IFRS 15 Thematic Review:

Review of Interim Disclosures in the First Year of Application

November 2018

Financial Reporting Council

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Executive Summary

Introduction

The purpose of this report is to summarise the key findings of our thematic review of interim disclosures about the implementation of IFRS 15 'Revenue from Contracts with Customers', which:

- Became effective on **1 January 2018**;
- **Replaces** IAS 18 'Revenue' & IAS 11 'Construction Contracts';
- Introduces a **5-step model** to account for revenue, with guidance in areas on which previous IFRSs were silent;
- **Has more extensive disclosure requirements** than previous standards – both qualitative and quantitative.

For some industries, the initial impact of applying IFRS 15 is particularly significant and, therefore, the quality of information published by these companies is paramount. The purpose of this thematic review is to assess the adequacy of interim disclosures of a sample of companies in high-impact industries in the first year of adoption. Our aim is to provide useful guidance for companies when considering the completeness of their upcoming year-end disclosures.

Key findings

Our review identified a number of areas where disclosure could be improved. Whilst we are mindful that the interim disclosure requirements are less extensive than those for full-year accounts, we felt that some companies did not sufficiently explain the impact of adopting IFRS 15. We expect companies to provide more comprehensive disclosure in their upcoming annual reports.

Separate topics are addressed throughout this report but our key findings were that **the following disclosures could be improved**:

- **Information about transition adjustments** recognised, and linking these to changes in accounting policies;
- **Clearer explanation of the changes made to accounting policies**, including the reasons for the changes and the judgements made by management in arriving at the new policies;
- **Information about performance obligations**, including judgements made in determining these and the timing of their satisfaction (i.e. when control transfers to the customer);
- The **impact on the balance sheet**, including disclosure of accounting policies for new items such as contract assets and contract liabilities.

Some of our observations concern disclosures which are not strictly required by the standard. However, additional information in these areas would have been helpful to the user. Overall, the best disclosures were those that were **specific to the company**, and that provided **additional detail** for the benefit of providing a relevant and robust explanation of the impact of IFRS 15.

We noted many good examples of disclosure, some of which are highlighted in this report. These excerpts of published interim accounts are intended to demonstrate the level of detail which we consider helpful when explaining various aspects of the impact of adopting IFRS 15 to users. One company also published a separate document in which they 'walked through' the IFRS 15 accounting for an example contract, which was very helpful.

We encourage preparers to carefully consider the findings of this review when determining the extent of disclosures included within their upcoming annual reports. Companies should aim to ensure not only that mandatory disclosure requirements have been met, but that sufficient explanation of concepts, elaboration of judgements made and conclusions reached have also been provided. Starting with this objective will go a long way to ensuring readers understand the impact of IFRS 15 on the company. We hope preparers find this thematic review useful and we encourage early engagement with external auditors to establish a plan for the upcoming annual reporting period.

Thematic overview: scope and sample

Background and scope of our review

IFRS 15 introduces a new model for revenue recognition, based upon the transfer of control rather than the transfer of risks and rewards. It will have a significant impact on companies in many industries. These companies will need to carefully, and clearly, explain how it has changed their particular revenue recognition practices, so that readers of the accounts fully understand the impact on this key measure of their business performance.

Our review consisted of a limited scope desktop review of the interim financial statements of a sample of companies. We assessed the adequacy of disclosures regarding the effect of the transition to IFRS 15 in the first year of adoption.

Interim disclosure requirements

What is a sufficient level of disclosure of the impact of IFRS 15 for one entity may be insufficient for another…

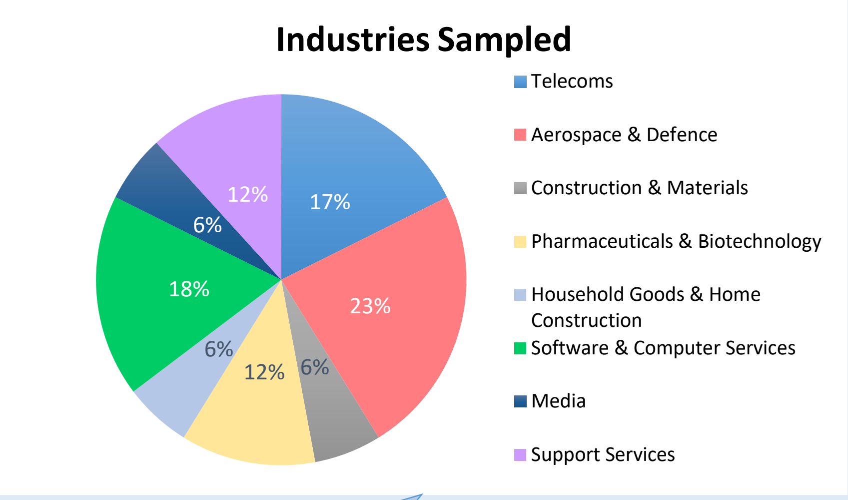
IAS 34 ‘Interim Reporting’ does not specify how much detail entities must provide when explaining changes in accounting policy in interim accounts. The extent of disclosures is therefore largely left to management’s judgement.

Where the adoption of IFRS 15 had a significant impact for a company, we expected management to consider the requirements of IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’ in order to adequately explain the adjustments made to financial statement line items for the comparative period(s).

We also expected management to ensure that the disclosures were of a sufficient level of granularity as to allow users to fully understand the extent to which IFRS 15 has had an impact on the business. However, we believe that what might be a sufficient level of disclosure for one entity might be insufficient for another.

Our sample

We planned to review the interim financial statements of a sample of 17 entities*. Our sample targeted those industries on which we would expect the implementation of IFRS 15 to have the most significant impact. As a result, our sample was skewed towards the telecommunications, aerospace & defence and software industries.



We intend to review the full-year accounts of companies in our sample whose interim disclosures were weaker, to ensure improvements have been implemented in their annual report and accounts.

** Due to the planned timing of publication of this thematic review, our findings in relation to the large UK-listed telecommunications entities in our sample could not be included in this report. These companies largely have 31 March year-ends, and therefore their interim reports will be published after our work is complete. We plan to issue an addendum to this publication once these companies have announced their interim results if our review of their disclosures produces additional findings to those already reflected in this report.*

Overview of the thematic: method of adoption

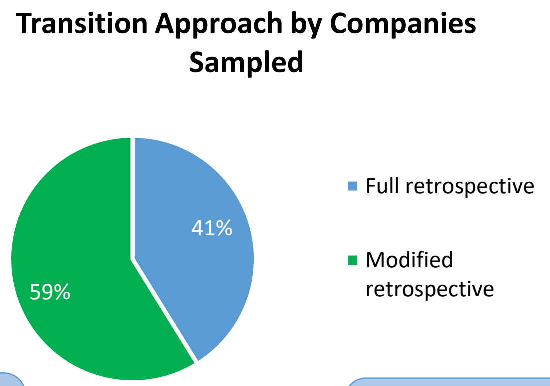
Adoption choices by our sampled companies

IFRS 15 permits two methods of adoption:

1. The fully retrospective method; and
2. The modified retrospective method.

The fully retrospective method involves first-time application of the standard on a retrospective basis, with full restatement of comparatives. The modified retrospective method also involves first-time application of the standard on a retrospective basis, but with a cumulative catch-up posted through retained earnings on the date of transition. This means that comparative numbers are not restated.

The choice of adoption methods by our sampled companies is represented in the chart below. A greater proportion of companies we sampled adopted the modified retrospective approach, which is likely to be due to preparers perceiving this option as being less onerous.



The chart on page 7 shows how companies in our sample were impacted on transition

We reviewed the 30 June 2017 interim accounts of the company in our sample that early-adopted

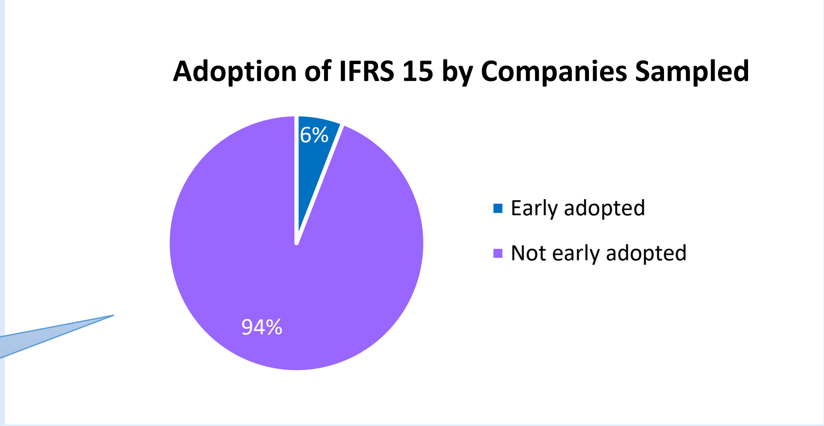
Disclosure of trend information

For companies adopting the fully retrospective method, the restatement of comparatives provides updated trend information for readers. For companies adopting the modified retrospective transition method, which involves prior year comparatives being disclosed as reported under previous accounting policies, IFRS 15 also requires disclosure of the *current year* figures as they would have been reported under *previous IFRS*. We were pleased to see that the majority of the companies sampled that applied this method provided at least some interim disclosures in respect of this requirement, thereby helping readers understand the effect on trend information.

This disclosure is important in enabling a user to compare 'like with like', and to have visibility of trend information. At least one company in our sample was not aware of this disclosure requirement.

Most companies sampled did not early-adopt

Given the technical and operational complexities involved with the transition to IFRS 15, it is not surprising that few entities in our sample chose to early-adopt the standard. The adoption timing results noted for our sampled companies is represented in the following chart:



Key findings: explaining changes in accounting policies

Some attempts to explain the impact of IFRS 15 on policies were poor

One of the key interim disclosure requirements in the first year of applying a new accounting standard is an adequate explanation of the nature and effect of any changes in accounting policies or methods.

We noted a range of detail provided by the companies sampled about the impact of adopting IFRS 15 on previous accounting policies and methods. Disclosure was generally influenced by how material the impact of IFRS 15 was deemed to be. Some companies' disclosures were helpful, but others were disappointing.

Examples of good disclosure…

"Under previous accounting, revenue in relation to certain software licences was recognised at a point in time. Under IFRS 15…a number of these arrangements result in the customer having the right to access the licence (an 'active' licence) rather than having the right to use the licence (a 'passive' licence). Under an active licence the ongoing support and upgrades are fundamental to the ongoing use of the licences by the customer. Hence total revenue for the licence and upgrades are combined with these revenues now recognised over the term of the customer contract rather than at a point in time…"

- Capita plc, p50

A summary of the main issues identified in this area were:

- Disclosure of new accounting policies but no comparison to *old* policies, thereby failing to explain *changes* made
- Insufficient or confusing explanations of variable consideration and how it is accounted for, including application of the variable consideration constraint
- Poor descriptions of when revenue is recognised, with reliance on vague and boilerplate language (e.g. 'when control is transferred')
- Disclosure that an input or output method is used to measure delivery of an over-time performance obligation but no clarification of the actual method used and why it is appropriate
- No policies disclosed for contract assets and liabilities, despite material balances presented

The standard explains that variable consideration should only be recognised to the extent that it is highly probable that a significant revenue reversal will not occur. Companies need to be careful in how they account for, and explain, this constraint. One company in the sample had used parts of this terminology to explain how the constraint impacted their accounting for variable consideration when discussing the reversal of revenue. Their resulting explanation was misleading and not what they intended.

We expect disclosures to be company-specific, and for policies to explain when revenue is recognised, how this has been determined, and any judgements made in reaching those conclusions.

For example, if a company has concluded that the impact of adopting IFRS 15 is immaterial is because the point at which control of performance obligations is transferred to customers under IFRS 15 matches the point at which risks and rewards were transferred under IAS 18, we would expect the company to explain any significant judgements made in reaching this conclusion.

What if the impact of IFRS 15 is immaterial?

- Many of the transition disclosures will not be required
- However, where significant judgements are made in arriving at the conclusion that the impact is not material, we expect companies to disclose these judgements (refer to page 10 for further commentary)
- It is likely that accounting policy wording will still need to be changed, even if the resultant accounting remains the same – in doing so we expect companies to explain why the change in policy does not impact the outcome

Examples of good disclosure…

"Where a customer contributes to the Group's development costs and those costs meet the criteria under IAS 38 to be recognised as an intangible asset, the funding is recognised as a contract liability and is amortised, as an increase to revenue, over the periods expected to benefit from future revenue from the customer over the life of the programme. Under the Group's previous accounting policy, customer funding was netted off amounts recognised as development costs and accordingly reduced the subsequent amortisation charged to net operating costs."

- Meggitt plc, Note 25

Key findings: transition adjustments

We expect better disclosures about transition adjustments

Our comments in this area stem largely from what we believe will provide helpful information in companies' year-end accounts.

Transition disclosures are impacted by a company's choice of transition method. However, regardless of the method chosen, there will be an adjustment posted to retained earnings which reflects the opening impact on net assets – this will take place at the beginning of the earliest period presented for full retrospective adopters, or on transition date for modified retrospective adopters. We believe it is important that this retained earnings adjustment is adequately explained.

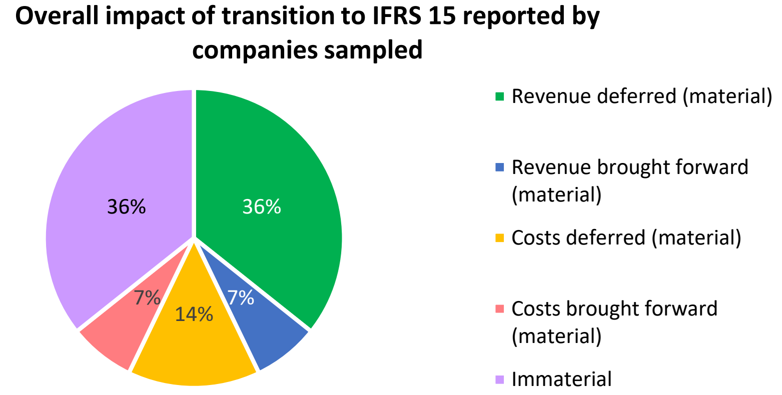
Companies adopting the full retrospective method, which requires restatement of comparatives, will need to disclose a third balance sheet if the restatement is material (IAS 1.40A), as at the beginning of the restated comparative period. They must also quantify the impact of the changes in their accounting policy on each financial statement line item and on earnings per share ('EPS'). These disclosure requirements should result in a clear explanation of the opening transition adjustment, as well as the impact on comparative figures. Companies adopting the modified retrospective transition method, however, are not required to restate comparatives. The impact of changes in accounting policy is explained through disclosure of the current year figures under *both* IFRS 15 and previous IFRS. We expect there to be clear explanation of the reasons for adjustments to line items in both the current year statement of profit or loss and the balance sheet.

In the interim accounts we reviewed, the most helpful disclosures were those that, regardless of transition method adopted, broke their opening balance sheet adjustment down into impact categories and provided appropriate linkage to their new revenue accounting policies. It was the modified retrospective adopters whose disclosures we found were generally poor in this area. It was not always obvious why, for example, the transition to IFRS 15 had caused a reduction in a company's opening retained earnings.

A summary of the main issues identified in the interim accounts we reviewed were:

- No disclosure at all of transition method adopted
- Modified retrospective adopters: no meaningful explanation of transition adjustment disclosed
- Transition adjustment quantified and disaggregated into categories of impact but no accompanying explanations given and/or category descriptions used were unclear
- Transition adjustment quantified and accompanied by explanations but not appropriately linked to changes in accounting policies or in-year impact on financial statement line items
- When explaining one element of their transition adjustment, one company explained why revenue had *increased*, but did not explain why profit had *decreased*

We expect companies, regardless of their transition method, to ensure that upcoming annual reports contain a sufficient degree of information about their transition adjustment. This might include explaining the transition method applied, disaggregating the adjustment into impact categories, and linking these to discussion about the impact of the standard, such as changes made to accounting policies and practices.



Key findings: transition adjustments (continued)

Examples of good disclosure…

We found Meggitt plc's manner of setting out the quantitative effect of transition to IFRS 15 helpful. It was clear and, when taken with the associated footnotes, provided the reader with a good understanding of how the new standard specifically affected the company.

Disclosure of transition method adopted

Clear linkage / cross-reference to supporting explanations and changes in accounting policies disclosed later in the note

Impact broken down into principal impact categories

Impact on each Balance Sheet line item disclosed

Additional disclosures showing the effects on each financial statement line item and on EPS were disclosed elsewhere in the note, along with explanation, but have not been reproduced in this extract

25. Restatement of prior period comparatives continued

Impact of IFRS 15

In accordance with the transition provisions in IFRS 15, the standard has been adopted retrospectively with restatements made to prior period comparatives. A summary of the principal areas of IFRS 15 that have impacted the Group are shown in the tables below and footnotes that follow.

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	Six months ended 30 June 2017 Impact £m
Revenue	-	(1.2)	-	(1.5)	-	(2.7)
Cost of sales	(12.7)	1.2	-	1.2	-	(10.3)
Gross profit	(12.7)	-	-	(0.3)	-	(13.0)
Net operating costs						(0.7)
Operating profit						(13.7)
Tax						4.3
Profit for the period						(9.4)

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	1 January 2017 Impact £m
Net assets	(186.5)		-	(7.3)	-	(193.8)

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	31 December 2017 Impact £m
Development costs	-	-	14.1	-	-	14.1
Programme participation costs	(285.4)	(29.6)	-	-	-	(315.0)
Trade and other receivables – non-current	-	-	-	(0.5)	-	(0.5)
Contract assets – non-current	-	29.6	-	-	-	29.6
Deferred tax assets	14.8	-	-	-	-	14.8
Inventories	-	-	-	(2.4)	-	(2.4)
Trade and other receivables – current	-	-	-	-	(47.4)	(47.4)
Contract assets – current	-	-	-	-	44.8	44.8
Trade and other payables	-	-	-	-	44.9	44.9
Contract liabilities – current	-	-	-	(4.6)	(42.3)	(46.9)
Contract liabilities – non-current	-	-	(14.1)	(9.0)	-	(23.1)
Deferred tax liabilities	50.8	-	-	3.3	-	54.1
Net assets	(219.8)	-	-	(13.2)	-	(233.0)

- Meggitt plc, Note 25

Key findings: performance obligations ('POs')

Some companies did not adequately explain how they had determined their POs, or when these were transferred to the customer

The PO is a new concept introduced by IFRS 15, and is essentially the unit of account for revenue recognition under the new standard. Identifying POs requires an entity to determine the **distinct** promises to transfer goods or services to the customer, which often involves judgement. As such, it is important that companies disclose sufficient detail about any judgements made in determining POs and when they are satisfied.

The main issues identified in this area were:

- Absent, incomplete, or unclear disclosures about POs which appeared to involve some judgement regarding how they were determined, or when they were satisfied
- Use of boilerplate language which was generic and was often directly quoted from the standard

In preparation for the 2018 annual reporting cycle, we encourage companies to seek to tailor their policies as much as possible to reflect how IFRS 15 applies to their own unique contracts with customers.

For example, rather than disclosing that revenue is recognised when 'control transfers', consider explaining when this takes place and why, with specific reference to contract terms

For example, one company failed to explain why their policy for installation revenue was changing from being recognised in full upon completion of the installation activity, to being spread over the contract period

It is important that companies describe policies in such a way that gives the reader sufficient insight into how IFRS 15 applies *specifically* to the company in question

Examples of good disclosure…

"Aptitude Software's specialised financial management software applications require optimisation of functionality and performance in the initial years of their use to ensure that [they] continue to meet the requirements of the users. This requirement is due to the significant complexity of the applications which specialise in very rapidly processing very high volume complex, business event-driven transactions and calculations. As a result, the Group has concluded that the software licence and the optimisation services are not distinct from each other during the period in which the functionality is being optimised and should be combined to create a single [PO]…The Group's evaluation is that the Combined [PO] meets the criteria for revenue to be recognised over time as the services are significantly modifying and optimising the software the customer controls..."

- Microgen plc, p36

Examples of good disclosure…

"For each [PO] to be recognised over time, the Group recognises revenue using an input method, based on costs incurred… Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer. If the over time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

- BAE Systems plc, p49

Tips when explaining POs

- Limit the use of 'boilerplate' language, or direct quotes from the standard.
- Ensure information disclosed adds to, and is consistent with, business model disclosures in the strategic report.
- Consider using cross-references between the strategic report and the accounts and aim for a consistent use of language.
- Explain any judgements made in determining the POs.
- There are three criteria under IFRS 15 which determine whether a PO is satisfied over time – is it clear which one is relevant?

Key findings: disclosure of significant judgements

Disclosure of judgements provides key information about how a company has applied IFRS 15

Whilst not a strict requirement of interim reports, some companies disclosed helpful information about the judgements made in applying IFRS 15. These disclosures assist the reader in understanding how the new standard has been applied to facts and circumstances specific to the company's own contracts with customers.

A judgement that would not ordinarily qualify for disclosure under IAS 1 may still need to be disclosed under IFRS 15

We expect companies' year-end disclosures about significant judgements, **which are in addition to the requirements of IAS 1**, to be more extensive than the information that was disclosed for the interim period.

Examples of good disclosure…

"As part of the accounting for these arrangements, the Company must develop estimates that require judgment to determine the stand-alone selling price for each performance obligation, identified in the contract…The Company uses key assumptions to determine the stand-alone selling price, which may include forecasted revenues, development timelines, reimbursement rates for personnel costs, discount rates and probabilities of technical, regulatory and commercial success."

- Shire plc, p35

Examples of good disclosure…

"Judgement is applied in relation to the accounting for [contract] modifications where the final terms or legal contracts have not been agreed prior to the period end as management need to determine if a modification has been approved and if it either creates new or changes existing enforceable rights and obligations of the parties. Depending upon the outcome of such negotiations, the timing and amount of revenue recognised may be different in the relevant accounting periods…For example, if a change in scope has been approved but the corresponding change in price is still being negotiated, management use their judgement to estimate the change to the total transaction price. Importantly, any variable consideration is only recognised to the extent that it is highly probable that no revenue reversal will occur."

- Capita plc, p40

	IFRS 15 (specific requirements)	IAS 1 (general requirements)
Judgements addressed	Judgements made in applying IFRS 15 (and changes in those judgements)	Judgements management makes when applying accounting policies
Which ones to disclose	Those that significantly affect determination of amount and timing of revenue. Specifically, those in relation to determining timing of satisfaction of POs, and determining and allocating transaction price.	Those that have the most significant effect on amounts recognised in the accounts

	Judgement disclosure examples	Specific IFRS 15 requirement?
Determining POs	• Whether a good or service is distinct can significantly affect the timing of revenue recognition. More judgement will be required for companies in certain industries.	
Determining transaction price	• How has variable consideration been estimated, and how has the constraint been incorporated? E.g. rights of return, bonuses, service level guarantees, etc; • Are there any judgements around consideration payable to the customer? E.g. slotting fees for retailers, indirect channel payments by telcos; • Is there any non-cash consideration and how has it been measured? • Has the transaction price been adjusted for a significant financing component?	IFRS 15.126
Allocating transaction price	• Determining standalone selling prices (this will be particularly relevant for companies that do not have directly observable prices to reference) • Allocating discounts and variable consideration	IFRS 15.126
Satisfaction of POs	• At a point in time: when control is considered to have passed to the customer • Over time: the method used and why this faithfully depicts transfer of control.	IFRS 15.124-125
Costs	• Identifying costs to obtain or fulfil a contract which can be capitalised • Determining the amortisation period for capitalised costs (e.g. inclusion of renewal periods)	IFRS 15.127
Other	• Scope issues, e.g. companies engaged in material collaborative arrangements should disclose whether these contracts are in scope of IFRS 15 • Principal versus agent considerations	

Key findings: Balance sheet accounts

We were disappointed with the level of detail provided about the impact of adopting IFRS 15 on companies' balance sheets, such as highlighting new balance sheet accounts and disclosing related accounting policies. We expect companies to disclose more detail on this in their year-end accounts, including an explanation of the difference between accounts receivable and contract assets, which we noted no company in our sample provided.

The main balance sheet-related issues identified were:

- No explanation of the impact on the balance sheet of the transition to IFRS 15, despite having material contract balances recognised on the balance sheet
- No disclosure of accounting policies for contract assets and contract liabilities
- Companies with material onerous contract provisions did not acknowledge the change in guidance on accounting for these contracts
- No company mentioned the interaction between IFRS 15 and IFRS 9, that the requirement to provide for expected credit losses extends to contract assets

Examples of good disclosure…

"IFRS 15 also requires that the Group's provision for sales returns is reclassified. Previously this provision was netted off in trade receivables and from 1 January 2018 this is now shown in two parts as a separate returns refund liability within trade and other liabilities and an inventory returns asset within inventory. The effect on transition was to increase trade and other receivables by £170m, increase trade and other liabilities by £182m and inventory by £12m. In addition held for sale assets and liabilities were both increased by £13m."

- Pearson plc, p24

It is not strictly required to disclose information on contract balances in interim accounts but in order to adequately describe new accounting policies and the impact of adopting IFRS 15, it would have been helpful if these new accounts had been identified and explained

IFRS 15 provides examples of suggested categories of disaggregation, including geography, type of good/service, contract duration, timing of transfer of good/service, market or customer type, sales channel or type of contract

As IFRS 15 supersedes IAS 11 as well as IAS 18, onerous contracts must now be accounted for solely with reference to IAS 37

Key findings: revenue disaggregation

IFRS 15 requires disclosure of disaggregated information about revenue and paragraph 16A of IAS 34 extends these requirements to interim reports. For some companies, information that has historically been disclosed in the segment note will be sufficient; however, for many companies, additional disaggregation will be required in order to meet the objective of this disclosure requirement, which is to provide useful information about the effect of economic factors on the nature, amount, timing and uncertainty of revenue.

In meeting this objective, it is important that companies ensure that the disaggregated information that is provided supports, and is consistent with, information and discussion in the strategic report. During our review, we found the most useful disclosures to be those which:

- were consistent with information commonly disclosed outside of the financial statements;
- disaggregated revenue into categories which were meaningful for the company's business;
- disaggregated revenue by more than one category in order to meet the disaggregation objective.

Key findings: comparability of amounts presented

As stated on page 5, the modified retrospective method of transitioning to IFRS 15 involves a cumulative catch-up adjustment to retained earnings on the date of transition and comparative numbers are not restated. Companies that adopt this transition method will therefore be disclosing revenue in the current period under IFRS 15 and revenue in the prior period under previous IFRS.

When disclosing revenue or amounts which include revenue, elsewhere in the accounts, such as alternative performance measures ('APMs') and other highlighted KPIs, current and prior year figures will not be comparable. We noted that it was generally unclear how companies were dealing with this apparent inconsistency in their strategic reports.

We expect modified retrospective adopters to acknowledge this issue of comparability in their upcoming annual reports by, for example:

- Clarifying for readers that the measures presented have been calculated under different measurement bases, thereby impacting comparability of current and prior year figures
- Disclosing the current year measures in the strategic report on both an IAS 18 and IFRS 15 basis, as an extension to the disclosure requirement for modified retrospective appliers to also present current year amounts in the financial statements under the previous accounting policies.

> Our expectations are consistent with ESMA's view that issuers should explain any impact of the adoption of IFRS 15 on APMs in any regulated information to which the Guidelines on APMs apply.

Key findings: Other points

Other points we noted during our review of sampled companies' disclosures are set out below, although we note that not all of these are strictly disclosures required in interim accounts. We expect companies to bear these in mind in preparation of their year-end IFRS 15 disclosures.

- The impact of transition to IFRS 15 on earnings per share was often not disclosed – this is a requirement of paragraph 28(f) of IAS 8 for entities that have adopted the full retrospective transition approach.
- Some accounting policies appeared to reflect previous IFRS. For example, one company stated that revenue is recognised when substantially all of the risks and rewards of ownership have transferred to the customer. Whilst risks and rewards are still relevant under IFRS 15, other indicators of control passing must also be considered.
- The impact of the standard on accounting for costs was generally not addressed. IFRS 15 also provides guidance in respect of contract costs and any changes to the accounting for costs incurred in obtaining contracts and fulfilling contract obligations should be covered by transition disclosures.
- Some companies were likely to be affected by the variable consideration provisions of IFRS 15 by the nature of their industry (for example due to Service Level Agreements being widespread) but disclosed no information about how this issue had been addressed.
- Some companies did not explain how the transaction price was allocated to performance obligations, despite the tailored nature of customer offerings indicating that directly observable prices may not be available to reference when determining standalone selling prices.

Next steps

Impact on our future reviews

We have engaged with a number of companies included in our sample where we identified specific areas for improvement. We intend to review the full-year accounts of companies in our sample whose interim disclosures were weaker, to ensure improvements have been implemented at the year-end. Our review sample for 2019 will also include a number of companies not considered as part of this thematic review. We will engage in correspondence with those companies whose disclosures are considered to require significant improvement.

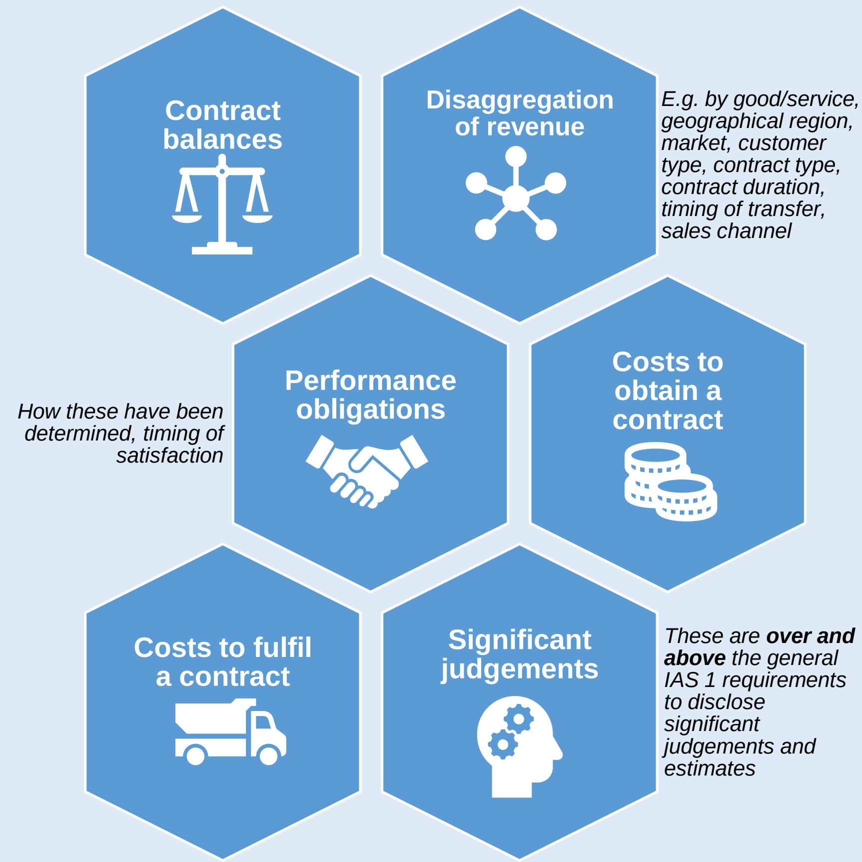
Key points for companies to consider when preparing year-end disclosures

The year-end disclosure requirements of IFRS 15 are more extensive than those required for interim reporting purposes.

We encourage companies to invest the time during their upcoming year-end reporting cycle to ensure that:

- explanations of the impact of **transition** are comprehensive and are linked to other information disclosed in the annual report;
- changes made to **accounting policies** (including the reasons for these changes and associated judgements) are clearly articulated and convey company-specific information;
- judgements made in determining **performance obligations** and the timing of their delivery to the customer are identified and explained; and
- the impact on the **balance sheet** is also addressed, including accounting policies for contract assets and contract liabilities.

Quick checks: have you met the annual disclosure requirements about…?



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