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2018

IFRS 15 *Revenue from Contracts with Customers* – thematic review of disclosures in 2018 half-yearly financial reports

DECEMBER 2018

IRISH AUDITING AND ACCOUNTING SUPERVISORY AUTHORITY

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1. INTRODUCTION

1.1 Background

IAASA, Ireland’s accounting enforcer, has responsibility for the examination and enforcement of the periodic financial reports of certain listed entities (“issuers”).

IFRS 15 *Revenue from Contracts with Customers* became effective on 1 January 2018 and replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. IFRS 15 sets the accounting rules an entity must apply regarding the nature, amount, timing and uncertainty of its revenues.

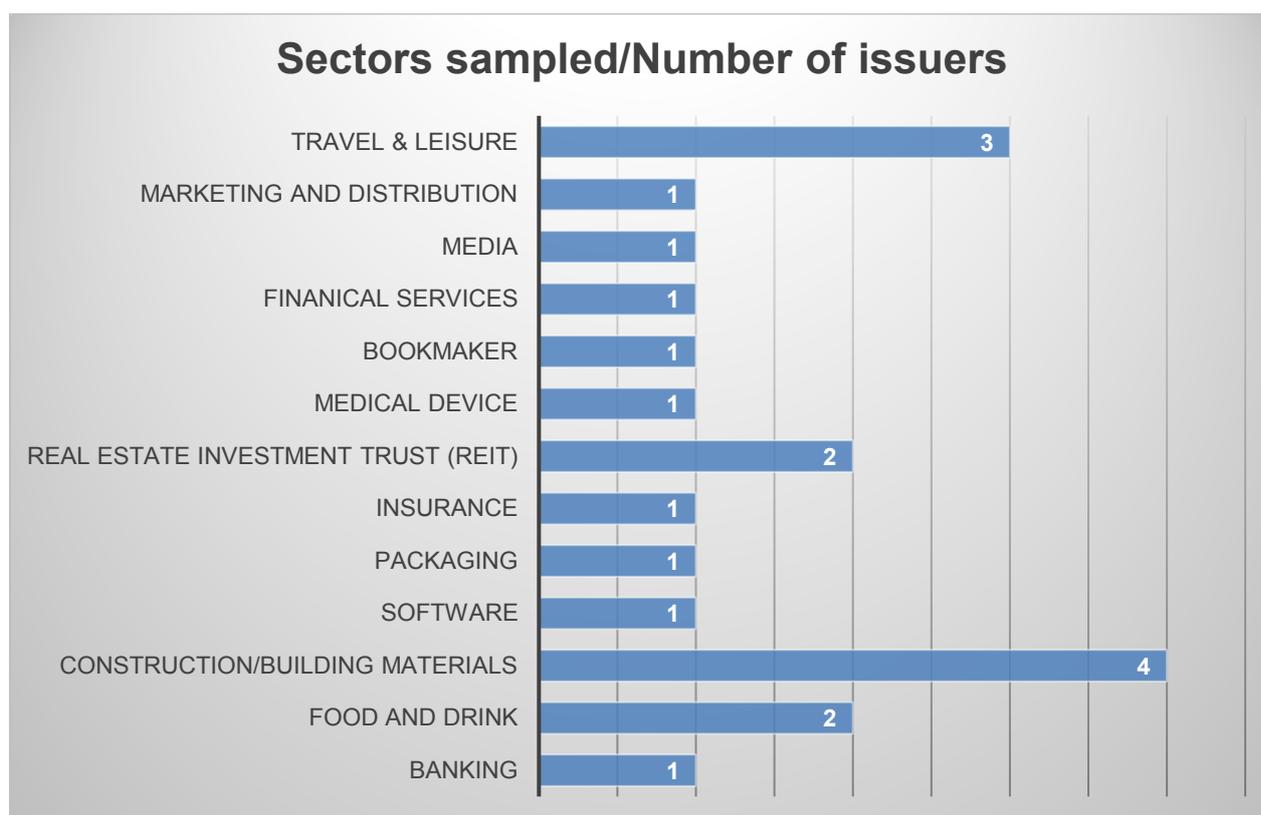
IFRS 15 must be applied for annual reporting periods beginning on or after 1 January 2018. The 2018 half-yearly reports were, therefore, the first financial statements that issuers had to prepare and publish in which mandatory specific IFRS 15 information was required.

IAASA has undertaken a desk-top review of the IFRS 15 disclosures that issuers included in their 2018 half-yearly financial reports.

Section 3 of this Paper presents the results of this desk-top review.

IAASA’s review is based on the 2018 half-yearly financial reports published by 20 equity issuers falling within IAASA’s financial reporting review remit (see Appendix). In addition, the graph below illustrates the sectors in which those selected issuers operate.

CHART 1 – SECTORS SAMPLED/NUMBER OF ISSUERS



Readers should note that, in undertaking this review, additional information was not sought from the selected issuers.

1.2 Relevant IFRS requirements

Paragraphs 16A(a) and 16A(l) of IAS 34 *Interim Financial Reporting* requires that the following information is disclosed in half-yearly financial statements:

In addition to disclosing significant events and transactions in accordance with paragraphs 15 – 15C, an entity shall include the following information, in the notes to its interim financial statements, or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. If users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

- (a) *a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change;*
- (b) *...*
- (l) *the disaggregation of revenue from contracts with customers required by paragraphs 114 – 115 of IFRS 15 Revenue from Contracts with Customers.*

IFRS 15.114 and IFRS 15.115 require that the following information be disclosed:

114 *An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87 – B89 when selecting the categories to use to disaggregate revenue.*

115 *In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8 Operating Segments.*

2. PURPOSES OF THE REVIEW

The primary purposes of this desk-top review are to:

- (a) determine the nature and extent of the information disclosed by issuers regarding their IFRS 15 revenue disclosures during their most recent half-yearly reporting periods; and
- (b) provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on issuers' IFRS 15 revenue disclosures.

A further outcome of the review is to remind preparers, auditors and users of financial statements of the requirements of IAS 34 to disclose the impact of new and amended financial reporting standards in half-yearly financial reports more generally; this is particularly so in the context of IFRS 16 coming into force for 2019 financial statements. IAASA and other European accounting enforcers have already indicated that the transition to IFRS 16 *Leases* will be an area of focus in their 2019 examination activity.

3. REVIEW RESULTS

3.1 Transition requirements

IFRS 15 allows two transition options:

- (a) the full retrospective method which requires the application of IFRS 15 on a retrospective basis resulting in a re-statement of comparative amounts; and
- (b) the modified retrospective method which requires the application of IFRS 15 on a retrospective basis but the cumulative effect of IFRS 15 is put through retained earnings on the date of initial application. As a result the comparative amounts are not re-stated.

Set out below is a graph illustrating the transition options that issuers have elected to apply in adopting IFRS 15. It is noteworthy that eight issuers (8/20 or 40%) did not specify or explain which option they used in adopting IFRS 15. However, it would appear from a review of the half-yearly reports that these issuers would have likely used the modified retrospective option.

Chart 2 – Transition options used by issuers to adopt IFRS 15



It should be noted that none of the 20 issuers included in this review had early adopted IFRS 15.

3.2 Other findings

IAASA's desk-top review identified that:

- (a) fifteen of the twenty issuers (15/20 or 75%) included in this desk-top review indicated that the adoption of IFRS 15 had no material impact on their revenue recognition practices;
- (b) seven issuers (7/20 or 35%) did not explain the timing of their revenue recognition i.e. whether revenue is recognised at a point in time or over time. In addition, four other issuers (4/20 or 20%) disclosed that revenue can be recognised at a point in time for certain products and services and over time for other products and services. However, the amounts of revenue recognised at a point in time or over time was not apparent from the disclosures provided in the half-yearly reports;
- (c) eight issuers (8/20 or 40%) did not explain in the half-yearly reports the nature and effect of the change in their revenue recognition accounting policy following the adoption of IFRS 15 compared to their revenue recognition accounting policy that was disclosed in their most recent published annual reports;
- (d) nine issuers (9/20 or 45%) indicated that revenue is recognised when control passes to the customer but these issuers did not provide a description of the criteria applied to determine when control passes to the customer;
- (e) seven issuers (7/20 or 35%) disaggregated revenue recognised from contracts with customers into just two categories, e.g. some of these issuers disaggregated revenue on the basis of their two operating segments. It is difficult to determine whether the appropriate level of disaggregation of revenue was disclosed given the range of products and services that these issuers provide and the variety of countries where they have operations;

- (f) six issuers (6/20 or 30%) did not refer to the disaggregation of the revenue in their half-yearly financial reports. These issuers had provided the operating segment disclosures which included the analysis of revenue across its reportable segments. Two other issuers (2/20 or 10%) disclosed that they had disaggregated revenue on the basis of their existing segment structure. Depending on the particular circumstances of the issuer the disaggregation of revenue using the issuer's existing operating segment structure may be appropriate. However, some issuers may need to provide further disaggregation so as to provide useful information about the effect of economic factors on the nature, amount, timing and uncertainty of revenue; and
- (g) one issuer (1/20 or 5%) disclosed a contract asset in its statement of financial position. It was not clear whether other issuers recognised either contract assets or contract liabilities as these amounts were not separately disclosed.

4. CONCLUSIONS

For the examination of issuers' 2018 full year financial reports, IAASA will engage with issuers to improve compliance with IFRS 15 including, for example, disaggregation of revenue, disclosure of significant judgements and the identification of performance obligations by issuers.

IAASA reminds preparers, auditors and users of financial statements of the requirements of IAS 34 to disclose the impact of new and amended financial reporting standards in half-yearly financial reports more generally. This reminder is particularly applicable to the disclosures in issuers' 2019 half-yearly financial reports regarding IFRS 16.

ISSUERS INCLUDED IN THIS REVIEW

	Issuer	Report
1	Bank of Ireland Group plc	30 June 2018
2	C&C Group plc	31 August 2018
3	Cairn Homes plc	30 June 2018
4	CRH plc	30 June 2018
5	Dalata Hotel Group plc	30 June 2018
6	Datalex plc	30 June 2018
7	DCC plc	30 September 2018
8	FBD Holdings plc	30 June 2018
9	Grafton Group plc	30 June 2018
10	Hibernia REIT plc	30 September 2018
11	IFG Group plc	30 June 2018
12	Independent News & Media plc	30 June 2018
13	Irish Continental Group plc	30 June 2018
14	Irish Residential Properties REIT plc	30 June 2018
15	Kerry Group plc	30 June 2018
16	Kingspan Group plc	30 June 2018
17	Mainstay Medical International plc	30 June 2018
18	Paddy Power Betfair plc	30 June 2018
19	Ryanair Holdings plc	30 September 2018
20	Smurfit Kappa Group plc	30 June 2018