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IFRS 15 – the seventh wave of Norwalk Agreement's convergence Roadmap

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Abstract. *Successful accounting convergence Program was outlined in September 2002 when Norwalk Agreement was issued. US FASB and UK IASB agreed to develop high-quality financial reporting standards and pledged to use their best efforts for achieving fully compatible standards. Once achieved, this compatibility is maintained through future work programme's coordination. The seventh Roadmap's 2006-2008 objective was establishing Revenue recognition as one of the most complex convergence process's topics. In this context, in May 2014 appeared IFRS 15 Revenues for contracts with customers. The implementation was set on or after 1 January 2018. Based upon the IFRS Foundation desideratum to advance an exclusive high-class, comprehensible, globally applicable and acknowledged set of financial script guidelines for the public benefit, based on clearly articulated principles, the present study attempts to analyse the role and the place of IFRS 15 related not only to convergence programme's objectives. Consistent with this approach, we find some opportunities and challenges, also research perspectives in the scope of accomplishing a better understanding of this processes.*

Keywords: IFRS 15, Accounting Convergence, Revenue Recognition, Accounting objectives, Accounting information quality.

Introduction

One of the most crucial number not only in harshly economic matters is revenue. There is no profit motivation where revenue can't be viewed clearly at a glance. Daily basis financial decisions are taken by individuals (author's note: or entities from different countries or jurisdictions) grounded directly or indirectly on accounting information's accuracy and relevance (Dutescu, 2000). Revenue is embedded in the business entity's accounting information in various forms and ways. If this information is afterwards proved to be noncompliant with economic events which generated it or incorrectly comprehended, the following results will be inconsistent with the expected level (Dutescu, 2000). Answering to this paradigm is nowadays essential accounting profession's concern (Dutescu, 2000).

In this matrix *Recognition revenue* emerged as a complex and wide interest topic of accounting theory and practice regarding of assurance continuum improvement in time and space of accounting information's quality - comparability, relevance and intelligibility. IFRS[1] and IAS[2] congruently, has led to an improved accounting quality in terms of economic decision-utility to equity investors (Bogstrand, Oskar; Larsson, Erik A., 2012). Likewise,

[1] International Financial Reporting Standards (IFRS) were issued beginning 2001 by International Accounting Standards Board (IASB) the successor of International Accounting Standards Committee (IASC).
[2] (IASC) were issuing International Accounting Standards (IAS) between 1973 and 2001.

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FASB[3] main objective is to establish and enhance the norms of financial accounting and to make available suitable info to investors and other individuals/entities who need accounting information. Babington (2012) remarked that the conception of decision usefulness is the main feature of US GAAP and IFRS who historically developed under the conceptual framework normative accounting theory.

On September 18, 2002, in Norwalk, Connecticut, USA, IASB and FASB each approved their engagement to develop high-quality, congruent standards for simultaneous usage in everyplace local and cross-border financial reporting. At that assembly, both standard setters promised to use their best diligence to (a) make fully suited standards from those existed ones so soon is feasible and (b) ensure that the congruity once attained is preserved by a coordination of common coming work programs (IFRS Foundation).

Later, in April and October 2005, both organizations reiterated their mutual responsibility to realise convergence between IFRS and US GAAP. Both IASB and FASB sustained their strategic priority to establish a common collection of high-class international standards. Based on this strategic priority was recognised the necessity to update the old process of reconciliation for non-US firms registered in the US who applicate IFRS through a distinguish topic-roadmap in the main convergence roadmap. Among other things, that could affect the progress, were notable the effective application of IFRS worldwide, and assessable advancement in dealing with most pressing matters on the convergence programme. Therefore, the capacity to meet the roadmap's objectives depends not only on the convergence roadmap authors' ability to capture accounting information quality global requirements in IFRSs but under the efforts, assessments, judgements and actions/reactions of many parties— investors, shareholders, financial advisors, accounting professionals, auditors, and regulators.

Concerning their policy to the convergence agenda both standard-setters covenant on the next strategies:

a) The objective of convergence can best be accomplished through the insight elaboration of high-class, common persistent standards;
b) Instead of trying to remove the two standards' variances needing substantial enhancement, the best way of both standard-setters' resources utilisation is to improve the accounting information revealed to investors through developing a new common standard;
c) In order to serve the investors' needs converging should be achieved by replacing inadequate standards with most robust ones.

Reliably with those strategies Boards have settled to perform towards the following goals for the congruence programme by 2008: Immediate convergence and Other joint projects. The main Roadmap Agenda consist of following *Seven waves* convergence topics viewed as candidates for enhancement: Business mixtures, Fair value metrics guidance, Obligations and equity dissimilarities, Consolidations, Post-retirement benefits (including pensions), Performance reporting, and *Revenue recognition*.

[3] Financial Accounting Standards Board (FASB) is an independent board, established in 1973 based in Norwalk, Connecticut, consisting of accounting professionals who establish and communicate mandatory accounting standards in the US. FASB collection are known as Generally Accepted Accounting Principles (GAAP or US GAAP) and rule the elaboration of corporate financial reports. The Securities and Exchange Commission (SEC) recognized them as being authoritative for financial reporting domain.

IFRS 15 *Revenue from contracts with customers* was published in May 2014 due to nearly 15 years of travails of professional and scientific cooperation between regulatory bodies, research&analyst entities and companies. The main target was to enhance through a single standard for revenue recognition in all jurisdictions and industries all-embracing. The new instructs remove industry-explicit accounting for revenue under rule-based US GAAP, the accounting and financial reporting standard all firms listed on US stocks must implement and introduce a principles-based methodology which is more strongly aligned with IFRS[4].

First, starting the reasons for issuing the IFRS 15, the standard's objective and scope and the objectives of Norwalk Agreement (NA) and Conceptual Framework for Financial Reporting (CFFR)[5] we consider in this study the internal/projected economic consequences of mandatory IFRS adoption which are necessary to analyse the effectiveness and the coherence of regulations (normative approach).

Second, to find the limitations and further scrutiny on this way, the external/unpredicted effects and challenges were examined (positivist and constructivist approach).

Literature review

The term economic consequences was used by Zeff (1978) to epitomize the effects of accounting information communicated through financial reporting on firm values and subsequent economic decision makers' (or who are affected) wealth. It is essential that US standard-setter taken these economic effects into discussion, mostly for the reason of the possible adverse results potential accounting norms could have on social and economic policies pursued by government (Zeff, 1978). According to Zeff one of the impacts is that accounting standards become not as much as neutral is necessary and subsequently subjectivity is less constrained in some areas, one of which could be revenue recognition. Brüggemann, Hitz and Sellhorn (2012) delimit economic consequences as intended or unintended under their features that offer the possibilities to reconcile with CFFR's explicitly objectives. These aims highlight capital-market and macroeconomic consequences follow-on enhanced openness and international comparability of financial reporting. Nevertheless, they do not resolvedly denote the influence of financial reporting. This authoritarian focalization is an effect of supranational character EU regulations, that cannot adapt other local specific functions of financial report information but exploits information externalities in all member states (Brüggemann, Hitz, & SellHorn, 2012). Therefore, authors relate their division between intended and unintended impacts to the distinction between the information/valuation and contracting/stewardship. To avoid subjective connotation of the term intention we use a dichotomy construct grounded on distinction between internal/projected and external/unpredicted consequences in coherence (or incoherence) with the reasons for issuing the IFRS 15, the standard's objective and scope and the objectives of NA and CFFR.

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[4] Quote from article *"A revenue rule change is coming and every company will be affected"* published on July 2017 by Fracine McKenna in *Market Watch* (https://www.marketwatch.com).

[5] Issued by IASB in September 2010. It superseded the 1989 *Framework for the Preparation and Presentation of Financial Statements* (IASB, 2010).

The core, fundamental contrast between IFRS and US GAAP is that the last is more rule-based, while the former is more principles-based. The difference denotes that IFRS involves more judgment on the information producers' side. Even though the earnings model was adopted the variances in considering the financial reporting differences in revenue recognition continued to exist. The major US GAAP's revenue recognition aspect that still differ is that it requires substantial evidence of a sale agreement, acceptable collectability of the revenue, calculable prices, and occurrence of the transfer of goods and services. IFRS demands upcoming economic benefits linked with incomes and costs reliably determined (Lindberg & Seifert, 2010).

How the twofold revenue recognition standards are endeavouring to converge were studied in many papers. For example, Frank E. Ryerson's (2010) article are presented the two possible approaches which were proposed to advance in the converge roadmap. Firstly, he considered to use the asset and liability model. The asset and liability template would count on the identification and computation of assets and liabilities, not diagnose postponed or delayed debit and/or credits, and lead to a reliable and coherent representation of operations. Secondly, he highlights the earnings approach that would lead to recognition of postponed or delayed debit and/or credits that do not fulfil the conditions to be recognised as an asset or liability and would be considered as revenue straight without concern about assets and liabilities fluctuation throughout contacts with customers. This last model was the one that could eventually be adopted by the both Boards (Ryerson III, 2010).

Bohusova and Nerodova (2009) depict the conceptual essential differences in revenue recognition between IFRS and US GAAP. Mainly findings of the two-standard's critical differences comprise spheres of long-term contracts, revenue recognition conditions and deferred payments. In order to recognize revenue, US GAAP requires that revenue must be achieved or at least achievable and must be acquired. Instead, IFRS enables to recognize revenue that can be determined faithfully if it is probable that upcoming economic benefits will flow to the entity. Under postponed or delayed payments, in IFRS amount of revenues to be recorded is determined by discounting; while in US GAAP deducting to the current value is not necessary. Finally, in area of long-term contracts IFRS allows the methods of the proportion of completion and zero profit method; while US GAAP permits only the method of proportion of completion (Bohusova & Nerudova, 2009).

Despite the huge divergence in the matter of revenue recognition between IFRS and US GAAP, Babington (2012) remarked that huge efforts have been made to seek the way of convergence between the two standards. The use of contract-based revenue was highlighted as a way of changing. So, during construction contracts the change would be that the revenue which company must recognize is only when the building item of the integral contract edifice is under the customer control. The capitalization of costs represents another matter where changing must be made. The modification that the contract source costs triggers is that the costs would be expensed except they meet the requirements for capitalization as defined in other standards (Mintz, 2009).

The process of revenue recognition convergence initiated in the joint IASB-FASB programme extended over a long period of time and supported sundry difficulties, these complications were discussed by the scholarly literature and then submitted to accounting standard setters (Babington, 2012). Finally, after 15 years of focused efforts IFRS 15 established in 2014 a new five-step systematic model as a main and a central theoretical model to approach the problematic revenue recognition matter and around whom applying the standard's principles as in figure 1.

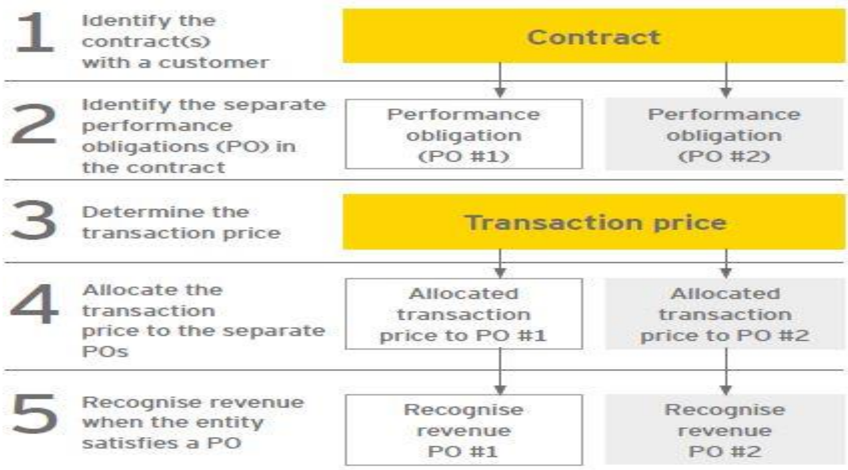

Figure 1. IFRS 15 Five-step model

Source: "IFRS 15: The new revenue recognition standard", www.ey.com/be.

Methodology

This study is an evaluative research through functional internal/projected-external/unpredicted dichotomy to analyze the role and the place of IFRS 15 related to convergence programme's objectives and to find some opportunities and challenges, also to try to make know research perspectives in the scope of accomplishing a better understanding and explanation of this accounting processes.

Our paper main research methods were content analysis as a research processor and literature review which provide the adequate inputs, every one of them carries out under a qualitative approach to finding answers to the research queries lengthwise contained.

The main research questions that guided our endeavour are:

1) *How can be assessed the convergence FASB and IASB throughout IFRS 15?*
2) *Which are the most important opportunities and challenges brought by IFRS 15?*

Results and discussions

In accordance with Zeff's (1978) economic consequences terminology we can depict the impact of financial reporting as *the effect of accounting statements on the decision-making performance of investors/creditors/business/government/organizations* or in a peer view as *if modifies in the rulings used to calculate accounting bottom-line figures change the allocation of firm's cash flows, or wealth of individuals who use [or who is affected by] those figures for contracting or decision making"* (Holthausen & Leftwich, 1983).

Keeping the difference of scale and diversity of effects mandatory IFRS implementation generated, we consider that the impact of the seventh wave of IASB and FASB convergence programme on revenue recognition has the same characteristics and patterns that are described in accounting theory and scholarly literature. In our approach we divided in a dichotomic sense the two possible casual chains of propagation of the implementation of a new converged accounting international standard effects, as follow:

a) internal/projected effects, the main effects explicitly related to triggers, objectives and scope of regulations converged (normative approach);
b) external/unpredicted effects and challenges, the side effects untouted by the convergence programme's papers (positivist and constructivist approach).

From the synthesis regulations' motives, scope and objectives: harmonizing consequence to increase comparability and transparency, we find another peer perspectives:

a) conceptual imperative - help investors by providing decision-useful information (accounting information role's internal effects);
b) stewardship prerequisite - enable management accountability for resources entrusted to it by firm's shareholders (accounting contracting role's external effects).

CFFR 2010, based much more on accounting information role (AIR) and less on accounting contracting role (ACR), states, for example, that:

a) OB2: general purpose of financial reporting is to guarantee financial information useful for decisions (buying, selling/ holding equity and debt instruments, loans/other types of credit anticipated/settled by potential/existing investors, lenders and other creditors) concerning resources reporting entity required;
b) OB3: information is needed to help investors, lenders and other creditors in assessing the forecasts used for future net cash influxes to an entity;
c) OB4: information is also useful for decisions about or related to management's actions;
d) OB6: general purpose financial reports provide just a part of the global sphere information necessary to investors, lenders and other creditors decisions even though that information is accurate, complete, reliable and pertinent. They need to consider appropriate information from other sources like general economic circumstances and trends, political climate and major events, business branches and/or firm outlooks;
e) OB7: general purpose financial reports are not considered to determine the value of a reporting entity; on the contrary the information provided are designed to help the users estimating the value of the reporting entity;
f) OB8: the main goal in developing financial reporting standards is to provide the set of information in accordance with the needs of the most primary users, since these users act like individuals that have distinct, and possibly contradictory, information needs and desires.

From the same perspective, the main transnational goal is that equity and debt markets to function more efficiently regarding the investor's decision making.

That means improvement of capital allocation, decreasing cost of capital, fostering cross-border investments. The definitive impact should be over:

a) Capital-market efficient functioning;
b) Macroeconomic growth and employment (Brüggemann, Hitz, & SellHorn, 2012);
c) Accounting information quality improvement.

Armstrong *et al.* (2010) suggested capital market reactions to amplified (reduced) the mandatory IFRS adoption in the EU (Armstrong, Barth, Jagolinzer, & Riedl, 2010).

Changes in national/jurisdiction accounting standards through IFRS mandatory adoption or at the level of a single or a small set of standards from the same class (IFRS or

USGAAP) of one or more countries as an outcome of the IASB-FASB convergence programme engender mediated and non-mediated effects due to the change agent-vector:

a) information users retorts and subsequent actions;
b) financial statements itself.

In their turn, mediated effects can be classified by the realm of aggregated manifestation of users' communities as capital-market effects and macroeconomic effects. Financial reporting pragmatic non-mediated effects emerged from the direct relationship between standards requirements and objectives on the one side and the effective financial reporting disclosures on the other side.

Capital-market effects research can be classified in two categories: directly approach using measures strongly related to firm values and indirectly approach based on analyse the accounting information quality in relation with capital-market actors.

Direct analyse is drawn using the stock exchange benefits, so scholars hint at:

a) increasing individual, mutual funds and institutional investor's cross-jurisdiction equity investments (Brüggeman, Daske, Homburg, & Pope, 2012), (DeFond, Hu, Hung, & Li, 2011), (Florou & Pope, 2012);
b) cost of equity capital and cost of public debt decreasing (Li, 2010), (Florou & Kosi, 2015);
c) stock market liquidity increasing (Muller, Riedl, & Sellhorn, 2011).

In line with financial reporting conceptual imperative this evidence hold the expectancy of IFRS to bring direct benefits to capital-market domain.

Indirect consequences are studied using proxies to measure the accounting information's quality in the stock market participants' insights considered to influence firm values. In this area we can distinguish:

a) intensification of international information transfers from annual/quarter earnings announcements (Wang, 2014);
b) increasing of annual/quarter earnings announcements' information content (Landman, Maydew, & Thornock, 2012);
c) increasing long-run stock price synchronicity (Beuselinck, Joos, Khurana, & Van der Meulen, 2010);
d) enhancing the specialists' information environment quality (Byard, Li, & Yu, 2011).

Identical to previous effects these findings support indirect stock market benefits leading by mandatory IFRS adoption.

Macroeconomic effects can be summarized as follow:

a) increases of foreign direct investment related to the jurisdiction institutions' size as, for example, conformity previously IFRS adoption (Chen, Ding, & Xu, 2014);
b) increases of foreign equity investment after IFRS and the greater effect was observed in states where corruption's level is low and protection of investor is strong (Amiram, 2012).

Therefore, both effects sustain anticipated macroeconomic benefits related to mandatory IFRS adoption.

Based on accounting measures' essential and effective properties financial reporting pragmatic effects can be classified in three categories: value relevance of accounting amounts, accounting choice and compliance and accounting metrics properties.

In the first category are used some of the accounting items. Difference between national GAAP and IFRS restated accounting numbers is associated with stock prices and overall studies' findings support increasing value relevance in equity markets more than in debt markets (Brüggemann, Hitz, & SellHorn, 2012).

Accounting choice and compliance studies provide inconsequent evidence. Substantial non-compliance is noted in the first year of adoption and the degree of compliance is determined by national and/or firm incentives level (Verriest, Gaeremynck, & Thornton, 2013) whilst many patterns of national GAAPs persevere several years after adoption (Kvaal & Nobes, 2012).

One of the main concern of standard setters is to assure that accounting metrics properties are capable to avoid or at least to prevent improper refinements, which are finally needed when for example earnings features are altered through income smoothing, discretionary accruals, conditional conservatism etc. Likewise, in this segment findings are inconsistent, evidencing either negative effect (Ahmed, Neel, & Wang, 2013) or no significant impact (Atwood, Drake, Myers, & Myers, 2011).

Conclusion

In our research we achieved two main findings dichotomic divided. These are the two possible casual chains of propagation of the implementation of a new converged accounting international standard effects, as follow:

a) internal/projected effects, the main effects explicitly related to triggers, objectives and scope of regulations converged (normative approach);
b) external/unpredicted effects and challenges, the side effects untouted by the convergence programme's papers (positivist and constructivist approach).

We suggest that the answers to our first research question *How can be assessed the convergence FASB and IASB throughout IFRS 15?* could emerged from the pervasiveness of the economic consequences related explicitly to accounting information quality's comparability and transparency and hence efficient functioning of capital-market and macroeconomic effects (growth and employment) expected to improve throughout IFRS 15 implementation. Nevertheless, as we remarked in our paper this is not the only casual chain of propagating the effects of new high-class converged international financial reporting standard. A comprehensive assessment requires to take also into consideration the regulators untouted economic consequences.

The second research question *Which are the most important opportunities and challenges brought by IFRS 15?* derived from the findings dichotomic aspect. Thereby it can be discovered and structured entire spectrum of a new standard implementation effects that too includes intra-firm and domestic consequences that have a great potential to impair or to improve the generally convergence effectiveness. In these later areas, we submit to assessing the effects related to performance and contracting use of accounting metrics likewise dividend pay-outs, lending arrangements, compensation plans, taxation, domestic/transnational regulatory restrictions and other institutional factors.

Our contribution to the accounting literature consists in the two ways we find and proposed to be general used to explore the role and the place of new international accounting standard effectiveness related not only to convergence standard-setters programme's objectives and to seek the most important opportunities and challenges it brought, and under these lenses to outline research perspectives in the scope of accomplishing a better understanding of this processes. We will consider this paper successful if it will inspire the further research to improve our knowledge about the benefits and costs of new high-quality international financial reporting standards in the general endeavour to accomplish a global accounting language.

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