MENDEL UNIVERSITY IN BRNO
Faculty of Business and Economics

Application of IFRS 15 and its Impact on Revenue Recognition and Financial Reporting

Diploma thesis

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Abstract

Zelinková, B. Application of IFRS 15 and its Impact on Revenue Recognition and Financial Reporting. Diploma thesis. Brno: Mendel University, 2017.

The diploma thesis deal with the application of the new standard IFRS 15 and refert to changes in revenue recognition and financial reporting process with replace current standards IAS 11 Construction contracts and IAS 18 Revenue. In theoretic part, there is described reason for implementation of new standard with detailed requirements. The practical part identifies the impact which is affecting timing of revenue recognition in different sectors on financial reporting.

Keywords

IFRS, IAS, IFRS 15, Revenues recognition

Abstrakt

Zelinková Barbora. Application of IFRS 15 and its Impact on Revenue Recognition and Financial Reporting. Diploma thesis. Brno: Mendel University, 2017.
Diplomová práce se zabývá aplikací nového standardu IFRS 15 a poukazuje na změny v rozpoznávání výnosů a finančním vykazování v důsledku nahrazení stávajících standardů IAS 11 Stavební smlouvy a IAS 18 Výnosy. V teoretické části jsou blíže vysvětleny důvody zavádění nového standardu s detailními požadavky standardu. V praktické části je pak znázorněn dopad na rozpoznání výnosů z časového hlediska a rovněž pro různá odvětví.

Klíčová slova

IFRS, IAS, IFRS 15, Výkazování výnosů

Content

1 Introduction, objectives and thesis methology

1.1 Introduction

In recent years, there have been many important changes in finance and accounting all over the world. These changes were driven by the world financial crisis, economic globalization, and increasing international trade, and led to the need to set up international accounting and reporting standards. The creation of international accounting standards decrease the consequences of differences in national economic, political and legal systems, and helped harmonize company financial information, improve the transparency of accounting, and ensure that investors receive more accurate and consistent reports. For this reason, there have been several tendencies in the past decades to unify the treatment of financial statements and reporting in general, not only in Europe, but also worldwide.

In Europe, the standards mostly used are the International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). Historically, it was first The International Accounting Standards Committee created in 1973 and reorganized in 2001 as an independent international standard setter – the IASB. The second set of financial accounting standards are the Generally Accepted Accounting Principles (US GAAP), issued by the organization of the Financial Accounting Standard Board (FASB) in the United States of America.

All companies traded on the capital market in the U.S. had to be reported only under the U.S. GAAP recently, and for that, the U.S. GAAP became a candidate to be respected as the most important international standards for financial reporting. But during the 21st century, a series of events has caused a decrease of confidence in the U.S. GAAP and simultaneously an increase in the significance of the IFRS in scope of world standard harmonization. Finally, The Securities and Exchange Commission (SEC) announced the possibility of reporting under the IFRS standards for foreign companies traded their securities on the American capital market. (Bohušová et al, 2013)

One solution toward the harmonization of financial reporting is the convergence of the U.S. GAAP and the IAS/IFRS. In 2002 both the FASB and IASB committed to cooperate within the convergence of their standards, the main goal of the joint effort being to create specialized independent organizations in the field regulation of financial reporting – the IASB and FASB – to create a single set of high quality globally applicable financial reporting standards. These plans were reaffirmed through the Memorandum of Understanding. Both the ratified documents originally assumed that the content of each IAS and IFRS matched the content of individual rules of the U.S. GAAP by the end of 2008. The objective was not met within the specified deadline. The Memorandum of Understanding was updated between 2008 and 2010.

In the Memorandum of Understanding they specified the areas of processes in which convergence should be achieved. One of them was the topic of this thesis, revenue recognition, which was highly discussed by the FASB and IASB as standards to be improved and modified. The revenue recognition process poses important differences in financial statements prepared under the IAS/IFRS and the U.S. GAAP.
The issue of one unified standard for revenue recognition reporting will make it easier to compare companies around the world and will well serve to all users of financial reports such as company owners, shareholders, investors, auditors or the public.

When and how to recognize revenue? This was one of the most controversial issues in today's accounting and one of the biggest gaps between the IFRS and the U.S. GAAP international standards until now. Finally, the FASB and IASB came closer and tried to solve this gap by issuing new standards, IFRS 15 Revenue from Contracts from Customers by replacing IAS 18 Revenue and IAS 11 Constructions Contracts and Topic 606 issued by FASB which replaced more than 100 separate documents and protocols of very detailed guidance of revenues.

1.2 Objectives of the thesis

The main objectives of this thesis are to identify the most important changes and differences in the revenue recognition process and financial reporting in applying new principles standards IFRS 15 Revenue from Contracts with Customers, which replace the current standards of IAS 11 Construction Contracts and IAS 18 Revenue. Due to the ineffectiveness of the new standards, an analysis will be performed on model examples focused on the change of timing of revenue recognition, treatment of different contracts and their modification and variable consideration, as well as uncertainty of revenue and cash flows arising from customer contracts. The final conclusion will contain a summary of the impact on accounting, financial reporting and financial statements.

1.3 Methodology

This work will be divided into two main parts. In the first part, which will be mainly theoretical, I will discuss the main theoretical knowledge relating to the recognition of revenues under the IAS 11, the IAS 18 and the IFRS 15. They are 2 main chapters, first one is focused on current standards within the comparison to the new standard and identifying main differences and their impact in financial accounting. The other chapter is focused on the new standard IFRS 15 where will be explained the process of development of the standard, final version of standard requirements, impact of the new standard on different sector and transition of the financial results to the new IFRS 15. In the second, practical part, I will try and individually apply theoretical knowledge using model examples. The model examples will be performed on the different sectors for which the standards requirements caused the biggest changes on the accounting process and the financial reporting. They are Technology and Software development, Real estate and Construction buildings. Based on theoretical knowledge, the examples will be performed on the highest discussed processes identified during the creation and development of the new standard. That´s mean on the topics which will be new for companies to apply and to implement in their current practise of revenue recognition. These topics are already mentioned in the main objective of the thesis, the process focused on the change of timing of revenue recognition, to treatment of different contracts and their modifications and variable consideration, uncertainty of revenue and cash flows arising from a contract with the customer. The model examples will be firstly applied to current standard IAS 18 Revenue and IAS 11 Construction (depending of the type of contract) and then will be applied on requirements of the new standard IFRS 15. The evaluation of the impact of particular cases will be indicate on indicator of financial analysis, mainly EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization. This indicator help to compare profitability between different entities, sectors or accounting approach, favoured in Western countries and U.S. because the indicator extract the impact of fiscal and depreciation differences. Then it´s easier to compare the profitability of different companies across the world.

In the last model example, there will be perform the process of transition of accounting bookings and results reported under current standard to the new accounting requirements included in IFRS 15. It will comprise the impact on financial statements as on The Statement of comprehensive income, on The Statement of changes in equity and on Statement of financial position.

The theoretical part will be written based on method of description and comparison. The practical part will be prepared based on analysis of model examples, deduction, description and comparison of the current and the new standard, description of the impact on financial indicators and final evaluation of the changes with summarization.

2 Literature overview

The main goal of the process of harmonization of accounting standards is to achieve the same level of comparability in the way financial reports are prepared and presented in order to reduce the differences in financial reporting processes around the world. Even for multinational companies operating internationally and using different sets of reporting standards, harmonization might be useful and help them compare financial statements more efficiently. (Ho Chun Wei, 2008)

Nowadays businesses are going global, and the growth in cross-border financing is creating an environment that would benefit from the harmonization of accounting standards at both international and national levels. Others to benefit from this are investors who will better understand the financial statements and make well thought investment decisions, as well as companies, as it will increase auditing efficiency and money saving to use only one set of reporting standards. One of the other objectives of the IFRS as a single reporting standard is a better understanding between investors, lenders and other businesses, as there will be the nature of predictability in place. (Research Methodology, 2017)

Contrary to most European national systems, the IFRS and U.S. GAAP are not formed by lawmakers or another institutional authority, but by experts and specialists who have been working in particular branches their whole careers. We are speaking about independent persons who will not be swayed by other interests and will create high-quality standards. Both the IASB and FASB are formed by auditors, accounting experts, investors and instructors, they are non-profit, non-governmental organizations with a proper source of financing. (Mládek, 2005)

Currently, the IASB is responsible for creating global accounting standards published as the IFRS (until 2003 called the IAS). Over time, The Board created the SIC – the Standards Interpretation Committee responsible for assessing controversial accounting issues and then creating supportive interpretation to unify problematic questions in light of already existing standards and conceptual framework of the IAS/IFRS. (Dvořáková, 2014)

2.1 Current revenue recognition

For revenue recognition there are currently two standards – IAS 18 and IAS 11. The IASB published other interpretations for reporting the others specifics areas as "SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease","SIC 31 Revenue – Barter Transactions Involving Advertising Services", "IFRIC 13 Customer Loyalty Programs", and "IFRIC 15 Agreements for the Construction of Real Estate" all relating to IAS 18 Revenues. Relating to IAS 11, the users can refer to "SIC 27", "SIC 32 Intangible Assets – Web Site Costs", "IFRIC 12 Service Concession Arrangements". Both standards are very brief and without detailed requirements for specific cases of revenue recognition, they are entirely different, a company reporting under IAS 11 and IAS 18 could recognize and report a significantly different level of revenue depending on to which standards it applies.

The difficulty is caused by the fact that standards do not clearly distinguish between goods and services, which poses difficulties for some companies as they are not entirely sure whether to account for some transactions under the provisions in IAS 18 or IAS 11. The committee issued IFRIC 15 in order to improve the imperfections but only for one type of transactions. It does not address the fundamental inconsistencies with revenue recognition principles contained in both standards. There is also a lack of guidance for transactions involving the delivery of more than one good or service = a multiple-element arrangement if they do not come simultaneously and the entities apply different measurement approaches to similar transactions. The principles of IAS 11 and IAS 18 are inconsistent, as described by Bohušová et al. (2013) "*The principle of IAS 11 appears to be that an entity should recognize revenue as the activities required to complete a contract (even if the customer does not control and have the risks and rewards of ownership of the item being constructed). In contrast, the principle of IAS 18 for the sale of goods is that revenue should be recognized only when an entity transfers control and the risks and rewards of ownership of the goods to the customer*." Other weaknesses are related to the timing of revenue recognition. There is a lack of clear and comprehensive guidance as many companies remain uncertain at which point in time they should be recognizing revenue, particularly in case of goods and services where goods are sold at a point in time and services may be provided over time. Another weakness is that entities under IAS 11 and IAS 18 do not take into consideration the time value of money when determining the amount of revenue. (Leavitt Walmsley Associates, 2017)

Regarding timing of revenue recognition, changes have been proposed for companies to recognize services provided over time when certain specified criteria have been met. In other cases, the proposed standard would require a company to recognize revenue at the time when the customer obtains control of the promised goods or services. The other problem with time value of money will be solved by new requirements to consider the effect of the time value of money when determining the transaction price, particularly in long-term contracts or other contracts that will rise to payments at significantly different times. (Leavitt Walmsley Associates, 2017)

The IASB has acknowledged that it is not possible to amend IAS 18 and IAS 11 to incorporate their proposals because simply amending the existing IAS would not resolve the 'fundamental weaknesses' in those standards. All those challenges and facts led to the final publishing of new standards (IFRS 15), which is in greater detail presented in the chapter 3.

2.2 Comparison of the standards

In the table below, they are mentioned the main differences in scope of the current and the new standard. The table summarize the impact of the IFRS 15 in comparing with previous accounting system and refer to significat changes to be taken into consideration by users.

IAS 18/ IAS 11	**IFRS 15**	**Impact**
1.Total pages of guidance		
77	341	IFRS 15 is more detailed compared to IAS 18 and 11.

2. Scope		
The standards don't deal with revenue arising from: • Lease agreements within the scope of IAS 17; • Insurance contracts, IFRS 4; • Dividents, IAS 28; • Changes in faire value of financial assets and financial libilities or their disposals, IAS 39 or IFRS 9; • Changes in the value of other current assets; • Initial recognition of biological assets related to agricultural aktivity in IAS 41; • Itinital recognition of agricultural produce; • The extraction of mineral ores. (BDO, 2016)	The Standard applies to all revenue except: • Lease contracts within the scope of IAS 17 or IFRS 16; • Insurance contract, IFRS 4; • Financial instruments and other contractual rights and obligations within the scope of IAS 39, IFRS 9, IFRS 10, IFRS 11, IAS 27, IAS 28 • Non-monetary exchange between entities in the same line of business to facilitate sales to customers. (BDO, 2016)	For illustrating, the IAS 18 and IAS 11 have significantly less guidance than IFRS 15, which includes specific guidance such as variable consideration, financing elements, material options, licences to use intellectual property or other intangible assets, software development and installation or construction agreements and others. The core principle of application of IFRS 15 is carried out through a Five-step model, the previous don't have such a structure. (KPMG, 2014)
3. Identification of the contract		
The standards don't demande any formal or written requirements.	The standard requires detailed criteria for application of the contract with customer (requirements in chapter 3.2.1.).	The impact of this step is that an entity will need to evaluate every contract, that its probable to collect the consideration to which they expect to be entitled and need to evaluate customer´s credit risk in determining whether the contract is valid.

		The benefit from this step is that its prevent entites from applying the revenue model to problematic contracts and recognising revenue and a large impairment loss. (KPMG, 2014)
3.1 Contract modification		
IAS 18: The standard doesn't contain any guidance on this topic. IAS 11: Exist guidance for construction contract and production type contracts.	PWC (2014) "*The contract modification is treated as a separate contract in based on change in promised goods and services and stand-alone selling price of the additional goods and services. If both criteria are met, the modification of contract is taken as new stand alone contract*" (more in chapter IFRS 15 Requirements).	Guidance in IFRS 15 is to be applied for all contract with customers (not only construction contracts). Depending on the assessment, the timing of revenue recognition may be affected. (KPMG, 2014)
4. Identification of separate Performance obligations		
The standards don't contain any guidance on this topic, such as when the goods or services should be accounted as separate performance obligations.	IFRS 15 set up criteria for indentification of separate performance obligations. A promise within a contract is a performance obligation if it´s promise to transfer to customer a good or services, that is distinct or a series of distinct goods and services, (more detail in Chapter IFRS 15 Requirements).	Deloitte (2014) "*The impact of the new princip is that with current practice, it may result in more goods and services to be unbundled from others in a contract or vice versa. An entity should bundle together promised goods and services that have stand-alone price to the customer because they are closly inter-related with other promised goods in the contract*".
5. Determining a Transaction price		
Revenue is determined at the fair value of the consideration received or receivable.	IFRS 15 (2014) express this process: "*The transaction price is the amount of consideration to which an entity expects to be entitled to in exchange for transferring promised goods or services to a customer*".	The difference is that IFRS 15 require to comprise more factores in determining the amount. The Factors are follow: • Variable consideration • Consideration payable to a customer

		• Non-cash consideration • Significant financing component
5.1 Significant financial component		
If the consideration contains financial transaction, the fair value of the consideration is determined by discounting all future receipts by rate of interest.	In IFRS 15 the exact determination is described in paragraph 60 ”*An entity should adjust the promised amount of consideration in determining transaction price by the effect of the time value of money*”. The standard also provides detailed guidance when the contract doesn’t have a significant financial component.	Many companies will consider whether the contracts contain an element of financing that have a significant financing component affecting revenue recognition e.g. long-term construction contract or manufacturing contracts. Calculation will be complex if the long-term contracts are recognized over time or include multiple performance obligations. (KPMG, 2014)
5.2 Variable consideration		
The requirement of the standards is to be able measure revenue reliably. The consideration is measured at fair value taking into account the amount of any trade discounts, rabates or other variable consideration.	If the contract contains any variable portion, an entity must estimate the amount of consideration to which entity will be entitled to in exchange for transferring the promised goods and services. Variable consideration can be determined by two ways: The expected value method and The most likely amount method. (BDO, 2016)	Current standards evaluate whether the amount of consideration can be measured reliably, or fixed or determinable, that´s mean is either precluded or allowed. Contrary new standard sets a ceiling, which limits rather than precludes revenue recognition. For some entities can lead it to earlier revenue recognition. (KPMG, 2014)
6. Allocation of transaction price to Performance obligation		
The standards provide very limited guidance on allocation of transaction price to multiple goods and	Under IFRS 15, the transaction price is allocated to each performance obligation which is determined in step 2. The standard provide number of	New standard will require more judgement in determining stand-alone selling prices in comparing with current standards. In some contracts the

services. Its provide only guidance with an example of a service fee included in the price. The revenue related to the service is deferred until when the asset is sold. (BDO, 2016)	techniques that can be used to allocation of transaction price for discounts, variable consideration and changes in transaction price. The allocation is based on the relative stand-alone selling price, exept of discounts and consideration that includes variable amounts. (BDO, 2016)	reliable information are not avalaible for estimation of stand-alone prices e.g. software, licences than residual approach may provide the best estimate of stand-alone selling price. (KPMG, 2016)
7. Recognize revenue when (or as) the Entity Satisfies Performance obligations		
Revenue from the provided goods and services is recognize when following conditions are met: • The entity has transferred to the buyer the significant risks and rewards of ownership of the goods; • The amount of revenue can be measured reliably; • The entity retains neither continuing managerial involvement to the degree usually associated with ownership; • Its probable that the economic benefits associated with the transactions will flow to the entity; • The cost incurred can be measured reliably.	In IFRS 15 (2014) explain: "*Revenue is recognized as performance obligations are satisfied by transferring promised goods or services. In the case of goods, performance obligations are satisfied when control of an asset is transferred to a customer*" For each performance obligation, the entity determine at contract inception whether it satisfies the performance obligation over time or at point in time. The important requirements	The main differece arise for companies applying IFRS 15 which has significantly difference guidance how to recognize revenue. There could be situation where IAS 18 would recognize revenue over time whereas IFRS 15 will require to recognize revenue at point in time or vice versa. But IFRS 15 also require a lots of conditions for revenue to recognize as over time, which may not be comply in certain situations. IFRS 15 provide a detailed guidance of conditions related to Intellectual Property Licences, the main change can occur in timing of revenue recognition, in some case for accelerating in compare with current standards. (BDO, 2016).

7. Recognize revenue when (or as) the Entity Satisfies Performance obligations		
Under IAS 11, all contracts that are defines as construction contract, entities recognise revenue and profit over time at reference to the stage of completion of the contract (clarification between IAS 11 and IAS 18 provided IFRIC 15 Agreements for a Construction of Real Estate).	The important requirements cited in BDO (2016): "*Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. The benefits of an asset are the potential cash flows (inflows or savings in outflows) that can be obtained directly or indirectly".*	Currently the companies are using the stage of completion for revenue recognition, it will be necesarry for management to evaluate contracts againts new requirements whether the revenue is to be recognized over time or at point in time. (KPMG, 2014)

Tab. 1 Comparison IAS 11 / IAS 18 and IFRS 15 (BDO, 2016).

3 IFRS 15

IFRS 15 named Revenue from Contracts with Customers was first issued in 2014. IFRS 15 was issued to simplify the principles for reporting for users regarding the nature, timing and uncertainty of revenue and cash flow happening after signing contracts with customers. IFRS 15 supersedes the previous standards such as:

- IAS 11 (Construction contracts),
- IAS 18 (Revenue),
- IFRIC 13 (Customer Loyalty Programs),
- IFRIC 15 (Agreements for the Constructions of Real Estate),
- IFRIC 18 (Transfers of Assets from Customers),
- SIC-31 (Revenue – Barter Transactions Involving Advertising Services).

This standard shall become effective as of January 1, 2018 (the beginning of the financial period), but earlier application is allowed, too.

The main change is the fact that the IFRS is replacing all those old standards which provided limited guidance for users and even two main revenue recognition standards (IAS 11 and IAS 18) provided difficulties to be applied on complex transactions. The comparison of revenue recognition from the previous standards within the U.S. Generally Accepted Accounting Principles (US GAAP) showed that both were in need of improvement. These imperfections in both led to different accounting for economically similar transactions. This was the reason for the IASB and the U.S. national standard setter FASB to start the project.

The FASB and IASB initiated the project that will clarify common principles for revenue recognition and will be reported in the IFRS and U.S. GAAP in the same way. The standards were a concept meant to remove the inconsistencies and weaknesses in the previous standards, for users it will provide a more robust framework for addressing revenue issues. One of the greatest benefits is the possibility to compare revenue recognition across entities, industries, jurisdictions and capital markets and to improve financial statements preparation by reducing numerous standards requirements for every entity. As Patricia McConnell said (2014) Issuing IFRS 15 is crucial to many investment decisions, the issuance of IFRS 15 is a significant milestone in financial reporting. Not only will IFRS 15 lead to better alignment between a company's revenue and performance, but it will also provide a one-stop shop for revenue accounting for companies that use IFRS and US GAAP, regardless of which sectors or capital markets they operate in.

3.1 IFRS 15 History of development

The project to create IFRS 15 Revenue from Contracts with Customers was already added to the agenda in 2002 by the IASB. Then standard was developed through an international consultation process, which involves interested individuals and organizations from around the world.

There are six stages of implementation to ensure compliance at various points (IFRS: Standard setting, 2017):

1. Setting the agenda
2. Planning the project
3. Developing and publishing the Discussion Paper, including public consultation
4. Developing and publishing the Exposure Draft, including public consultation
5. Developing and publishing the Standard

6 Procedures after a Standard is issued

A new project of Revenue standards was approved in 2002 by a simple majority vote at an IASB meeting. At the same time, the FASB initiated a joint project to clarify the principles for revenue recognition. During Step 2, the IASB established a consulting group led by The Director of Technical Activities and by The Director of Research. On December 19, 2008 the IASB published a discussion paper named The Preliminary View on Revenue Recognition in Contracts with Customers. This paper set up a joint approach of both the IFRS and US GAAP as both are considered to be in need of improvement. The discussion paper was open for comment until June 19, 2009 and included topics such as a comprehensive overview of the issue and possible approaches in addressing the issue, preliminary views of its authors, and an invitation to comment on it. Based on feedback on the discussion paper, the IASB issued the Exposure Draft on June 24, 2010 for public comment. The document is a paper draft of the standard, issued on the basis of staff research and recommendations and a suggestion made by the IFRS consulting group and accounting standard-setters. The Exposure Draft was open for comments until October 22, 2010. The boards decided to re-expose the Exposure Draft based on comment letters. A second Exposure Draft was issued for improvement and open for comments until March 13, 2012. IFRS 15 was published on May 28, 2014 when the IASB was satisfied and reached a conclusion on the issues dealt with in the Exposure Drafts. Before the final publication, the IASB organized many meetings all around the world with many stakeholders, industry groups and advisory bodies to understand the effect of the proposals, including the costs of implementing the standard, as well as the benefits from the improvement in financial reporting. The Standard was issued jointly with the US GAAP standard in May 2014. It took effect as of January 1, 2017 (IFRS, Revenue Recognition, 2017).

In order to support a smooth implementation of the standard, the IASB decided to defer the effective date by one year to January 1, 2018. The IASB planned to issue an Exposure Draft of targeted amendments to the standard, including the explanation of some of its requirements with illustrative examples. The amendments arose after a discussion of the Transition Resource Group (TRG) – an organization set up jointly by the IASB Board and the FASB to assist companies with the implementation of the standard (IFRS, IASB Advisory bodies, 2017).

The timetable of the implementation process is shown below:

Date	Development	Comments
June 2002	Project on revenue added to the IASB's agenda	
19 December 2008	Discussion Paper Preliminary Views on Revenue Recognition in Contracts with Customers published	Comment deadline 19 June 2009
24 June 2010	**Exposure Draft ED/2010/6** Revenue from Contracts with Customers published	Comment deadline 22 October 2010
14 November 2011	**Exposure Draft ED/2011/6** Revenue from Contracts with Customers published (re-exposure)	Comment deadline 13 March 2012
28 May 2014	**IFRS 15** Revenue from Contracts with Customers issued	Effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2017
11 September 2015	IASB defers effective date of IFRS 15 to 1 January 2018	New effective date of IFRS 15 is 1 January 2018
12 April 2016	Clarifications to IFRS 15 'Revenue from Contracts with Customers' issued	Effective for an entity's first annual IFRS financial statements for periods beginning on or after 1 January 2018

Tab. 2 IFRS 15 Implementation (Deloitte, 2017)

3.2 IFRS 15 Requirements

In this chapter I would like to introduce fundamental requirements of new standard IFRS 15.

In IFRS 15 (2014) is state: "*The centre principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to the final customers in an amount that reflects the consideration (payment) to which the entity expects to be entitled in exchange for those goods or service.*"

To apply to previous principle, an entity needs to follow Five-step Model Framework

1. Identify the contracts with customers.
2. Indentify the performance obligations in contract.
3. Determine the transaction price.
4. Distribute the transaction price to the performance obligations in the contract.
5. Identify revenue when entity satisfies a performance responsibility.

3.2.1 Step 1: Indentify the contracts with customers

The principle rules for issuing the contracts are written in the article 9 of the standards IFRS 15 (2014), within following criterias:

- Approved contracts by the parties in written or oral form and they are committed to perform their respective obligations,
- The entity can identify each party´s rights and payments terms regardings the goods or services to be transferred,
- The contract has commercial matter as risk, timing, or the entity´s future cash flow is expected to change as a result of the contract, (PWC, 2014).

If the contracts with customers does not meet the mentioned criteria and still entity receives consideration from the customer, the consideration should be recognize as revenue if the following criterias are met, the contract has been terminated and the consideration from customer is non-refundable or the entity has no remaining obligations to transfer goods or services to the customer and all consideration promised by the customer has been received and is not refundable (PWC, 2014)

In regarding to topic of contracts modifications in IFRS 15 paragraph 18-21 2014), it can be for reason of price or scope modifications of the contracts and its valuable after the contracts have been approved by all parties, before that standards have to be apply to the existing contract. Approval can be done by written, oral form or implied by customery business practices. The contract modification can be valid if even the parties have dispute about the change of price ort he scope or both, for example if the change of scope is approved by all parties, but the change of price is not yet determined. In this case, an entity shall estimate the change in the transaction price arising from the modification of the contract and constraing estimation of variables consideration. The entity should also accounted for the promised goods or services not yet transferred at the date of the contract modification. The amount of consideration to be allocated to the remaining performance obligations, or to the remaining goods or services are sum of the consideration promised by customer that was included in the estimate of the transaction price and that had not been recognized as revenue and sum of consideration promised as part of the contract modification. The entity satisfies a performance obligations by transferring a promised goods or services (an asset) to the customer and then the entity could recongnise the revenue. The goods or services (an asset) is transferred when the customer take control of that asset. Control of an asset is express as the ability of direct use or when customer obtain substantially the remainings benefit from the assets. The benefit represents a potential cash flows (inflows or savings in outflows) that can be obtain directly or indirectly (PWC, 2014).

3.2.2 Step2: Identify the performance obligations in the contract

We can distingue the performance obligations over time or the performance obligations satisfied at a point in time.

If the performance obligations is **satisfied over time,** an entity transfers goods or services over time than revenue is recognize over time and an entity needs to follow these rules, as describe in paragrafe 35 of IFRS 15 of PWC research (2014), "T*he customer simultaneously receives and consumes the benefits provided by the entity´s performance as the entity performs, the entity´s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced, the entity´s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date*".

When the performance obligations is **satisfied at a point in time**, we need to know how determine the point of time when customer took control of a promised asset. The main indicators are mentioned in paragraph 38 of IFRS 15 included in PWC work (2014):

- „*The entity has present right to payment for the asset, which means for customer that he obtained ability for the direct use of the asset and remainings benefits from the asset in exhange,*
- *The customer has legal title to the asset,*
- *The entity has transferred physical possession of the asset, the cases of repurchase agreements, consignment arrangements where a customer or a consignee may have physical possesion of an asset that the entity control or conversely, in cases of bill and hold arrangements, the entity may have physical possesion of an asset that the customer controls,*
- *The customer has the significant risks and rewards of ownership of the asset, where the entity may have transferred control of an asset to a customer but not yet satisfied an additonal performance obligation to provide maintenance services related to the transferred asset,*
- *The customer has accepted the asset.*"

3.2.3 Step3: Determining the transaction price

How to determine the transaction price? Paragraphe 46 and 47 of IFRS 15 included in PWC paper (2014) say, "*When a performance obligation is satisfied, an entity shall recognize as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56-58) that is allocated to that performance obligation. An entity shall consider the terms of the contract and its customary business practise to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.*"

Determinant of the transaction prices are variable consideration, constraining estimates of variable consideration, the existance of a significant financing component in the contract, non-cash consideration, consideration payable to a customer (KPMG, 2014).

Variables consideration happens if the consideration promised in a contract include variable amount, for example discounts, rebates, refund, credits, price concessions, incentives, performance bonuses, penalties. The variability of the amount may be explicitly stated in the contract. The amount of variabes could be define by using method of the expected value (the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts) or by method of The most likely amount (is a single most likely amount from the possible consideration amounts, mostly arising if the cotracts has only two possible outcomes (if an entity eather achieves a discounts or not). (Ernst & Young, 2014)

Constraint estimate of variable consideration is occuring if the amount of the consideration is highly susceptible to factors from outside of an entity, for example volatility in a market, the judgement or actions of third parties. The entity is not experiencing with similar types of contracts or the experience has limited predictive value, such *"the contract has a large number and broad range of possible consideration amounts*." (PWC, 2014)

The existence of a significant financing component in the contract, describe in paragraph 60, an entity should adjust the promised amount of consideration in determining transaction price by the effect of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. Based on these criterias, the contract contains a significant financing component. (PWC, 2014)

An entity should consider whether a contract include financial components or not and whether financing components are significant as stated in paragraph 61 of IFRS 15 included in PWC paper (2014), *"The difference, between the amount of promised consideration and the cash selling price of the promised goods or services, or combined effect of both: the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services and the other effect when the prevailing interest rates in the relevant market."*

A contract doesnt have a financial component or is not significant if the customer paid for the asset (PWC, 2014) *"in advance and the timing of the transfer of those goods or services is at the discretion of the customer*". The other reason could arise if they are difference between the promised consideration and the cash selling price and which is not for reason of the provision of finance to either the customer or the entity (for example the payment terms comprise the protection from the other party failing to possibility to complete some or all of its obligations from the contract). (Ernst & Young, 2014)

When the promised amount is adjusted for a significant financing component, an entity have to use discount rate which will be reported in a separate financing transaction between an entity and its customer at contract inception. The financial transactions is meaned as credit document for party receiving financing. The discount rate has to be determine as the discounts from the nominal amount of promised consideration to the price that the customer would pay in cash for the transferred goods or services. The discount rate should not be updated for changes in interest rate or other circumstances after the inception of the contract (change in customer´s credit rist for example). The effect of financing, in terms of interest revenue or interest expenses, have to be reported separately from revenue from contracts with customers in the statement of comprehensive income. The paragrap 65 of IFRS 15 explain that interest income or interest expense is recognized only to the extent that a contract asset (or receivable) or a contract liability is recognized in accounting for a contract with a customer. (PWC, 2014)

3.2.4 Step 4: Allocation the transaction price to performance obligations

The purpose of an entity is to allocate the transaction price to each performance obligation in an amount which depict the amounf of consideration to which entitiy expects to be entitled in exchange for transferring the promised goods or services to the customer identified in each contract. (Deloitte, 2014)

Allocation based on **stand-alone selling prices**. An entity shall determine the stand-alone selling price at contract for each performance obligation on relative price, which is depending on distinction of goods or services underlying each performance obligation in the contract and allocate the transaction price proportionally to those stand-alone selling prices. The stand-alone price can be best explained as a price at which an entity would sell a promised goods or services separately to a different customer in similar circumstances. If the stand-alone price is not directly observable, an entity shall estimate a selling price which will meet objective to allocate stand-alone price to transaction price. An entity need to comprise all information as entity-specific factors, information about customer or market conditions. (PWC, 2014)

An entity can use following methods for estimation of stand-alone selling price:

- Adjusted market assessment approach, estimation of the price for which the customer will be willing to pay for goods or services,
- Expected cost plus a margin approach, forecasting of future costs of satisfying a performance obligation and add an appropriate margin for that goods or services,
- Residual approach, estimation of stand-alone selling price by reference to the total transaction price less the sum of the observable stand-alone selling price of other goods or services promised in the contract. The residual approach can be used only if following criteria are met: an entity sells the same goods or services to the different customers for a broad range of amounts or an entity has not yet established a price for that goods or services. (PWC, 2014)

In paragraphs 81-83 are describe conditions for allocation of discounts. A customer receives a discount for buying of goods or services if the sum of the stand-alone selling prices exceeds the promised consideration in the contract. In case of discount relates to only one or more, but not all, performance obligations in a contract, than the discount should be allocate proportionately to all performance obligations in the contract, but the discount should be allocate before using the residual approach to estimate the stand-alone selling price of goods or services. (PWC, 2014)

3.2.5 Step 5: Recognize revenue when a performance obligation is satisfied

A company would recognize revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). (Deloitte, 2015)

3.2.6 Key impacts of IFRS 15

The new revenue model is to be applied to all contracts with customers except those which are in scope of other IFRSs, such a leases, insurance contracts and financial instruments.

The new standard define clearly term for “customer“ that is not any counter-party, but rather one that has contracted to get goods or services in form of the output from entity´s performance in exchange for consideration.

Obr. 1 Five-step model (KPMG, 2016)

Let´s see biggest impacts of five-steps model for the new revenue model under IFRS 15. Table below will help to indicate the industries which will be the most affected by implemention of the new standard in their current practise.

Industries / Steps	**1**	**2**	**3**	**4**	**5**
Building and construction			✓		✓
Real estate	✓	✓			✓
Telecommunications		✓		✓	
Software		✓		✓	✓
Aerospace and defence	✓		✓		✓
Licensors (media, life sciences)	✓	✓			✓

Tab. 3 Impact of five-step model on different industries (KPMG, 2016)

Step1: Identify a contract; the term “contract“ is defined term in the Standards and it requires that there is a contract which gives rise to enforceable rights and obligations and sets out criteria that must be met. The industries the most affected are Real estate, Aerospace and defence and life sciences and will have significant effect on current practice. The target is to prevent entites from applying revenue model to problematic contracts and protect them from a large impairment loss. It will be preferable for the entites to create asseble of cross-functional project team such as financial reporting, legal and credit-risk monitoring to analyse contracts and put on place new process of credit risk management. (KPMG, 2016)

Step2: Identify the performance obligations; the industries the most to be affected are Real estate, Software, Telecommunications and Licensors. When company will perform step 2 during the process of revenue recognition, they need to meet two criteria. First criterion is currently used such as the customer can benefit from the goods and services either on its own or together with other ressources that are avalaible for the customer. Second criterion is a new concept which will need to be taken into consideration: The entity´s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. It can result to more goods and services to be unbundled from other in the contract or on the contrary, an entity can bundle together promised goods or services that have stand-alone value to the customer because they are highly inter-related with other promised goods and services. The issues can arise for example in production of multiple units of specialised devices, delivery or installation services, telecommunication´s services or developement constructions. As example in more detail can be construction of a house. Criterion one is met because customer can benefit from each part of the house (as window, door). Criterion two is not met for each part of the house because developper provides a service in combined output and the construction of the house is accounted as one performance obligation. The entites will need to evaluate all their contracts and get know which of their promised goods and services will need to be accounted for separately under the new model. (KPMG, 2016)

Step 3: Determine the transaction price; the industries the most to be affected are Aerospace and defence and Building and construction. To determine the transaction price, an entity need to consider various factors such as variable consideration, significant financing component or Non-cash consideration. First two are key areas. Variable consideration (discounts, credits, returns, penalties, performance bonuses) can be applied only to the extent that it´s highly probable that a significant reversal will not subsequently occur. Estimating the amount of variable consideration may affect the timing of revenue recognition. In current process, an entity determine whether the amount can be measured reliably, fixed or determinable. Under new model, there is set a ceiling, which limits rather than precludes revenue recognition. It can result to earlier revenue recognition for some entities. (KPMG, 2016)

An entity need to determine also if the contract contain a significant financial component. The goal is to recognize revenue at the amount that reflects what will customer paid for promised goods and services after obtining control of that goods and services. In the new standard the criteria for assessing a financial component are adopt by indicator. For example the contract should be adjust by a significant financial component if the payment is expect within 12 months of transferring the promised goods and services. It´s highly to affect the long-term constructions contructs or manufacturing contracts. (KPMG, 2016)

Step4: Allocate the transaction price; the industries the most to be affected are Software and Telecommunications. An entity will allocate the transaction price to each performance obligation in proportion to its stand-alone selling price. As in previous step, an entities will challenge with identifing performance obligation, in this step the challenge will be similar as stand-alone selling prices have not been previously determined. The new standard may require more judgement in establishing stan-alone prices than is currently used. If reliable information for estimation is not avalaible, for example for software vendors (where prices can highly vary for licences), then the residual approach may provide the best estimate of the stand-alone selling price of the licences as the transaction price less the stand-alone seling prices of the other items. An entities need to consider how to estimate the stand-alone selling price if the process is not already used, they can make those estimates on a basis of gathering market of cost data. (Ernst & Young, 2015)

Step5: Recognize revenue when or as the entity satisfies a performance obligation; the industires the most to be affected are Real estate, Building and construction, Aerospace and defence, Software and Licensors. An entity recognize revenue when it satisfies a performance obligation by transferring control of a good and service to a customer (control can be transferred at a point of time or over time). If an entity recognize revenue over time, than can used either input or output method to depicts its performance. The issue with output method such as units of delivery or units produced will not faithfully depict progress if they are controlled by the customer. It´s because not all the work is included in measuring the output. In case of input method, an entity would need to adjust for uninstalled goods and significant inefficiencies in its performance that were not reflected in the price of the contract. It can be wasted materials, labours or other resources. If the entity transfer to the customer control of a good but the it will be installed later, then an entity recognize the revenue on that good at zero margin. The final effect is the significant differences in the timing of revenue recognition. Specific guidance is applicable on assessing whether revenue recognition from a distinct licence of intellectual property is recognized at point in time or over time. (Ernst & Young, 2015) If the right to use of intellectual property as it exists at the time the licence is granted then revenue is recognized at point in time and if a right to access the intellectual property as it exists throughout the licence period then it´s recognize over time. This approach is new concept and entites will need to think differently about which features of the licence they focus. Assessing the criteria could be highly judgemental and the outcome can result in revenue being recognize at point in time instead of over time or vice versa. (KPMG, 2016)

3.3 Transition to IFRS 15

Entities have two options how to make the transition to IFRS 15. Both of these options make reference to the date of the initial application, which is the start of the reporting period in which an entity first applies the Standards. We distinguish the full retrospective approach or the modified approach (BDO, 2015).

Using the full retrospective approach the standards can be applied retrospectively to all the comparative periods presented. Prior year comparatives are restated, with a resulting adjustment to the opening balance of equity in the earliest comparative period. They can choose the following practices, provided by Deloitte research (2015):

- *"For completed contracts, entities are not required to restate contracts that begin and end within the same annual reporting period,*
- *For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimated variable consideration amounts in the comparative reporting periods,*
- *For all periods presented before the date of initial application, an entity needs to disclose the amount of the transaction price allocated to the remaining performance obligation and an explanation of when the entity expects to recognize that amount as a revenue."*

The modified approach will allow an entity to apply the Standards from the date of initial application. They will need to adjust the opening balance of equity at the date of initial application but they are not required to adjust prior year comparatives. (Deloitte, 2015)

3.4 Impact of IFRS 15 in different sectors

For some companies the impact of the new rules of reporting could be a difficult challenge. The areas with the biggest impact from the research are (M.Silvia, 2014)

- *"Is the revenue recognized over time (spread between the periods during contract duration) or at the point of time,*
- *How should company measure the progress towards completion if the revenue is to be recognized over time,*
- *How should a company account for revenue from bundled offers, should they split the contracts into several components,*
- *How to deal with contract modifications,*
- *How to deal with contract cost, cost for obtaining the contract, should it be expense in profit, in loss, or capitalize or defer,*

- *How to deal with financing components in the contracts and how to consider the time value of money.“*

All those topics are discusses in greater detail below for particular industries

3.4.1 Telecommunications

The telecommunications sector is significantly affected by the new standard. The telecommunications industry is typical for dealing with huge numbers of clients, typified contracts and various multiple offerings. For example when a telecommunications entity provides a contract to a customer with both a mobile phone and network services, the existing practice was to recognize the revenue on the sale of the phone for the cash received from the customer at that time. Otherwise, no revenue would be recognized at that time if the customer was provided with a free phone even though the customer pays for the phone in monthly payments agreed upon in the contract. Therefore, the main issue will be to split bundled offers into individual performance obligations and allocate transaction price. (Financial Reporting Council, 2017)

Patricia McConnell specified in her publication that “*This is achieved by IFRS 15 requiring a company to allocate the transaction price, which would be the amount that the customer pays on entering into the contract and the monthly payments for the network services, to the mobile phone and the network services on the basis of the relative stand-alone selling prices of each item. Consequently, some revenue will be recognized when the handset transfers to the customer (even if the handset is marketed as 'free') and the remaining revenue will be recognized when the network services are provided.*“

Recently under IAS 18, telecommunications entities provided free handsets to customers and accounted them as marketing costs. Under IFRS 15 this is not permitted. Under IFRS 15, telecommunications entities have to allocate the transaction price to individual performance obligations, in this case the total contract price between the revenue from the sale of the handset and the sale of monthly contract payment (criterion in paragraph 27 a, b of IFRS 15). Another implication of the standard is that there will be some deferral accounts involved which causes that the revenue recognition does not correspond with monthly billing to customer and will require significant changes in IT systems. (M.Silvia, 2014)

What will happen if the contract is modified? It is very common that telecommunications entities allow customers to change their contracts, for example to change the of amount of prepaid minutes or to add or remove services. IFRS 15 provides a detailed guidance how to account for the modifications of contracts in comparison to the previous standard with limited guidance. IFRS 15 included detailed procedure if the modification of the contract should be accounted for prospectively, as an adjustment to future revenue, or retrospectively, via an adjustment when the modification occurs. The companies need to consider how to change practices of accounting to manage the changes. (Deloitte, Telecommunication sector, 2014)

The other change is related to the cost attributed to obtaining the contracts with customers via a "success fee" or sales commissions (commissions that are only payable if a contract is obtained). Recently all companies treated the cost differently and mostly expensing them. The new standard will require entities to capitalize the success fee, which will have an impact on operating profits. Additionally, IFRS 15 requires capitalized contract costs to be amortized on a systematic basis that is consistent with the pattern of transfer of the goods or services. (Deloitte, Telecommunication sector, 2014)

The profile of revenue and profit recognition will change for some entities as the new Standard is more detailed and more prescriptive than the existing guidance and introduces new complexities. Telecommunications companies will need to consider a wider implication as changes to key performance indicators (e.g. ARPU), changes to the profile of tax cash payments, availability of profits for distribution and related to compensation and bonus plan will have an impact on the timing of targets being achieved. (Deloitte, Telecommunication sectors, 2014)

3.4.2 Real Estate – Construction Companies and Property Developers

The construction industries may have to change their revenue recognition policies and processes due to the new revenue recognition standard IFRS 15 which supersedes all the previous standards relating to construction and revenue. The companies will not need to consider whether contracts are in the scopes of IAS 11 Constructions Contracts or IAS 18 Revenue, and also IFRIC 15 Agreements for the Construction of Real Estate. (Ernst & Young, 2015)

Under IFRS 15, there is no automatic right to recognize revenue on a progressive basis for construction contracts, the progressive revenue recognition will only be permitted where the enforceable contractual rights and obligations satisfy the given criteria. This is the main change as a result to abandon IAS 11 where recognition of revenue and profits was required on a basis of percentage completion and where an arrangement met the criteria of the relevant construction contracts. (KPMG, 2014)

Which costs are to be capitalized during the bid process? Under IFRS 15, an entity could recognize as an asset the incremental costs of obtaining the contracts with customers on condition that the entity expects to recover those costs, and if the amortization period of the asset is one year or less. Incremental costs are the costs representing the cost of a winning contract (e.g. a sale commission) as a result of the new approach in contract accounting. Costs incurred during a bid process are recognized as an expense when incurred, unless they are directly chargeable to the customer, regardless of whether the contract is obtained. To better understand the impact, IAS 11 permits a broader range of pre-contract costs to be capitalized, not just those they are incremental, under IFRS 15 permits incremental costs of obtaining a contract (success fee) and fulfillment cost to capitalized when they are expected to be recovered. The other costs no fulfilling these criteria are expensed as incurred. (KPMG,2014)

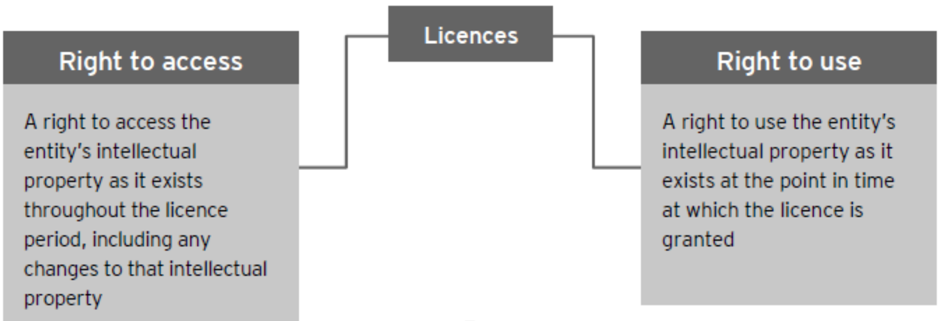
The biggest challenge is to decide whether the company should recognize revenue over time (spread during individual years of construction) or at a point in time (one time at the completion of a contract). Under IAS 11 for all contracts defined as construction contracts, an entity recognizes revenues and profits over time by reference to the stage of completion of the contract activity. Under IFRS 15, an entity could recognize revenue over time if one or more of the following criteria are met as described in the KPMG paper (2014): "*The first one is The Customer simultaneously receives and consumes the benefits provided by The Entity´s performance as the entity performs (Routine and recurring services), the second one is that The Entity´s performance creates or enhances an asset that the customer controls as the asset is created or enhanced (Building an asset on a Customer´s site) and third one is The Entity´s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date (building a specialized asset that only the customer can use, or building an asset to a customer order).*" If the previous criteria are not met, then an entity recognizes revenue at the point in time by transferring control of the completed good or service to a customer.

That is the reason why entities should evaluate all contracts against the new criteria to establish whether it is appropriate to recognize revenue over time or at a point in time. As a result of the new standard, an entity will need to consider how to measure progress for each performance obligation. In the previous standard (IAS 11) the contract revenue was recognized with reference to the percentage stage of completion or physical completion. Under IFRS 15, an entity measures progress to satisfaction of the performance obligation using the input and output method. If an entity applying an input method then excludes the effect of any inputs that do not represent its performance, for example in using the cost-to-cost method, the contractor would exclude unexpected amounts of waste materials, labor and any uninstalled materials. The contractor will need to decide whether to use the input or output method to appropriate its performance, as a result these changes will lead to deferring or acceleration of revenue and profit compared to the current practice. (KPMG, 2014)

3.4.3 Technology and Software development

Applying new rules required by the new standard in the Technology sector may result in the necessity of implementing modifications of the existing accounting system, in some cases, entities may conclude that they should develop new system solutions. Because technology sectors, especially companies developing software, selling software licenses, and providing various services are known for the diversity of their operations and long-term contracts. The companies providing software licenses will need to consider whether any subsequent services such as customer support, consulting services for customization, installation represent different elements to which revenue should be separately allocated. (Deloitte, Technology sector, 2014)

The other new requirements are that IFRS 15 distinguishes between licenses that represent the transfer of the right to use an entity´s intellectual property and licenses that represent the right to access. The accounting treatment is different and needs to be taken into consideration. (Ernst & Young, 2015)



Obr. 2 Software licences (Ernst & Young, 2015)

Even those licences of intelectual property should be identify whether a licence is distinct or combination with other promised goods and services. An example of a distinct licence is a software package that can be used on its own without customization or modification. An other example of non distinct product is antivirus software, which require frequent upgrades to keep the software current in order to be beneficial to the customer. In conclusion, software licences and professional services are highly interrelated and together are a single performance obligation. (Ernst & Young, 2015)

After licence period begins, most of arrangements include promises for the right to receive services or upgrades or other enhacements. These activities are called as post-contract support (PCS). In current standard these PCSs were mostly accounted as a single performance obligation, in contrary under IFRS 15 a software entity should conclude that the provided services is a distinct product and a separate performance obligation. (Ernst & Young, 2015) As explained by Ernst & Young in their paper: *The entity may also determine that PCSs are provided to ensure that the software is functioning as promised. As a result, those services would be part of the assurance warranty coverage for the software and not a revenue element (such warranties will be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).*

The contracts in the Technology sector can be of a long-term nature and could include significant variable elements such as discounts, fees, performance bonuses and penalties, as well as the potential for downwards of negotiated prices. As explained by Deloitte research (2014) "*There are new specific requirements in respect of variable consideration such that it is only included in the transaction price if it is highly probable that the amount of revenue recognized would not be subject to significant future reversals as a result of subsequent re-estimation*." This approach to variable consideration is different from that previously reflected in IAS 11 and IAS 18 and will require a significant degree of judgment to estimate the amount of consideration that should be taken into account. (Deloitte, Technology sector, 2014)

When the performance obligations and transaction price have been identified an software entity have to allocate the transaction price to a seperate performance obligations, in proportion to their stand-alone selling prices. The stand-alone price is determined by available observable information. It it´s not possible then entity will need to make estimates based on information which is reasonably avalaible. The new process describe above, can cause a difficulties for some entities, because some selling prices for goods and services in technology sector are historically highly variable e.g. software licences or the goods which were never been before sell separately (upgrades of software). In comparing current standard, IAS 18 does not prescribe any guidance for allocation of multiple-element arrangements. In IFRIC 13, they are two allocation method, allocation based on relative fair value and allocation using residual method but without detailed information. Therefore, the new standard could cause some difficulties and change in current practice in determining the transaction price and its allocation. (Ernst & Young, 2015)

4 Practicle part

In chapter 3.4 I described issues the most impacting the different sectors within applying new standard IFRS 15. The effect will be more explained in practical examples and will be demonstated how financial results can changes during the reporting periods.

4.1 Example: Real estate, construction

For practical part I choose to describe impact of implementing of the new standard IFRS 15 in comparing of current standard IAS 11 on example from construction industry. The example will be demonstrating on existing construction contract between investors and construction company based in Czech Republic but real names will not be published.

The contractor hereby agrees to build Apartment centre in Prague. The contract was sign for whole construction work from planning, preparing of the object, building and controlling, supplying of the materials and labour and completion of constructions documentations. The project started 09/2012 and the contractor obliged to transmit the completed building for using latest 31.03.2014.

Although the construction company sign 2 contracts with investors A and B, but in view of fact that the contracts are related to one construction unit, the revenue can be accounted together. The contracts of investors A and B are not identical. Investor A will buy 35% of the Apartment building and investor B 65 % of Apartment building. The payment schedule is agreed at fixed term. For Investor B, the contract specifies other arrangement such as constructor cannot transfer or direct the apartment to another client and in return the investor B cannot terminate the contract. It means If Investor B defaults on the contract before its completion, the constructor has the right for all contractual price. They are not specific term for Investor A in the contract.

The price of the contract was set in total at 232,121,749.00 CZK without VAT and 278,546,100.00 CZK with VAT. Over time the contractor will need to pay building materials, wage of workers or architects´ fee. The company has provided overview of the costs incurred, total amount of cost necessary to fulfil the contract is estimated for 208,909,574.00 CZK. A detailed overview of costs is following:

Reported costs	
Items	Amount in CZK
Construction building I	96,145,350.00
Construction building II	85,189,000.00
Infustructure	27,425,224.00
Others costs	150,000.00
Total	208,909,574.00

Tab. 4 Reported costs on construction contract (Own research)

At the beginning of the practical part I will focus on the current revenue recognition under IAS 11, followed by the part where I will apply the example under conditions of new standard IFRS 15.

In the example of revenue recognition, the time value of money will not be taken into consideration.

4.1.1 Application of IAS 11

Till now the contractors treated their contracts under IAS 11 Construction contract and IFRIC 15 Agreements for the Construction of Real Estate, the contract is there specified as contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use (IFRSs, 2008). Our model example is treated as fixed price contract. Under IAS 11 the revenue recognition can be prepared by 2 methods: The percentage of completion method and Zero Margin method (Mirza, 2008). In this example outcome of the contract can be estimated reliably therefore the revenue and costs should be recognized according to the stage of completion of the contract, so the method to used is the already mentioned the percentage of completion method.

4.1.2 The percentage of completion method

The percentage of completion method is application of the accrual assumption. Contract revenue is matched to the contract costs incurred in reaching the stage of completion, so revenue, costs and profit are attributed to the proportion of work completed. Under IAS 11 both clients A and B can be accounted at the same way. To determine the stage of completion, I used (cost-to-cost method): Costs to date/Total estimated cost, of contract costs incurred for work carried out to date.

Year	Recognize Costs (CZK)	Recognize Revenue (CZK)	Stage of completion
2012	41,781,915.00	46,424,350.00	20 %
2013	135,791,223.00	150,879,137.00	65 %
2014	31,336,436.00	34,818,262.00	15 %
Total	208,909,574.00	232,121,749.00	100%

Tab. 5 The percentage of completion method (own research)

In the table, we can see results of recognized costs and revenues during years 2012-2014 calculated from the stage of completion of the construction of Apartment centre. First year the contract was fulfilled by 20 % and revenue and cost recognize by this percentage as 208,909,574.00 CZK /100*20= 41,781,915.00 CZK, the same way of calculation was used in the next years.

4.1.3 Application of IFRS 15

Now I will apply same contracts of clients A and B under IFRS 15, but the princip of reporting will be quite different, the revenue cannot be recognize on the same manner and the timing of revenue will be also different for client A and client B. In the model example I will focus on step 5 Recognize revenue when a performance obligation is satisfied. This step is evaluated as the process causes the biggest issues for companies performing in real estate and development industries. The issue is to decide whether the construction company should recognize revenue over time or at the point in time. In the contract with client A, the company´s performance does create an asset with alternative use, so the building can be direct to another client and the construction company does not have an enforceable right to the payment, than the revenue is recognize at point in time, at the time when the asset will be transfer to the client A. On the contrary, the arrangement in the contract with client B does not create an asset with alternative use and the construction company has an enforceable right to the payment, so the revenue will be recognize over time, for the reason of high customization included in the contract. Revenue recognition and costs values are compared in the table below for client A and B under IFRS 15 during years 2012-2014.

Year	**Recognized costs (CZK)**	**Recognized revenue (CZK)**		
		Client A	Client B	Total
2012	41,781,915.00	0	30,175,828.00	30,175,828.00
2013	135,791,223.00	0	98,071,439.00	98,071,439.00
2014	31,336,436.00	81,242,612.00	22,631,870.00	103,874,482.00
Total	208,909,574.00	81,242,612.00	150,879,137.00	232,121,749.00

Tab. 6 Recognized revenue of client A and B, IFRS 15 (own research)

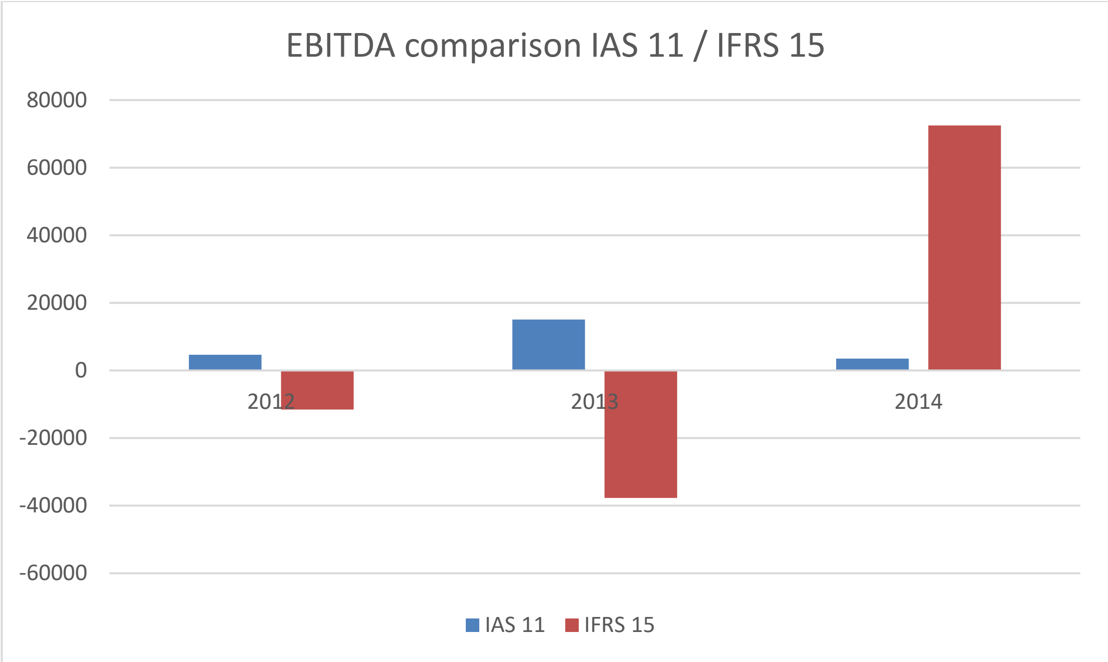
Revenue for Client A is recognized only in the year 2014, the time when the promised asset was transfer to the client, earlier recognition is not permitted.

4.1.4 Evaluation of impact on revenue recognition

In the table below we can see both reporting of revenues and costs under IAS 11 and IFRS 15. For reason of better interpretation of the impact on financial reporting, the results are showed on financial indicator EBITDA = Earnings before interest and taxes. This indicator help to compare profitability between different entities, sectors or accounting approach. When using this indicator, we need to think that the effects of interest payment, taxing and depreciation are omitted. The EBITDA indicator is calculated: recognized revenue minus recognized costs equals to profit. Under IAS 11, the revenue is recognized over time on base of percentage completion in the course of time (mostly in year 2013). While under IFRS 15, revenue is not recognized for client A during first two years, only in third year, the impact on net profit is very important, because whether the revenue cannot be recognized, the costs occurs from the beginning of construction over of all contruction period. The profit can be even negative as represented in the table below.

IAS 11			
Year	2012	2013	2014
Revenues	46,424,350.00	150,879,137.00	34,818,262.00
Costs	41,781,915.00	135,791,223.00	31,336,436.00
EBITDA	4,642,435.00	15,087,914.00	3,481,826.00
IFRS 15			
Year	2012	2013	2014
Revenue client A	0	0	81,242,612.00
Revenue client B	30,175,828.00	98,071,439.00	22,631,870.00
Total revenue	30,175,828.00	98,071,439.00	103,874,482.00
Costs	41,781,915.00	135,791,223.00	31,336,436.00
EBITDA	-11,606,087.00	-37,719,784.00	72,538,046.00

Tab. 7 EBITDA comparison IAS 11 / IFRS 15 (own research)



Obr. 3 EBITDA comparison IAS 11 / IFRS 15 (own research)

4.2 Example: Technology and software development

Technology and software development sector is one of the induries highly affected by the new standard. Companies will need to focus mostly on step 2, 4 and 5 of Five-step model applying in IFRS 15. In my practical part, I will demonstrate how the princip of the revenue recognition will be modified in consequence of Step 2: Identify the performance obligation in the contract. As already mentioned in theoretical part, the companies will need to identifie separate performance obligation for services provided in software sector, such as sale of licences, customization, post delivery support. When the performance obligation is identified based on step 2, then the transaction price can be correctly allocated to individual performance obligation in Step 4: Allocation of transaction price to separate performance obligation, which is also in question in my pratical example. New standard distinct two types of licences, licence to use and licence to access, for both licences the process of accounting is different under new standard.

The example will be demonstated on Software company ABC which signed the contract with Client C. The contract agreed on below services:

- Providing professional services of implementation, customization and testing of software,
- Post-contract support for 1 year after implementation.

The contract was signed on 01.06.2014 and date of implementation is agreed for 01.01.2016. After implementation, the company will support Client C till 31.12.2016. The Client C acquired the licence from third part. The contractors assessed the total price as below:

- 750,000.00 CZK for providing professional services of implementation, customization and testing,
- 300,000.00 CZK for post-contract support services.

In table below are final assessement of costs in individual periods.

Period	Recognized costs (CZK)
01.06.2014-31.12.2014	270,000.00
01.01.2015-31.12.2015	360,000.00
01.01.2016-31.12.2016	270,000.00
Total costs	900,000.00

Tab. 8 Recognized costs of firm ABC (own research)

4.2.1 Application of IAS 18

Firstly, I will demonstrate the process of revenue recognition under current standard IAS 18, as such a service falls under the scope of IAS 18. The total cost arises to 900,000.00 CZK and total revenue to 1,050,000.00 CZK. Under IAS 18 the values of revenues are calculated from the stage of completion for services provided as it was in IAS 11. The both services were accounted as one big services, this standard doesn't require the separation of provided services.

Period	Recognized costs (CZK)	Recognized revenue (CZK)	Stage of completion
01.06.2014-31.12.2014	270,000.00	315,000.00	30 %
01.01.2015-31.12.2015	360,000.00	420,000.00	40 %
01.01.2016-31.12.2016	270,000.00	315,000.00	30 %
Total costs	900,000.00	1,050,000.00	100 %

Tab. 9 Recognized costs and revenues IAS 18 (own research)

4.2.2 Application of IFRS 15

Under IFRS 15 is necessary to correctly identify whether the services are distinct and if they can be considered as separate performance obligation in the contract. The main purpose is to understand what a customer to expects to receive as a final product, if the services should be combined or accounted as one product. First performance obligation is installation and customization of systems owned by customer, because the customer can already benefit from this provided services. The second performance obligation is related to post-installation service and support, its separate obligation because additional service is not being integrated into the output that the customer has contracted. For both performance obligations, should be accounted on separate stand-alone selling price. The costs and revenue were allocated as reported below.

Performance obligation I: Professional services

Performance obligation II: Post-contract support

Recognized revenue (CZK)	2014	2015	2016	Total
Professional services	225,000.00	300,000.00	225,000.00	750,000.00
Post-contract support	0	0	300,000.00	300,000.00
Total revenue	225,000.00	300,000.00	525,000.00	1,050.000.00
Total cost	270,000.00	360,000.00	270,000.00	900,000.00

Tab. 10 Recognized costs and revenue IFRS 15 (own research)

First performance obligation was recognized over time based on progress to completion of the contract. It´s calculated by expressing incurred cost which fulfil the contract which is know as input method of cost recognition. In 2014 the completion was accounted for 30 %, then 750,000.00 x 0.30 = 225,000.00 CZK and same for cost recognition: 900,000.00 x 0.30 = 270,000.00 CZK.

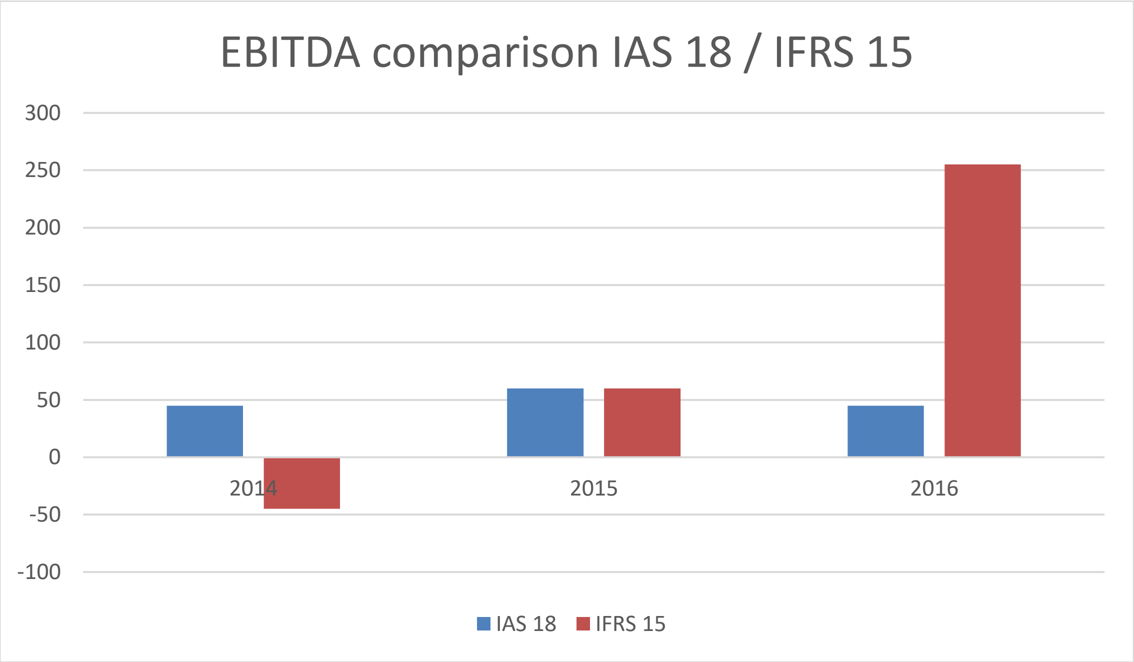
Regarding second revenue recognition, the progress during first two years is 0%. The company can recognize revenue in third year when post-contract service is provided and when the services is transfer to the customer, that´s mean the revenue is recognized at point in time.

4.2.3 Evaluation of impact on revenue recognition

Thus, the timing of revenue recognition was deferred for part of services provided. The impact is visible on the diagram which showed the indicator EBITDA for both accounting methods.

IAS 18 (in thousand CZK)			
Year	2014	2015	2016
Revenues	315	420	315
Costs	270	360	270
EBITDA	45	60	45
IFRS 15 (in thousand CZK)			
Year	2014	2015	2016
Provided services	225	300	225
Post-contract support	0	0	300
Total revenue	225	300	525
Costs	270	360	270
EBITDA	-45	60	255

Tab. 11 EBITDA comparison IAS 11 / IFRS 15 (own research)



Obr. 4 EBITDA comparison IAS 18/IFRS 15 (own research)

4.3 Variable consideration for intellectual property licences

This example is to describe how the entites should proceed for accounting of variable consideration. The example will be performed on intellectual property licences between Company XYZ distributing game consoles and Software company ““Mario”” developing computer games and consoles. The company “Mario” enters into a contract with the company XYZ for two intellectual property licences.

- Licence A: right to use trademark ““Mario”” in internet domain owned by Company XYZ,
- Licence B: right to sell of ““Mario”” games and game console for Company XYZ as exlusive distributor.

Both licences will be transferd to Company XYZ after contract is signed by both parties. The consideration of Licence A is fixed 100,000.00 CZK and the consideration of Licence B is set for 15 % of future sales. Future sales are estimated for 2,000.000.00 CZK by company “Mario”.

4.3.1 Case 1: Estimation of the sales-based fee does not approximate to the stand-alone prices

Stand-alone price is 150,000.00 CZK for Licence A and 250,000.00 CZK for Licence B. Because company “Mario” does not estimate the sales-based fee approximated stand-alone prices for both Licences, condition of allocation of variable consideration under IFRS 15 is required to both separate performance obligations, to the Licence A and to the Licence B. Allocation of transaction price is based on relative stand-alone prices.

Performance obligation	Stand-alone selling price (CZK)	Consideration 1	Consideration 2
Licence A	150,000.00	37,500.00	150,000.00
Licence B	250,000.00	62,500.00	250,000.00
Total	400,000.00	100,000.00	400,000.00

Tab. 12 Variable consideration in CZK (own research)

For this example, variable consideration is related to the both licences, consideration 1 of Licence A is fixed and consideration 2 of Licence B is variable (depending on sales). But the revenue can be recognized only when sales occurs under IFRS 15, published in paragraph B63 of IFRS 15. Total final revenues for sales generated by Company XYZ is in the amount of 2,500,000.00 CZK.

The accounting of variable consideration will be following:

Performance obligation	Contract asset (debit)	Revenue from sales (credit)
Consideration 1 (fixed)		
Licence A	37,500.00	37,500.00
Licence B	62,500.00	62,500.00
Total	100,000.00	100,000.00
Consideration 2 (variable)		
Licence A	140,625.00	140,625.00
Licence B	234,375.00	234,375.00
Total	375,000.00	375,000.00

Tab. 13 Revenue recognition of fixed and variable consideration in CZK (own research).

In this example the variable consideration must be allocated to both Licences. The Consideration 2 (variable) is calculated as: 150,000.00/400,000.00*2,500,000.00 * 15% = 140,625.00 CZK. In words, the relative stand-alone price of Consid for Licence A divided by total stand-alone price multiply by total sales and by 15 % of royalties from sales.

4.3.2 Case 2: Estimation of the sales-based fee approximate to the stand-alone prices

But in case that the company "Mario" estimates sales-based fee approximates the stand-alone prices? Stand-alone price of the Licence A is 100,000.00 CZK and stand-alone price of the Licence B is 300,000.00 CZK. The allocation of considerations will be different. The variable consideration should be allocated only to one performance obligations and it´s Licence B.

	Stand-alone price (CZK)
Licence A	100,000.00
Licence B	300,000.00
Total	400,000.00

Tab. 14 Stand-alone prices in CZK (own research).

The accounting of revenue will be following:

Recognize revenue	**Contract asset (debit)**	**Revenue from sales (credit)**
Licence A	100,000.00	100,000.00
Revenue from Licence A recognize after contract signature.		
Sales-based 15%		
Licence B	375.000.00	375,000.00
Revenue from Licence B recognize when sales occur only.		

Tab. 15 Tab. 13 Revenue recognition of variable consideration in CZK (own research).

4.3.3 Evaluation of variable consideration accounting

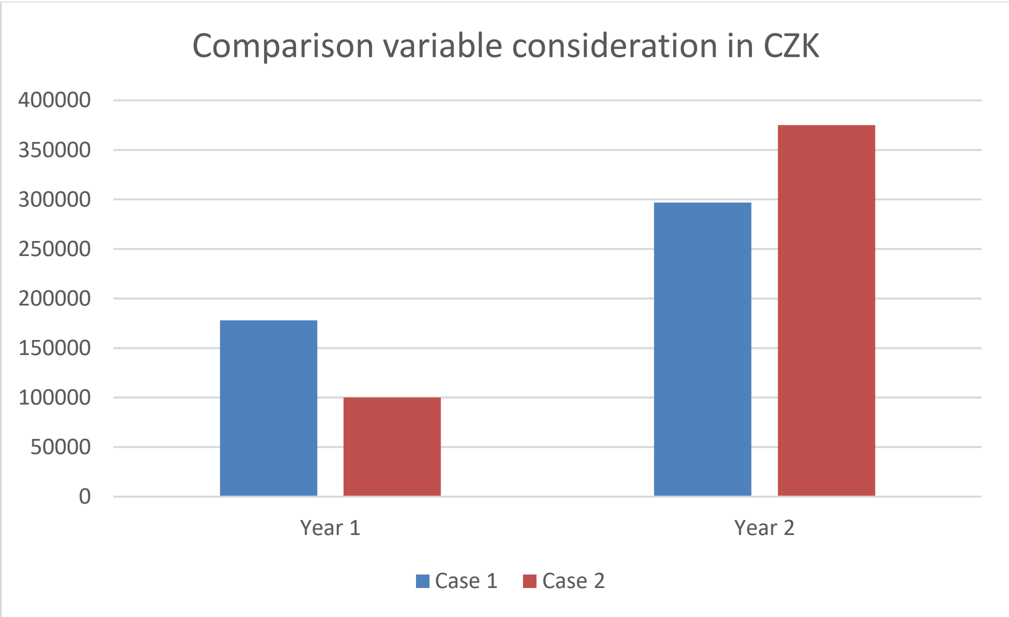
The total revenue in both examples are same. But the accounting bookings for revenue recognized of the Licence A and B are differents. The significant impact could happen if the transfer of licences, for performance obligation satisfaction were not transferred at the same time.

	Year 1	**Year 2**	**Total**
Case 1			
Licence A	178,125.00	0	178,125.00
Licence B	0	296,875.00	296,875.00
Total Case 1	178,125.00	296,875.00	475,000.00

Case 2			
Licence A	100,000.00	0	100,000.00
Licence B	0	375,000.00	375,000.00
Total Case 2	100,000.00	375,000.00	475,000.00

Tab. 16 Comparison Revenues recognition of variable consideratioin (own research).

Interpretaion of transfer of licence A in first year and the Licence B in second year and its impact on revenue recognition.



Obr. 5 Comparison variable consideration in CZK (own research).

4.4 Example of Transition to IFRS 15

Entities have two options how to make the transition to the new requirements of IFRS 15. In the model example, I will apply the results on Full retrospective method and Cumulative effect method, which are explained more in detail in chapter 3.3. Regarding this example I choose to adopt IFRS 15 on 1 January 2017. During the transition, entites must keep in mind that the accounting from IAS 11/18 to IFRS 15 could change and prepare adjustments to correct stated differences in accounting, if necesarry.

Instruction: During previous years, under IAS 18, the company omitted comprise revenues from sales of computers, because the computers were promoted to clients as a gift for contract fulfilment. Cost of computers were treated as marketing expenses.

In first table, they are results used for this example. We can see difference in comparing IAS 18 and IFRS 15 for sales of goods (computers) not recognize as revenue.

IAS 18 (in thousand CZK)			
Year	**2015**	**2016**	**2017**
Goods	0	0	0
Services	500	600	650
Total	500	600	650
IFRS 15 (in thousand CZK)			
Year	**2015**	**2016**	**2017**
Goods	60	80	0
Services	500	600	600
Total	560	680	600
Difference	60	80	-50

Tab. 17 Results under IAS 18 and IFRS 15 (own research)

4.4.1 Full retrospective method

The 2016 and 2015 comparative figures are adjusted for IFRS 15 accounting. The adjustment amount is the difference between the amount recorded under IAS 18 and the amount that would have been recorded under IFRS 15. Since the contract started in 2015, the there would be retained earnings adjustments to comparative year 2016.

In thousand CZK	Contract asset (debit)	Retained earnings (credit)
2015	+60	-60
2016	+80	-80

Tab. 18 Adjustment to IFRS 15 (own research).

The impact of new requirements is recorder through the Statement of financial position, then through the Statement of comprehensive income and then in Statement of change in equity showing the change in retained earnings and the restatements.

Extract from Statement of financial position under IFRS 15			
In thousand CZK	2017	31 Dec 2016 (restated)	01.01.2016 (restated)
Contract asset	+90	+140	+60
Equity – effect of correction	-140	-140	-60
Extract from Statement of comprehensive income			
	2017	**2016 (restated)**	**2015 (restated)**
Revenues from sales of goods	0	+80	+60
Revenue from sales of services	600	600	500
Extract from Statement of change in equity			
	Retained earnings before restated	**Restatement**	**After restating**

Opening balance at 1st of January 2016	1000	60	1060
Profit year ending 31 Dec 2016	*600*	*80*	*680*
Balance 1st of Jan 2017	1600	140	1740
Profit year ending 31 Dec 2017	*550*		*550*
Balance 31 Dec 2017	2150	140	2290

Tab. 19 Transition results of financial reporting in IFRS 15 (own research).

4.4.2 Cumulative effect method

Only Cumulative catch-up adjustment is made to account for booking which have not been accounted under IAS 18, an adjustment is prepared as to opening retained earnings for the difference in the revenue. As the date of initial application is 1st January 2017.

In thousand CZK	Contract asset (debit)	Retained earnings (credit)
2017	+140	-140

Tab. 20 Adjustment to IFRS 15 – cumulative method (own research)

The change in financial reporting is follow:

Extract from Statement of financial position under IFRS 15			
In thousand CZK	2017	31 Dec 2016 (restated)	01.01.2016 (restated)
Contract asset	+90	0	0

Equity – effect of correction	-140	0	0
Extract from Statement of comprehensive income			
	2017	**2016 (restated)**	**2015 (restated)**
Revenues from sales of goods	0	0	0
Revenue from sales of services	600	680	500
Extract from Statement of change in equity			
	Retained earnings before restated	**Restatement**	**After restating**
Opening balance at 1st of January 2016	1000	0	1000
Profit year ending 31 Dec 2016	*600*	*0*	*600*
Balance 1st of Jan 2017	1600	140	1740
Profit year ending 31 Dec 2017	*550*		*550*
Balance 31 Dec 2017	2150	140	2290

Tab. 21 Transition results of financial reporting in IFRS 15 – Cumulative Effect Method (own research)

Under Cumulative Effect Method, the income adjustment will not be recognized through the year 2016, as it was an adjustment to opening balance in 2017.

5 Summary of practical part

In both examples we can see that the timing of revenue recognition was postponed in applying the IFRS 15. First example was focused on step 5 of the new standard and within the distinction, if the performance obligation have to be recognized over time or at point in time. Even in first exposure draft (2010) of the new standard, the recognition over time wasn´t allowed. After the discussion and comments from experts, that the recognition will not depict the true revenue and economic activity of the companies, the revised exposure draft (2011) completed this possibility of revenue recognition over time.

Construction industries, in the example was accounted within the combining contract. The IFRS 15 permit to account as one contract, if the contracts meet specific criteria, in this case is that amount of consideration to be paid in one contract depends on the price or performance of the other contract.

The accounting treatment for revenue recognition over time is practically same under IAS 11 and IFRS 15. The difference for the companies will arise when performance obligation is satisfied at a point in time. This is related to new requirements where the both criteria need to be met for revenue recognition over time (the entity´s performance doesn´t create an asset with alternative use to the entity and that the entity has an enforceable right to payment for performance completed to date). Because, if the entity may consider only condition of creating control of the new asset to customer or the transfer of the asset to customer, then the revenue can be wrongly assign e.g. in the contracts were the contractor build the asset on customer´s land. The other important component of financial accounting are incurred costs which involve the result of EBITDA as well. In the example the incurred costs were measured by input method (distinction between input and output method in chapter 3.4.2). Using this method which is close to current standard IAS 11 requires from the entity to be sure about the possibility of measurement of progress, if the entity doesn´t have reasonable basis, then too much uncertainty would exist. If the right reason is not found, the entity cannot recognize the revenue. New standard requires from the entities to make appropriate judgment in evaluating weakness and benefits of input and output methods to obtain right picture of bookings influencing financial results because the standards doesn´t say which methods is preferable. According author opinion, there is space for companies to evaluate the best solution and to be applied it in the contract. The impact on financial accounting is huge, although the EBITDA is not expressing net profit, it will have influence on the various financial rates including in final statements in financial period.

Evaluation of the impact on the revenue recognition from the example of provided Software services is below. The timing of revenues for individual performance obligations are postponed in comparing with previous standard, they are substantial changes to the profile of timing. The software´s companies will need to adopt the important step in evaluation of each contracts and detailed analysis of contractual terms. The process of distinction of provided services for each performance obligation as sold licences, their customization, implementation or post-contract support. The topic of variable consideration requirements is in general a new process. The users of accounting bookings should estimate the amount of variable consideration in the most approximate value and update at each reporting period to increase the certainty. The user need to used approach which will predict the correct values within information of historical prediction, the probability of circumstances incurred, volatility in market or the judgment of actions of third parties. The example is perform on specific arrangements of licence usage and access which is calculated based on percentage of software sales generated by a distributor as usage-based royalties. The TRG and the Board are in process of discussion whether they will issued another application guidance related to this topic of software companies, intellectual property licences and royalties. It´s right that the contract of software licence including royalties relating to both licensed intellectual property and to the others goods or services is unclear whether to this type of variable consideration can be included in transaction price. This example is in conflict within condition included in paragraph 84 and 85 of IFRS 15 whether the exception of these condition could be apply exclusively to a licence of separate performance obligation or whether it could be apply to the royalties regardless they are related to non-licence goods and services.

In software sector, the complex contracts analysis may be dificult process of preparation for individual subjects, to comprise all requirements and principles to be adopt and to express true accounting and economic figures.

But the company will benefit from new standard because current several standard will be replaced by one main guidance. Some of process will be unchanged but they are some for which the companies will provide additional judgments that they have not had to make under current standards.

6 Conclusion

The subject of these thesis is the identification of the impact in applying of IFRS 15 and its impact on revenue recognition and financial reporting. The imperfection of the current standard for revenue recognition and the necessity of the worldwide harmonization of financial accounting standards reached to creation of IFRS 15 by IASB and Topic 605 by FASB which completed the process of convergence. The main benefits for companies and users reporting under IFRS will be:

- elimination of inconsistent of current standards (IAS 11 and IAS 18),
- applying all customer contracts under one standards comparing with previous several standards,
- providing more useful information to users through new disclosure requirements,
- improving of comparability of companies across industries, countries and jurisdictions.

The theoretical part summarize the main theoretical information and differences about the current and the new standard. The industries most to be affected are Real estate, Construction companies, Telecommunications, Technology and Software development, Aerospace and Defence and companies using Licences. In general the industries working under long-term contracts. The long-term contracts have impact on the timing of revenue recognition within the new requirements based of the Five-step model.

For this uncertainty from the companies and ineffectiveness of the standard the responsible authorities announced a one-year deferral of the effective day for the revenue standard, i.e. the effective date will be 1 January 2018. The Board created supporting organization TRG which will help to stakeholders with implementation. They are discussing with the Board whether additional interpretation, application guidance or education is needed. The companies can gain some expert guidance from their publication with implementation examples.

The main effect of new requirements on Construction industry and Real estate is illustrated in the model example. The companies will need to determine whether to recognize the revenue over time or at point in time. Previously, under IAS 11, the revenue was mainly reported over time. But considering new requirements the companies will need to revise all contracts and distinct whether the revenue recognition doesn´t change. The decision whether the revenue is recognize is newly depending when the goods or services are transferred to customer. The impact is visible in illustration of records of EBITDA indicator, which influence the other financial ratios e.g. Return on capital, Basic Earnings Power Ratio or Gros margin and Profit rate. It can happenned, that the construction will taken several years but the revenues must be recognized after the completion of the contract. Then the cost are reported but without revenues which will have impact on period financial reporting. The companies will need to evaluate current contract whether some modification can alternatively help to continuous but accurate revenue recognition. The other suggestion is to include detailed explanation of high deviation in financial report.

The Software development industry and technology industry should expect to change their current practise and establish the new methods how to deal with new requirements, especially comprising in step two, four and five. Previously, the contract with customers were mainly recognized over time based on percentage completion, the new requirements is based on separation of performance obligation within allocation of the stand-alone prices to each performance. There could be challenges for software companies to even separate the performance obligations and then to allocate the transaction prices for provided goods and services which were historically bundled to one performance obligation. The software contracts give a image of a complex example containing all possible eventuality which may have influence on the timing of revenue recognition and the total amounts of revenue to recognize. Within one contract the user may evaluate large number of separate performance obligation or distinction of intellectual property Licences which are closely related to royalties arrangements or variable consideration. This topic is waiting for clarification from the Board as explained in previous chapter. All those aspects are desired to analysis in advance and evaluate which type of contract will have the most appropriate revenue results in scope of IFRS 15.

As the date of the transition to IFRS 15 is approaching, the companies will need to prepare their financial results which will need to be implement under IFRS 15. The contracts signed under current standards and continuing to the new requirements of IFRS 15 will need to be adjusted by the differences of accounting booking which arising from different requirements of IASs and IFRS 15. The example in practical part showed two allowed methods. I would suggest to used Full retrospective method as it gives to users of financial statements complete picture of financial results. But they are obviously a huge number of possibilities of contracts arrangements and accounting principles which require to individual judgment of every contract which could have impact on final financial reporting.

The companies need to take into consideration that all new requirements of IFRS 15 may lead to high implementation cost to include all detailed guidance and requirements of IFRS 15. There could be a necessity of professional advisers and new information systems, controllers and auditors.

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8 Liste of pictures

9 List of tables