparisons between the financial statements.

2.2.5.2 The relationships with external actors

This section aims to look at how entities envisage their relationships towards their competitors and towards financial experts/consultants in their implementation process of IFRS 15.

a. <u>The competitors</u>

UCB, Orange and Proximus plan to narrowely collaborate with their competitors to make sure IFRS 15 is correctly applied. Important companies expecting significant impacts on their consolidated financial statements, such as UCB Biopharma, Orange and Proximus are indeed afraid of a «bad» interpretation of IFRS 15 as it might have severe consequences on their share values and make them lag behind their competitors.

Greenyard Foods and Bpost only plan to look at what their competitors will do regarding IFRS 15. TI Automotive Systems Belgium will follow the instructions from its parent company. Solvay foresees to exchange information and impressions on the standard with entities from other industries but not to collaborate directly. The remaining eleven respondents plan to implement IFRS 15 exclusively by themsevles.

b. <u>The financial experts/consultants</u>

Borealis Polymers, D'Ietereen, Sioen, Greenyard Foods and Colruyt think the implementation of IFRS 15 will require them to call on financial experts/consultants, because of their lack of resources regarding IFRS. This point is still under investigation at Celyad and Bpost while the remaining ten respondents plan to implement the standard only via their internal resources. However, Magotteaux, Nyrstar and Solvay pointed out that external auditors/IFRS experts could be called to check if the standard is correctly interpreted and/or applied. They will not take part in the concrete implementation phase though.

2.2.6. The opinion of Belgian entreprises on IFRS 15

IFRS 15 was issued to remove the inconsistencies and the divergences of practice between companies, due to the limited guidance provided by IAS 11, IAS 18 and their interpretations. Based on the above, the literature review identified two main objectives:

- Reflecting the nature, timing, amount and uncertainty of revenue better;
- Helping stakeholders to understand the financial statements better.

This section will scout the impression of entities to assess whether or not IFRS 15 has achieved those objectives. Afterwards, the opinion of the respondents over the revenue standard will be given.

2.2.6.1. The achievement of the objectives

Among the 18 respondents, only Greenyard Foods, Colruyt and Barco think **the objective of better reflecting revenue** (and in fine better aligning revenue and performance) will be achieved. UCB Biopharma believes that it will depend on how the standard is implemented. Solvay does not know if the revenue will be reflected better but praises the fact that IFRS 15 will harmonize the different practices. According to its IFRS manager, the standard approach is logical even though it requires significant implementation efforts.

The remaining 11 respondents (excepted Nyrstar, which had no opinion) all think that IFRS 15 will not reflect revenue better than current IFRS. The financial controller of Sipef even expects IFRS 15 to decrease clarity for revenue because each entity will have a different interpretation and use of IFRS 15 during the initial year of application.

As far as the stakeholders are concerned, TI Automotive Systems Belgium is the only respondent, which believes that the financial statements will be better understood thanks to IFRS 15. Solvay believes that IFRS 15 will not help because stakeholders probably do not have the sufficient knowledge to understand the standard, due to its complexity (even for IFRS specialists).

2.2.6.2. The overall opinion on the standard

Thirteen out of the 18 respondents consider that IFRS 15 requires significant effort while not bringing material improvements to revenue recognition. For instance, Orange explains that a new revenue recognition model was not desired in the telecommunications industry as current IFRS was understood and cash related. Proximus also regrets the lack of link between cash and revenue but still thinks that a new revenue standard was necessary. UCB Biopharma shares Proximus' opinion: even though it could have been made less complex, a new revenue standard was needed. As already mentioned, Solvay thinks IFRS 15 was necessary, because of the lack of guidance from current IFRS.

The overall opinion (among the respondents) on IFRS 15 is thus rather negative. It must be moderated though. Celyad, Greenyard Foods, NV Bekaert SA have not looked at the official text yet while D'Ietereen and Nyrstar are only in the very early stages of their respective analysis. The judgement of those entities on IFRS 15 may thus be a little premature.

Then, the opinions of TI Automotive Systems Belgium and Sipef appear a bit unlogical. When asked about their overall opinion on IFRS 15, the two companies answered that IFRS 15 represents «*significant efforts to no avail*» while a proposition «*our company has insignificant efforts to put up»* was available. Yet, it was previously said that those two entities were expecting insignificant changes in their accounts and insignificant efforts to be made. The logical answer, in our opinion, would thus have been «*our company has insignificant efforts to put up»*.

2.2.7 Concluding remarks

As seen above, the progress of IFRS 15 among the respondents is quite limited. From the Belgian respondents (Orange is a French entity), only half of them have started their IFRS 15 project. Furthermore, the started analyses were rarely at an advanced stage. The choice of the transition method can serve as proof (this choice is usually made when the assessment is nearly completed): Atenor was the only respondent to have definitely chosen its transition method while 10 respondents had literally no idea of which one they would use.

Based on the sample, the impact of IFRS 15 on financial statements seems to be *limited* to sectors where transactions are *specific*. That is why, among the respondents, only Proximus, Orange (telecommunications) and UCB Biopharma (pharmaceuticals) expect their BS and P/L to be significantly impacted. These companies expect the implementation efforts to be significant as well. They even plan to collaborate with their competitors to ensure a correct application.
On the other hand, IFRS 15 does not change much (compared to current IFRS) for straight-forward transactions (e.g. Sipef's transactions) as explained by the IASB in its Basis For Conclusions. However, insignificant impacts might still lead to significant efforts. The case of Atenor is interesting: the entity will have to perform significant efforts, notably to allocate the transaction price (see **Table 4**) to the performance obligations identified. However, those efforts are not expected to materially change the BS and P/L. Based on this sample, there is no systematic link between the impacts of IFRS 15 and the implementation efforts it requires.

By combining the answers of the companies in sections 2.2.3 and 2.2.4 and the literature review, the following trends/remarks can be observed/made:

- From a **global point of view**, the *determination (1) and allocation (2) of the transaction price* appear to be the most difficult steps of the new model, mainly due to the difficulty of the requirements about *variable consideration*. Indeed, the IFRS 15 requirements regarding variable consideration are more prescriptive than current IFRS, where entities usually wait for the final payment to recognize variable amounts. The conclusion can be extended to *contract modifications*. Entities have an important room for manœuvre when accounting for contract modifications under current IFRS, while IFRS 15 introduces three different and specific accounting scenarios. These results are interesting because they are the opposite of TA's expectations, which does not expect many issues while dealing with new requirements about variable consideration and contract modifications.

- On the other hand, *revenue recognition* and *identifying distinct performance obligations* seem to be the easiest steps of the model (when considering the answers from the respondents). Entities must still be careful though: identifying distinct performance obligations is one of the most important changes brought by IFRS 15. This influences the remaining steps of the model (**TA** and the companies in **Appendix 6** have identified the identification of performance obligations as the most or second most challenging step of the model). Therefore, even if this step appears less challenging for the surveyed entities (than other steps of the model) af first hand, appropriate attention must be paid to it.
- Compared to variable consideration and contract modifications, *significant financing components* (the practical expedient available for significant financing component certainly played a role in that result), *contract costs* and *disclosure requirements* appear as insignificant hurdles.
- As suggested in the literature review, the *pharmaceutical* and *telecommunications* industries are the most impacted industries represented in the sample. Yet, IFRS 15 really differs case-by-case (as suggested in the literature review). Major differences (e.g. variable consideration) have hence been observed between Orange and Proximus and between Solvay and Borealis Polymers. The conclusions of a single entity, regardless of its size, can therefore not be extended to the entire industry this entity belongs to.
- **IFRS 15 is more than a simple accounting change.** When considering extra-accounting dimensions of a business, IFRS 15 seems to mainly impact three of them: the *IT system*, the *communication to stakeholders* and the *employees' training*. It is, to some extent, logical: an adapted IT system is needed to record transactions, stakeholders need to understand the revenue presentend to make relevant decisions and employees need to be ready to handle IFRS 15 on a daily basis. On the other hand, the tax policy and the employees' benefits are likely not to be impacted. Those parameters are usually managed via the Belgian GAAP figures of entities, which explains the insignificant effect of IFRS 15 on them.

Conclusion

The clear impact of IFRS 15 and the resulting *implementation challenges* have yet to be defined. At the time being, entities' expectations of IFRS 15 are rather based on a set of assumptions than on a set of certainties. We believe that the one year postposal of the initial date of application (i.e. 1 January 2018) played an important role in the low degree of advancement of IFRS 15 amongst the surveyed companies.

Since entities are still quite unfamiliar with IFRS 15, their negative opinion on the standard (i.e. IFRS 15 is an additional workload that does not create added value compared to the current situation) might be biased.
It is definitely true that the implementation of IFRS 15 is a significant change in the IFRS landscape. First of all, IFRS 15 goes beyond the accounting dimension to impact the business as a whole. Moreover, accounting under IFRS 15 will require continuous monitoring from entities even after the completion of the implementation, while accounting under current IFRS is really easy. From an accounting point of view, IFRS 15 introduces *tonnes* of new requirements that are difficult to understand (probably due to the influence of the US GAAP) and, as a resullt, difficult to apply to each entity's reality. In that regard, an issue that often came back (within the sample) was the requirements about *variable consideration*. As explained before, entities will, technically, have to estimate it under IFRS 15 and then look at the *constraint*, while entities could simply wait for the payment to record variable revenue under current IFRS (to the extent that the conditions of recognition were not met before).
In addition, several requirements may lead to different good faith interpretations and therefore different outcomes. Orange pointed out the determination of the *distinct nature* of a good/service *within the context of the contract* as an example but the notion of *control* (see TA's «If and When» contracts) can also be mentioned.

It is interesting to note that the expected impacts of IFRS 15 on financial statements are actually limited to very few industries (within this sample). The telecommunications industry is obviously one of them, as the cases of Proximus and Orange proved what was suggested in the literature review (i.e. the telecommunications industry is *the* most impacted industry by IFRS 15). Significant impacts on financial statements also apply to UCB Biopharma (the pharmaceutical indutry) and might also reach Safran and TA (the aerospace industry). On that

note, these billion-dollar entities plan to collaborate with their competitors. That is why we have good reasons to think that IFRS 15 is not to be taken lightly.
Because of the complexity of certain requirements, insignificant impacts on figures may still lead to significant implementation efforts (for entities of this sample at least), which is the paradox of the standard. Considering the above, the fact that half of the respondents have not (or barely) started any analysis raises questions. As the IFRS Manager of Solvay rightfully explains, the analysis of IFRS 15 might lead to unexpected findings. This is why starting the analysis early is the best option to avoid potential troubles later in the process and therefore to be ready by 1 January 2018 (i.e. the initial date of application).

However, opinions on IFRS 15 seem, in some cases, a bit subjective. Current IFRS is easy (and therefore fully accepted) compared to IFRS 15 and its additional complexity. In a sense, the overall opinion could only be negative. Notwithstanding the above, we believe, after comparing it with current IFRS, that IFRS 15, or at least a new IFRS guidance on revenue, was definitely necessary. *IAS 11 and IAS 18 are minimally prescriptive*. IAS 18.13, for instance, explains that transactions should be broken down in certain circumstances, without giving many (if any) details about those circumstances. In light of this example, it is therefore not surprising that, as explained by McConnell (2014), each entity has developed its own practices to account for similar economic transactions. A more comprehensive guidance to harmonize practices within the business world was therefore definitely necessary, especially at a time where transactions have become increasingly complex and where comparisons with competitors are key for decision-making processes.

Finally, we think IFRS 15 perfectly complies with one of the core principles of IFRS: **substance over form**. A good illustration is the new revenue recognition for a classic telecommunications transaction (sales of a package including a handset and monthly services). Recognizing revenue for the handset based on its stand-alone selling price (rather than based on its contract price) better reflects the *true economic value* of the handset and, consequently, of the transaction. Recognizing no revenue for a handset sold for free respects the *form of the transaction*. However, this would mean that this handset has no economic value, which is (obviously) not the case. In our opinion, dividing a contract into performance obligations and then focusing on their stand-alone selling prices (rather than on the cash recieved) to recognize revenue should allow a **better reflection** of **the true economic substance of transactions** and, as a result, **of entities' actual** performances. It must be added though that the performance obligations identified in a contract still result from the (legal) form of this particular contract (i.e. the contractual obligations).

Being ready for 1 Januray 2018

This survey, despite the small number of respondents, showed that IFRS 15 represents an issue that is not to be taken lightly. As already explained, the implementation efforts of the standard are not related to the impacts on the financial statements. Therefore, insignificant impacts do not necessarily mean insignificant implementation efforts. In light of the above, we would advise entities using IFRS for consolidation purposes to not delay their initial impact assessment just because they do not expect major changes. IFRS 15 is more complicated than the rules it supersedes: it certainly takes time to understand the requirements it introduces and, a fortiori, to apply them to each contract reality.

Moreover, IFRS 15 affects what is called the top line (i.e. revenue or gross sales in the income statement). As McConnell explained, the top line is **important** in the making of investment decisions (2014). Revenue is also **crucial** if entities want to make the appropriate financial communications to stakeholders. The example of Safran is a good illustration of the above statement. The Group has alreday forecasted its budgets until 2020, under current IFRS. The budgets of 2018, 2019, 2020 will thus have to be modified at some point, to reflect a top line accounted for under IFRS 15. The sooner IFRS 15 will be applied, the sooner Safran will be able to communicate correct information to its stakeholders. This last statement is obviously true for every single entity reporting under IFRS.

This is why we believe that entities having not, or barely, started any action regarding IFRS 15 had better start soon, to make sure they are fully ready for 1 January 2018.

Limitations of the present research and possible paths for further studies

The limited number of respondents was a problem as the conclusions of the research could not be extended to the whole Belgian business world. In addition, the degree of advancement of many respondents did not enable us to have certainties about IFRS 15 and the challenges it represents. On another note, as we were expecting a more consequent number of answers, we concieved the survey on the basis of multiple-choice/closed questions. The answers would then have been presented using statisitcs. However, due to the few responses (despite two reminders), we had to change our presentation format, which open-ended questions would have better suited. We also noticed in the on-line survey that the questions relating to the impacts of IFRS 15 could have been formulated otherwise. Rather than (or in addition to) a ranking, we could have asked entities to indicate the degree of efforts they expect to put up for each step/requirement. In the survey, the questions (under the form of a ranking) enabled us to know the degree of efforts from a relative point of view (i.e. each step/requirement compared to the other steps/requirements) but not from an absolute point of view (i.e. the actual degree of efforts entities expect to put up for each step/requirement). Other requirements, such as contract combinations, could also have been included in the list.

This thesis aimed at presenting IFRS 15 globally. A more focused study on particular points might be of interest (e.g. variable consideration and its numerous forms) as well as on particular industries (e.g. telecommunications, pharmaceuticals). Furthermore, a study on some specific industries, such as software and energy, might be interesting as well. We also believe that the same study would gather more accurate and concrete information if done during the next academic year. Finally, it is obvious that a study to determine the quantified impacts of IFRS 15 on the financial statements of entities, once it is implemented and used, would be of particular interest.

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Appendices

Appendix 1: Interview with management controller and tax advisor Mr. Benoît Lambert (Techspace Aero)

This interview took place on 17 March 2016 at the headquarters of Techspace Aero in Milmort (Herstal).

1. **Why is Techspace Aero reporting under IFRS?**

   Techspace Aero (TA) is a first rank subsidiary of a larger French group Safran, which is listed on the stock exchange in Paris (Euronext and CAC 40). Therefore, Safran has to report and issue consolidated financial statements under IFRS. Furthermore, the group includes more or less 200 subsidiaries, reporting under numerous different GAAP. That is why, for a good management of the Group as a whole, common accounting standards are needed. TA is thus also reporting under IFRS but, as a stand-alone company, does not need the IFRS set of rules.

2. **How are your Belgian GAAP figures adapted to IFRS?**

   Our ERP-tool, for the internal needs of the company, is programmed under Belgian GAAP. The Belgian GAAP are indeed the set of rules used for our publications at the NBB. Furthermore, when the company is audited, the auditors look at the accounts published under Belgian GAAP.

   The needed IFRS restatements and reclassifications are then made by using non-accounting reconciliation. A difference must be made between the restatements, due to a different amortization rate for instance, which impacted the income statement and the reclassifications, which only consist of an account switch. Reclassifications modify thus the aggregates of the result, not the amount. However, temporary differences due to restatements are caught up over the years.

3. **When did your IFRS 15 project start?**

   A first information session took place in November 2014 at the Group level and a second this past November (2015) with representatives of the nine first-rank subsidiaries of the Group, wich Techspace Aero is part of. In addition, Safran has set up a copil IFRS 15. Its mission is to assist and advice the first-rank subisdiaries when implementing IFRS 15. At TA, the project started, on a concrete point of view, in April 2015.

You said that the project started at the Group level. In addition to the copil, what did Safran do regarding IFRS 15?

The project of Safran could be divided into three main stages. Among the first-rank subsidiaries, 32 contracts were selected. First, it was analyzed how current IFRS was applied by the different subsidiaries. Then, these 32 contracts were analyzed according to IFRS 15. The objective was to divide those contracts into separate performance obligations and to determine the revenue recognition patterns. As of today, the 32 contracts have been analyzed.

To do so, external auditors were hired. They collaborated with the internal accounting standard consultants. They were notably asked to read and interpret IFRS 15 to define a similar application model of the standard for all the first-rank subsidiaries.

Compared to other entities, you have started an analysis process really early. Are there any particular reasons for justifying that?

I do not think that we started early. The objective of Safran is to already apply IFRS 15 in 2017, a year before the initial date of application. As a quoted company, Safran is required by the markets to have comparative figures for N and N-1. So, if we use IFRS 15 for 2018, we need to use it as well for 2017. Furthermore, the budgets until 2020 have already been prepared. We already know that the last three years will be incorrect, because Safran expects IFRS 15 to have significant impacts on their accounts. Therefore, Safran will need to correct the budgets to present the correct financial information to its stakeholders. IFRS 15 must thus be implemented as soon as possible. However, analyzing every contract is time-consuming.

4. Currently, how far are you in your analysis?

We have 10 contracts, which need to be analyzed. Currently we have completed the analysis of the first one.

What were your conclusions?

In this contract, TA is responsible for the manufacturing of two different types of components, which are then delivered together to the customer. However, one part is billed to the customer two weeks ahead of the delivery while the other is billed after the delivery. Currently, revenue recognition matches the timing of the billings. After analysis, the revenue recognition under IFRS 15 will remain identical.

As you are responsible for the delivery, could the delivery services not have been recognized as a separate performance obligation?

Yes, that is right. Actually, the «correct» treatment under IFRS 15 would require TA to group the two parts together in a single performance obligation. The two parts are indeed necessary to make an aircraft engine work. If we only deliver one part, the engine will never be able to operate. That is why the two types of parts form together a joint performance obligation. Afterwards, the delivery services costs should have been separated from the rest of the transaction price. We would thus have two sperarate performance obligations: the bundle of parts and the delivery services.

What was the reason for not applying this treatment?

The delivery costs do not really have an observable stand-alone selling price – they are always included in the price of each part – so it would have been difficult to isolate them. More importantly, we know that their value is, anyway, less than 0.5% worth compared to the overall price of a component. A split between the delivery services and the components would not have materially changed our P/L. Then, the two weeks gap between the revenue recognitions – related to the two types of components – was not changed either because its impact, due to the number of parts sold in a month and in a year, was immaterial to our financial statements. This conclusion has been validated by Safran and external auditors because what does less than a percent impact represents on a turnover of several hundreds of millions of euros…

5. The five-step model of IFRS 15 introduces new requirements regarding the separation of the performance obligations forming a contract. Do you think you will have difficulties identifying those performance obligations in your other contracts?

This step is actually the most difficult one to implement, by far. I think that once all performance obligations in each contract have been identified, the rest will flow more easily. The difficulty for TA is to determine if a component, on its own, can be distinct. In the first contracts, even though we will not apply this treatment, we determined that the two components form a unique performance obligation. This challenge is likely to reocur for all the components we sell to our customers. Furthermore, we might not be able to always consider the delivery services the way we did for the first contract. Actually, the answer to the question «Is a performance obligation distinct in this contract?» is everything but dual.

6. Do you think it will be easy to determine the transaction price in your contracts?

The revenue we receive always follows the same mechanism. We provide an engine manufacturing company with different components, which will be assembled to form a single engine. This engine company will then sell the engine to an aircraft company, such as Boeing or Airbus, and our remuneration will be a percentage of the total sales price of the engine, based on the proportion of the components we manufactured into the full engine. We are actually operating at the N-1 level of our contracts. We are partners on those contracts and our remuneration depends on the price asked at the aircraft company by the engine manufacturer.

How is the percentage you mentionned determined?

TA has a list of all the manufactured components. In this list is mentioned the percentage/proportion of each component in an aircraft engine. It then becomes easy to determine the percentage we are going to be entitled to in exchange for the manufacturing and delivering of certain components. We are also responsible for providing the replacement parts when the original ones are used or worn. In this case, the revenue corresponds to the full price of those parts and not to a percentage of an engine. The list previously mentioned also includes the respective stand-alone selling prices of each type of parts.

So the allocation of the transaction price is also easy to implement …

Exactly. All we have to do is split the price between the different mannfactured components, according to their respective proportion in the engine.

Except maybe the valuation of the delivery services…

Exactly, an allocation problem might appear for delivery services that will be regarded as a separate performance obligation.

7. I have two questions about the revenue recognition. First of all, how do you expect to recognize revenue: at a point in time or over time?

Our contracts are not progressive contracts. So, we will recognize revenue at a point in time. However, our subsidiary Cenco Inc. sometimes enter progressive contracts but these still need to be assessed to determine what will be done under IFRS 15.

Seen your position in the contracts, when will you recognize revenue: when the transfer is made to the engine manufacturing company or when the final engine is sold? In light of IFRS 15 requirements, you probably do not have the control of your components anymore once they have been transferred to the engine manufacturer…

It actually depends on the contract in question. For certain contracts, the parts are invoiced and revenue is recognized once the parts have been delivered to the engine manufacturing company. For other contracts, we will need to clearly define how to interpret the notion of control under IFRS 15. What I mean is that some of our contracts are «if and when contracts»: as long as the engine manufacturer has not billed the aircraft company, TA is not allowed to invoice its manufactured parts either. If the engine manufacturing company is not paid, we will not be paid either. An increasing number of our contracts are now «if and when contracts».

Therefore, the notion of control will be subject to a detailed analysis. In reality, the parts are no longer in the TA's location so their control has been transferred to the engine manufacturing company. However, in the contract, they constitute an off-set stock and are still the property of TA.

8. The different publications I read about IFRS 15 dealt with the problem that revenue arising from long-term maintenance services might represent for the aerospace companies. Are you concerned about this issue?

Yes, it is one of our major concerns. Those maintenance services represent more or less 50% of our yearly turnover, as more than 2,000 engines are sold on an yearly basis. We still do not know when revenue is recognized under IFRS 15 for those services but a change in their revenue recognition pattern would have a significant impact for TA.

A significant impact on the balance sheet and the income statement?

Yes. Revenue might be recognized earlier but the related cash will not be received earlier. Therefore, receivables would reach significant amounts. The working capital requirement would then be different. Then, if revenue is recognized earlier, an adjustment of the costs of sales is also necessary and the margin is affected as well.

A meeting is foreseen with SNECMA to talk about this issue and to make sure the revenue recognition arising from long-term maintenance services is aligned between the different companies of the Group.

9. IFRS 15 introduces new requirements on how to account for contract modifications. Do you expect any potential troubles in that regard?

Our contracts, due to their long-term structure, are rarelly modified. It would be complicated and require loads of efforts on a legal point of view. However, some of our customers sometimes ask us to conduct additional studies but those supplements are usually distinct from the rest of the contract and have their own price.

I would like to ask you the same question, but this time about the contract combinations.

This point is a bit different. Several contracts are indeed entered with the same customer, concerning the different parts that need to be manufactured and the maintenance services for instance. As everything is sold to the same customer, those contracts might have to be combined. This is a point that will be investigated, but, currently, we have not reached any conclusions yet.

10. The different publications also explained that aerospace entities might be impacted by the new requirements regarding variable consideration. Will it be the case for TA?

In our first contract, there was no sign of variable elements. The problem, which arises for other requirements of IFRS 15 as well, is to properly define what is actually variable under IFRS 15 and what is not. However, as we are almost systematically paid with a percentage, we do not expect our contracts to include variable elements.

I believe you do not expect to be impacted by requirements relating to the significant financing components either.

Indeed. The timing between the delivery of parts and the receipt of the payment never exceeds a year. Should there be significant financing components in our contracts, they would fall within the practical expedient. However, we do not think our contracts contain such elements, as we are paid with a percentage.

11. Do you expect to capitalize more or less contract costs than currently due to the new IFRS 15 requirements?

Due to the size and specificity of the market, we do not incur obtention costs. We currently capitalize some development costs under *IAS 38 Intangible Assets* and that will of course continue even under a new revenue standard. Otherwise, I think, by now, that those new requirements regarding contract costs will not change anything to the capitalization of contract expenses.

12. IFRS 15 is more than an accounting change. Could you give me a few words on how the new standard will impact the elements of this list: your systems and processes, the employees' training, the tax policy, the communication to stakeholders and the bonus and compensation plans?

The changes in the system and processes, especially the IT system, will depend on the impacts, which have not been quantified yet. We surely expect changes though, notably in the invoicing system. In addition, the extra information that needs to be published in the disclosures might be a problem as well if the contracts are impacted by IFRS 15. The IT system would then have to be adapted to provide the needed information without wasting too much time. Actually, some members of the team believe that there will be no half-hearted measures: until a certain degree of impact, the changes to the IT will be very limited or even void. Conversely, from a certain degree of impacts, the changes to the IT system will be tremendous.

May you consider to implement a SAP software?

It could happen yes. The advantages of SAP software is that the accoutings under both Belgian GAAP and IFRS are done in parallel with each other.

Now concerning the employees' training, we already know the finance staff will be impacted but we have no idea about the degree of these impacts. A training for the budget division has been planned, because some of them have never been really in touch with IFRS. The restatements and reclassifications are not numerous under current IFRS. That is why, only a limited number of people is really in touch with the IFRS figures of the company. In addition to the budget, the accountants will likely be informed about IFRS 15 as well. Some of them have never been in touch with IFRS. It will thus be important to prepare them correctly for using IFRS 15.

The person in charge of the IFRS at Solvay told me that an accountant, under IFRS 15, will be unable to account for a contract with the help of a sales representative. Do you agree with that statement?

I agree. It is also planned to talk about IFRS 15 with the commercial division, which might be really helpful in the process of registering a contract. We may also adapt our invoicing system.

Do you also think the legal department will be involved at some point?

At this stage of the analysis, it is hard to tell. But it is true that some words or sentences could be changed in different contracts to avoid major concerns while accounting for the contracts. The legal department may thus be contacted at some point, yes.

Do you expect to adapt your tax policy due to the arrival of IFRS 15? I mean aligning Belgian GAAP with IFRS 15.

We try to align our reporting under Belgian GAAP with IFRS as much as possible. However, I do not think that it will be the case for IFRS 15, because of fiscal reasons mainly. An earlier revenue recognition may lead to higher advance tax payments. In this case, I am afraid the cash might not follow.

What about the communication to your stakeholders?

The communication to the stakeholders regarding the IFRS figures mainly concerns Safran. The communication with our local stakeholders is based on the Belgian GAAP figures.

I believe the argument is also valid for the bonus and compensation plans and employees' benefits in general…

Yes, excatly.

13. Do you already have an idea about the transition method you will use?

No, it is still too early in our analysis to make a comment on this point.

14. What is your opinion on IFRS 15?

IFRS 15 is a really complicated standard. The best proof, in my opinion, is that a group like Safran has decided to collaborate with its competitors before taking any decision regarding IFRS 15. IFRS 15 still leaves a lot of room for interpretations. A bad decision regarding its interpretation could have consequences on the revenue and then on the share prices. No major player wants to trail behind its competitors as far as the share price is concerned. They have to come to an agreement on how to apply IFRS 15. IFRS 15 is thus everything but dual, as I said earlier.

Don't you think a new guidance was needed? Current guidance was still really limited or even void on numerous points.

I agree that current IFRS was insufficient on several points but I still think that IFRS 15 has been made a little too complex.

Thank you very much for your time.

Appendix 2: Interview with IFRS Manager Ms. Farah De Rouck (Solvay)

The interview took place on 15 March 2016 at the headquarters of Solvay in Brussels.

1. **How would you assess your company's understanding of the new standard?**

We are still in the early stages of our analysis and several points still need to be assessed but, as of right now, everything is clear. IFRS 15 is significantly more prescriptive than the current standards but its requirements, as a whole, are logical. However, analyzing its impacts on our business is going to require significant work.

2. **You are dealing with customers from different industries. Do you think this will play any role in the impact IFRS 15 will have on your business?**

Yes, it will. In our different business units the markets are different, the customers are different and the contracts are different. Discussing with the sales representatives and the legal department is thus really important, as they know the structure and the content of the contracts. A key point is to clearly define the different performance obligations in each contract to determine whether or not the timing of the revenue recognition has to be shifted.

3. **Do you think that your company will significantly be affected by IFRS 15 regarding its balance sheet and income statement?**

Deferred incomes are possible. Yet, with a balance sheet worth billion of euros, those deferred incomes, and IFRS 15 as whole, should not change the face of our consolidated financial statements.

4. **The new IFRS 15 is based on a five-step model. Could you rank those different steps from the most challenging to the least challenging?**

The most challenging step would be the determination of the transaction price, due to the variable consideration requirements. The allocation of the transaction price and the determination of the performance obligations in a contract should follow, but with really insignificant efforts compared to determining the transaction price. Finally, it will be really easy to determine which contracts do belong to the scope of IFRS 15 and the revenue recognition patterns.

You think the efforts for the determination of the performance obligations and the allocation of the transaction price will be limited. Is it due to the fact that most of your products are sold on their own and not into bundles?

Yes. As far as the determination of the performance obligations is concerned, it is not especially complicated. Our contracts do not contain multiple elements for instance, which already eases the task in hand. A problem we might face though is the problematic of the material right. Customers have, in several contracts, the option to acquire additional goods at discount and we need to determine if those options grant them a material right. Otherwise, you are right: products are usually sold on a stand-alone basis and have thus observable stand-alone selling prices. That is why we will only have to check if those prices are in line with IFRS 15 requirements.

Why do you expect the revenue recognition to be so easy?

Our core business is the sales of goods and our contracts do not usually contain any services. So we expect to recognize revenue at a point in time, when the customer gets control of the goods.

The IFRS 15 model is, as you said, based on the notion of control while IAS 18 and IAS 11 models were based on the notion of risks and rewards. As a result, can your revenue recognition happen earlier than currently?

Yes, it is possible. When we are not responsible for the delivery of the goods, we will recognize revenue at the time of shipment. If our products are shipped by boat to the customer, for instance, it would be impossible for us to direct its use. It would be concluded that the control of the products is not ours anymore and revenue would be recognized. Now, if we are responsible for the delivery, revenue could be recognized at the time of delivery. However, we still need to assess this point.

5. **Could you rank the following elements (variable consideration, significant financing components, contract costs, contract modifications, disclosure requirements and determining the distinct nature of a good/service) from the most to the least challenging? And could you specify why?**

The variable consideration requirements are definitely the most challening ones and for several reasons. First of all, the definition of a variable amount under IFRS 15 must be understood. Some elements regarded as fixed under current IFRS might become variable under IFRS 15. A case-by-case assessment in thus necessary as the impact really depends on the structure of each contract. Furthermore, variable consideration must now be estimated and included in the transaction price at contract inception. Therefore, to estimate those variable amounts, we will need extra information that is not necessarily important under current IFRS. This is going to be a difficult point to treat.

I would then point out the accounting for contract modifications. For instance, if a quality discount is granted to a customer, how would we account for it? This is an example of the questions we will look at and need to find answers to. Furthermore, there is currently no accounting policy regarding contract modifications. Each entity does it its own way and there may even be divergences in the same entity, according to the considered contract.

I would then put the distinct character of a good/service on three, the disclosure requirements on four (it will still be challenging to gather all the needed information), the contract costs on five and the significant financing component on six.

As far as the contract costs are concerned, we do not expect major changes. In the aeronautics division, some costs are not capitalized under current US GAAP but will be under IFRS 15 and thus under new ASC 606. Finally, the significant financing components are a non-event since the majority of our contracts should fall within the practical expedient.

6. **IFRS 15 is going to be more than just a simple accounting change. Could you give me a few considerations on the following dimensions (IT system, employees' training, tax policy, communication with stakeholders, bonus and compensation plans and the structure of the contracts) and, as for the previous question, rank them from the most impacted to the least impacted?**

The IT system will be the most impacted dimension of the business. Modifications to the IT system, even limited, are always laborious to implement. A few years ago, *IFRIC 21 Levies* was issued. This standard had a really limited impact as it only changed a single accounting operation. Yet, it took several months to adapt the IT system, notably because the modifications had to be made worldwide. Therefore, with a long and complex standard like IFRS 15, the modifications are likely to be much more significant and take a lot of time. In that regard, the one-year postposal of the date of application of the standard is a good thing for Solvay. We are currently dealing with another project and it would thus have been difficult to be ready by 2017.

The training of employees would come second. Every two months, we do what we call an IFRS flash. Each member of the Solvay IFRS community joins a call to talk about the IFRS topicality. Therefore, the training of people to IFRS is a major concern at Solvay. In addition, the collaboration between different divisions will be a key point. Under IFRS 15, accountants will not be able to account for a contract on their own anymore. They will always need the aid of the sales representatives.

I would then put the structure of the customer contracts on three. An objective would be to standardize the different models of contracts and their important range of options. However, this might not be possible because of the customers. For instance, it is hard to negotiate with a company such as Apple because they are picky about the contract terms and structures. Furthermore, the contracts entered with them are usually short-term. We expect to have more margin for the long-term contracts and therefore be able to simplify the structure of those contracts. The legal department will be consulted to do so and to have an idea of the consequences a contract structure modification would have.

The communication to the stakeholders has not been regarded as a material point so far. Should IFRS 15 have a material impact on our consolidated financial statements, a press release would be made to inform them. As of today, it is too early to make a definitive judgement on this point. Therefore, no publication will be made before 2017.

Our tax policy is of course related to our Belgian GAAP net income. However, we try to align our Belgian GAAP and IFRS as much as possible. So, if Belgian GAAP can be aligned on IFRS 15, they will be, but it is again too early to make a final statement on this. Finally, the bonus and compensation plans will not be impacted by the arrival of IFRS 15.

7. Do you already know how you will adapt to IFRS 15?

This point has not been decided yet. Nevertheless, if the changes brought by IFRS 15 appear to be material, the Full Retrospective Method will likely be picked. Furthermore, if the impacts are material, good comparisons will be needed, even more for an international group like ours. This is why an effort would likely be made to use the Full Retrospective Method.

8. **Next to the general publications, several sectorial publications on IFRS 15 have been issued as well. Besides, a fear of certain companies is to set a precedent. Do you plan to collaborate with other chemical entities?**

As of today, no. We may exchange some information with entities from other industries, but we cannot talk about deep collaborations. The impacts are expected to be limited in the chemical sector and, as a result, most entities plan to implement the standard by themsevles. It even went further. In the United States, a working group, with different entities coming from different industries, was created and no chemical entity was included because the impacts of IFRS 15 in the chemical industry were considered too insignificant.

Do you plan to call on auditors or external consultants?

Meetings with our external auditors are already foreseen. This will enable us to give them an update of the situation and explain our choices to them. They must be integrated in the project as soon as possible to ensure they do not decide to change everything in the last second. In any case, external auditors will not perform the implementation but, at best, one or two contract analyses. If external auditors are not necessary, they will not be called.

9. **From what I read and understood, IFRS 15 was issued with several objectives in mind. One of them was to better depict the nature, timing, amount and uncertainity of revenue and, in fine, better align revenue and performance. What are your thoughts about that?**

It is difficult to say if the quality of the revenue will improve. However, this new guidance clarifies numerous points, which were not addressed by current IFRS. As I said before, IFRS 15 is, all-in-all, a logical standard and will allow better comparisons between entities since IFRS 15 will harmonize the different accounting policies. Nonetheless, it is true that the implementation might require significant effort even though the impacts on the figures are limited. Furthermore, IFRS 15 will probably require a closer follow-up of the contracts than current guidance.

Do you think that the stakeholders, thanks to IFRS 15, will understand the financial statements better and more easily?

Probably not. IFRS 15 is a difficult standard, much more prescriptive than its predecessors. It actually looks like a classic US GAAP standard. Furthermore, the stakeholders do not probably have a sufficient IFRS background to understand the standard as a whole. Its understanding is even difficult for IFRS specialists. So, in my opinion, the stakeholders will not have any opinion on IFRS 15.

Thank you very much for your time.

Appendix 3: On-line questionnaire sent to the companies

Questionnaire: the implementation of IFRS 15

Dear Sir or Madam,

My name is Maxime PETERS and I am in the 2nd year of my master in Management sciences at HEC Management School – University of Liège.
As part of my final thesis on the implementation of the new IFRS standard regarding revenue from contracts with customers, IFRS 15, I would like to get some information with the help of a multiple-choice questionnaire. This will only take you a few minutes (max. 10 min) to be filled in. It mainly includes general questions and does not require the disclosure of any confidential information, data and figures.

I thank you in advance for the time you will be willing to take to answer.

1. Sector of your company:
2. Position in the company:

3. How would you assess your company's understanding of the new standard?
    - o Clear
    - o Unclear
    - o We have not looked at it yet

4. What is your current position in the implementation process of IFRS 15?
    - o Not started yet
    - o Initial impact assessment started but no yet completed
    - o Initial impact assessment completed
    - o Beyond the assessment phase (start of implementation of processes, controls,…)
    - o Everything that needed to be adapted has been.

5. If you have not started implementing anything yet, what are the main reasons for it ?
    - o We think the changes will not be significant
    - o Lack of resources
    - o Waiting for additional guidance
    - o Others (please specify):

6. Do you think that your company will significantly be affected by IFRS 15 regarding its balance sheet and income statement?
    - o Both will be significantly impacted
    - o Only the income statement will be significantly impacted
    - o Only the balance sheet will be significantly impacted
    - o Neither of them will be significantly impacted
    - o We have not assessed that point yet

7. Is your choice of transition method already set?
    - o Yes, the full retrospective method
    - o Yes, the modified retrospective method

- No but we tend to go for the full retrospective method
- No, but we tend to go for the modified retrospective method
- No idea yet

8. Do you think the implementation of IFRS 15 will require significant effort?
    - Yes
    - No, only insignificant effort
    - Currently not sure

9. Will you make changes or adjustments in your business model regarding the arrival of IFRS 15?
    - Significant changes
    - Limited changes
    - No change
    - Not determined yet

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)
    - Step 1: determination of contracts
    - Step 2 : identification of performance obligations
    - Step 3 : determination of the transaction price
    - Step 4 : allocation of the transaction price
    - Step 5 : recognition of revenue

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)
    - Accounting for contract modifications
    - Determining the distinct character of a good/service
    - Accoutning for variable consideration
    - Accounting for significant financing components
    - Accounting for contract costs
    - The new disclosure requirements

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)
    - IT system
    - Tax policy
    - Communication to stakeholders
    - Employees' training
    - Bonus and compensation plans
    - The structure of customer contracts

    In a few words, please specify what your company plans to do regarding the most impacted areas (e.g. changes to the contract structure, create a new ERP, etc.):

13. Do you think using IFRS 15 will better reflect the nature, timing and amount of revenue?
    - o Yes, it better reflects the real substance of transactions than IAS 18 and IAS 11
    - o No, it will not change much in practice
    - o Other opinion (please specify):

14. Do you think stakeholders will understand the financial statements more easily thanks to the requirements of IFRS 15?
    - o Yes, IFRS 15 will clarify certain points in the financial statements
    - o No, IFRS 15 will not really change much compared to IAS 11 and IAS 18
    - o No opinion

15. Do your current resources enable you to manage/implement the changes brought by IFRS 15?
    - o Yes
    - o No, we will need to recruit senior finance professionals/hire consultants

16. Do you think IFRS 15 is «worth» all the efforts your company will have to put up to implement it?
    - o Yes, new guidance was definitely required, regardless of the efforts it takes to be implemented
    - o Yes, but the new guidance could still have been made less complex
    - o No, it represents significant effort to little avail
    - o We have insignificant efforts to put up

17. How do you plan to behave towards your competitors during the assessment / implementation phase of IFRS 15?
    - o We are going to implement IFRS 15 only by ourselves
    - o We are going to look at what our competitors do regarding IFRS 15
    - o We are going to collaborate with our competitors to ensure the standard is applied properly.
    - o Other (please specify):

Please feel free to add any comments you may find relevant for the present study (optional):

Would you mind being contacted by phone or email to answer a few additional questions regarding the present survey?

Name* :
Phone Number* :
Email* :

*: Note that this information will stay strictly confidential. It will only be used for potential further contact and will not appear in the dissertation or in any other document.

Appendix 4: List of comapnies the questionnaire was sent to

• AANNEMINGSMAATSCHAPPIJ CFE • Ablynx • AGC GLASS EUROPE • Airbus Belgium • AMCOR FLEXIBLES TRANSPAC • ANHEUSER-BUSCH INBEV • ARCELORMITTAL BELGIUM • Argon Medical Devices Netherlands B.V. • ATENOR GROUP • Balta • BANIMMO • Barco • BELGACOM • Belgische Scheepvaartmaatschappij-Compagnie Maritime Belge • BESIX GROUP • BOREALIS POLYMERS • Bpost • BRICO BELGIUM • Buyin • CAMPINE • Celyad • COCKERILL MAINTENANCE & INGENIERIE • CONNECT GROUP • CWS-Boco BeLux • D'Ieteren • Dassault Belgique Aviation • DECEUNINCK • Delhaize	• DUVEL MOORTGAT • Eckert & Ziegler BEBIG SA • Econom Group • Egemin international • Etablissements Fr. Colruyt – Etablissementen Fr. Colruyt • ETEX • EURONAV • EVS • EXMAR • Fagron • Galapagos • GfK Retail and Technology Benelux BV • GHELAMCO GROUP • Greenyard Foods • IBA • IMCD BENELUX • INFRABEL • Jensen Group • Keyware Technologies • KWANTUM BELGIE BV • L'Oréal Belgilux • LOTUS BAKERIES • MAGOTTEAUX GROUP • MARINE HARVEST PIETERS • Melexis • MIKO • MOBISTAR • MOURY CONSTRUCT

- MULTIPHARMA GROUP
- nmc
- Nutreco Belgium
- NV BEKAERT SA
- Nyrstar
- OMEGA PHARMA
- Ontex
- Option
- **ORANGE SA**
- PICANOL
- Plan-IT
- PRAYON
- QUICK RESTAURANTS
- RealDolmen
- RECTICEL
- Resilux
- S.A. CORMAN
- SCA Hygiene Product
- SCHINDLER
- SIEMENS
- SIOEN INDUSTRIES
- SIPEF
- Société anonyme belge de Constructions aéronautiques
- Société Internationale de Télécommunications Aéronautiques

- Society for Worldwide Interbank Financial Telecommunication
- SOLVAY
- SPIE BELGIUM
- STOW INTERNATIONAL
- SuperGroup Europe
- TELENET GROUP
- Ter Beke
- Tessenderlo Chemie
- ThromboGenics
- THULE
- TI GROUP AUTOMOTIVE SYSTEMS (BELGIUM)
- TOYOTA BELGIUM
- U C B
- VAN DE VELDE
- Vandemoortele
- ZENITEL
- ZETES Industries
- VPK Packaging Group
- PCB
- SAPEC
- SCR-Sibleco
- Saverex
- Vision IT Group

Appendix 5: List of companies that answered the questionnaire

Name of the company	Industry sector
Borealis Polymers	Chemicals
Solvay	Chemicals
UCB Biopharma	Pharmaceuticals
Orange SA	Telecommunications
Proximus	Telecommunications
Atenor	Construction
Bpost	Distribution and Transport (postal)
D'Ietereen	Distribution and Transport (automotive)
Etablissements Fr. Colruyt – Etablissementen Fr. Colruyt	Retail
Greenyard Foods	Food and Beverage
Barco	Technology
Celyad	Biotechnology – Cell Therapy
Magotteaux	Industrial Production (foundry)
NV Bekaert SA	Industrial Production
Nyrstar	Indutrial Production (mining and metals)
Sipef	Industrial Production (tropical agriculture)
Sioen	Industrial Production (technical textile)
TI Automotive Systems Belgium	Industrial prodcution (automotive – steel)

Appendix 6: Non-treated answers in the empirical part

As mentioned in sections 2.2.3 (p.49) and 2.2.4 (p.57) of the empirical part, the answers from Greenyard Foods, Magotteaux, Sipef, Sioen and TI Automotive Systems Belgium will be presented in this appendix.

However, we decided to only include the answers to the following questions of the survey (see Appendix 3):

- Question 10;
- Question 11;
- Question 12.

Indeed, the answers to the remaining questions have been presented in the different sections and sub-sections of the second part of the empirical part.

Answers from Greenyard Foods

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)

- 1 Step 1: determination of contracts
- 2 Step 2: identification of performance obligations
- 4 Step 3: determination of the transaction price
- 5 Step 4: allocation of the transaction price
- 3 Step 5: recognition of revenue

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)

- 2 Accounting for contracts modifications
- 1 Determining the distinct character of a good/service
- 3 Accoutning for variable consideration
- 4 Accounting for significant financing components
- 5 Accounting for contract costs
- 6 The new disclosure requirements

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)

- 1 IT system
- 4 Tax policy
- 5 Communication to stakeholders
- 2 Employees' training
- 6 Bonus and compensation plans
- 3 The structure of customer contracts

Answers from Magotteaux

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)

- Step 1: determination of contracts **5**
- Step 2 : identification of performance obligations **1**
- Step 3 : determination of the transaction price **2**
- Step 4 : allocation of the transaction price **3**
- Step 5 : recognition of revenue **4**

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)

- Accounting for contract modifications **4**
- Determining the distinct character of a good/service **2**
- Accoutning for variable consideration **1**
- Accounting for significant financing components **3**
- Accounting for contract costs **5**
- The new disclosure requirements **6**

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)

- IT system **1**
- Tax policy **4**
- Communication to stakeholders **5**
- Employees' training **2**
- Bonus and compensation plans **3**
- The structure of customer contracts **6**

Answers from Sipef

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)

- 1) Step 1: determination of contracts
- 2) Step 2: identification of performance obligations
- 5) Step 3: determination of the transaction price
- 4) Step 4: allocation of the transaction price
- 3) Step 5: recognition of revenue

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)

- 3) Accounting for contracts modifications
- 6) Determining the distinct character of a good/service
- 3) Accounting for variable consideration
- 5) Accounting for significant financing components
- 1) Accounting for contract costs
- 2) The new disclosure requirements

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)

- 5) IT system
- 4) Tax policy
- 3) Communication to stakeholders
- 2) Employees' training
- 6) Bonus and compensation plans
- 1) The structure of customer contracts

Answers from Sioen

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)

- Step 1: determination of contracts (5)
- Step 2: identification of performance obligations (1)
- Step 3: determination of the transaction price (4)
- Step 4: allocation of the transaction price (2)
- Step 5: recognition of revenue (3)

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)

- Accounting for contracts modifications (1)
- Determining the distinct character of a good/service (6)
- Accoutning for variable consideration (2)
- Accounting for significant financing components (3)
- Accounting for contract costs (5)
- The new disclosure requirements (4)

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)

- IT system (1)
- Tax policy (5)
- Communication to stakeholders (6)
- Employees' training (3)
- Bonus and compensation plans (4)
- The structure of customer contracts (2)

Answers from TI Automotive Systems Belgium

10. Five step model: please rank the steps from the most challenging one to the least challenging one for your company? (From 1 = the most challenging to 5 = the least challenging)

- Step 1: determination of contracts 2
- Step 2 : identification of performance obligations 1
- Step 3 : determination of the transaction price 3
- Step 4 : allocation of the transaction price 4
- Step 5 : recognition of revenue 5

11. Please rank the following IFRS 15 requirements from the most challenging to the least challenging one for your company. (From 1 = the most challenging to 6 = the least challenging)

- Accounting for contract modifications 1
- Determining the distinct character of a good/service 2
- Accoutning for variable consideration 4
- Accounting for significant financing components 3
- Accounting for contract costs 5
- The new disclosure requirements 6

12. IRFS 15 is more than an accounting change. Please rank the following dimensions of your business from the most to the least impacted one. (From 1 = the most impacted to 6 = the least impacted)

- IT system 1
- Tax policy 2
- Communication to stakeholders 4
- Employees' training 5
- Bonus and compensation plans 6
- The structure of customer contracts 3

Executive Summary

From 01/01/2018, entities reporting under IFRS will have to recognize revenue from customer contracts according to a new standard: *IFRS 15 Revenue from Contracts with Customers*.

Superseding the current IFRS guidance on revenue (IAS 11, IAS 18 and their interpretations), IFRS 15 is a project jointly conducted by both the IASB and the FASB. Indeed, current IFRS (IASB) on revenue is limited in terms of guidance while current US GAAP (FASB) is too prescriptive and specific. This sometimes results in inconsistent outcomes for both set of rules, with similar transactions accounted for differently. IFRS 15 was issued in a way that entities could rely on a more comprehensive single set of rules, which would harmonize revenue accounting and allow for better comparisons between entities' financial statements.

Since revenue is the key driver of an important majority (if not the totality) of companies, a new revenue standard represents an important change in their accounting and daily functioning. That is why we wanted to study the challenges and impacts the implementation of IFRS 15 stands for in Belgian companies. However, since the application of IFRS 15 is foreseen from 2018, a measurement of the impacts on financial statements is not possible yet.

Following an explanation of the main principles of IFRS 15 and the identification of the main changes against current IFRS (from a general and sectorial perspective), the study analyses the current situation of the standard amongst Belgian entities. Via the presentation of a concrete IFRS 15 implementation project and an on-line survey among Belgian entities (using IFRS for consolidation purposes), the sudy focuses on three main topics: the current progress of IFRS 15 in Belgium, the accounting and extra accounting challenges related to its implementation and the opinion of Belgian companies about it. The results of the study could be summarized as follows: despite an (overall) limited progress in the implementation process, Belgian entities already consider IFRS 15 an unecessary change, notably because of its complexity and the implementation efforts it requires. This opinion is a bit biased though. IFRS 15 is surely more complicated than IAS 11 and IAS 18 but those standards were not adapted anymore to today's transactions. However, with its more complete guidance, we believe IFRS 15 will remove the (above mentioned) diversity of practices and work for a more harmonized revenue reporting.