Accounting and Business Research

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rabr20

‘The real effects of a new revenue accounting standard’- a practitioner view

Richard Veysey

To cite this article: Richard Veysey (2020) ‘The real effects of a new revenue accounting standard’- a practitioner view, Accounting and Business Research, 50:5, 504-506, DOI: 10.1080/00014788.2020.1770935

To link to this article: https://doi.org/10.1080/00014788.2020.1770935

© 2020 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group

Published online: 26 Jun 2020.

Submit your article to this journal

Article views: 572

View related articles

View Crossmark data

Citing articles: 1 View citing articles

Full Terms & Conditions of access and use can be found at
https://www.tandfonline.com/action/journalInformation?journalCode=rabr20

Accounting and Business Research, 2020
Vol. 50, No. 5, 504–506, https://doi.org/10.1080/00014788.2020.1770935

Routledge
Taylor & Francis Group
Check for updates

'The real effects of a new revenue accounting standard'- a practitioner view

RICHARD VEYSEY*

PwC, London, UK

I used to be an auditor for many years, but I have been an accounting adviser/accounting consultant for more than ten years. I focus predominantly on the telecom, media and technology sector, talking to companies both in the US (where I was based from 2008 to 2015), and more recently back in the UK, about accounting change. I have had many conversations about revenue recognition. I was very pleased to have this opportunity to provide some practical perspectives from some of the conversations that I have been having with companies. I was also very interested to read the article written by Christopher Napier and Christian Stadler.

The fundamental question that I read being posed in the paper was: 'How much cost has there been, both in terms of the implementation costs and the numerical impact of the standard?' I have to say, based on about ten years talking to companies, I was as surprised as the authors of the paper in terms of what I have seen. I do not, obviously, speak to every company – but what I have noticed (for something that took many, many years to produce, and certainly generated a significant amount of debate both privately and in terms of comment letters and then subsequent discussions), is that the impact of IFRS 15 is relatively small on what you might say is a very, very important number in the financial statements.

This caused me to pause. I could share lots of anecdotal views of why it might be that IFRS 15 has not had such a massive impact. Because, as the analysis in the paper and the presentation described, there was a clear view out there that both US GAAP (for all the reasons described) and IFRS were broken and needed to be fixed in this area. If I think about some of the conversations I was involved in while based in the US, there was definitely a view that under IFRS there were a wide variety of different conclusions you could reach around how you recognise revenue. And, certainly, if I go back to some views that the Securities and Exchange Commission expressed when they decided not to fully converge US GAAP with IFRS, one of the questions they raised was about the range of outcomes possible in IFRS.

I certainly approached the adoption of IFRS 15 thinking there would be more significant impacts across the whole spectrum, particularly in terms of the changes to the bookkeeping that you would need to do around revenue. In particular, when I read the standard, the model

*Email: richard.j.veysey@pwc.com

© 2020 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group
This is an Open Access article distributed under the terms of the Creative Commons Attribution License (http://creativecommons.org/licenses/by/4.0/), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

itself (the so-called five-step model), is very logical and structured, but it involves a significant number of judgments. And a number of those judgments, to my eye, encourage what some might call 'more aggressive' revenue recognition approaches – in terms of requiring earlier recognition of revenue in advance of being able to bill it. It also has quite a bit of guidance on costs, and introduces a number of areas where you would take costs you would previously have expensed and capitalised them. So, recognising many years ago there was this concept of prudence in accounting, and recognising that many people would still apply that concept in coming up with a revenue or cost recognition model, I might have expected more changes.

Anyway, as Napier and Stadler (2020) report, there will be more studies on what lies behind this apparent lack of change and maybe more guidance in due course. But, certainly the impact so far does not seem to be massive in many areas. So, I went back and asked myself the question:

> When there is an accounting change that comes along; at some point in the future, there will be a cost benefit analysis. So, if the costs have not been as high as we might have expected, have we really achieved all the benefits from all the cost and effort put in over more than ten years of coming up with and implementing a new accounting standard?

To answer this, I went back to the standard to remind myself of the expected benefits and the IASB identified five areas. They wanted to fix inconsistencies and weaknesses in existing standards. I think they now have a model which certainly has: less detailed specific guidance than the old US standards; and a lot more principles and specific advice on how to recognise revenue under IFRS. They also wanted a more robust framework for recognising revenue. We will see how the test of time serves - but I think they can argue that they have that.

The two areas of benefit that I want to focus on are *comparability* and then *disclosures*, specifically better disclosure of information about revenue.

Taking comparability first, the goal was to create one revenue recognition standard that covered all industries everywhere in the world, including full convergence between US GAAP and IFRS. Some might argue that this is an incredibly high hurdle to get over because there are an awful lot of different industries in the world, and lots of different business models within industries. Getting consistency within a company is therefore challenging (and one of the comment letters in Napier and Stadler (2020) highlighted that you could get different answers within a company for similar transactions). Expanding that to try and get consistency or comparability across such a wide range of different business models is challenging.

Having spent a lot of time in the US, and a lot of time in the UK, it does beg the question 'Are we going to see a situation where, having not resolved the debate around principles versus rules-based accounting in the US, we are going to have a principles-based revenue standard in the US?' I probably share the authors' view that we may well start to see (and we have seen elements of this already with the transition resources group), situations where to get consistency in a regulated environment like the US, there may well be demands for more specific guidance on how to account for transactions. That comes back to the cross-industry point: will we really get to that overall goal of similar transactions in different industries being accounted for similarly? Or, will we go down a path (which was perhaps what contributed to hundreds of different standards in the US before IFRS 15) where industry-specific guidance starts to come out, particularly if there are more of those accounting scandals that were referenced from the 1960s and the 1990s and so on?

A couple of areas where I also seem to spend a disproportionately large amount of my time, is talking to companies about principal versus agent and licences, which are both highlighted in Napier and Stadler (2020). The question of principal versus agent, or gross versus net, is very judgemental. Frankly, if I gave an example here, and asked everyone in the room, we might well get

something like a 50–50 split between who thinks the answer is principal and who thinks agent. And accounting for licences remains an ongoing challenge. Both of those are a reflection, if you like, of the fourth industrial age, or the digitisation of all industries. We certainly see these questions a lot in the technology sector and the telecom sector, but I wonder if we are going to see more challenges coming up in the future as other business models continue to digitise, and we have to make calls on questions like: 'Do I control intellectual property or services before I transfer them to my customer?' I think there is still more to come on that.

I am of the view that there *is* more consistency and comparability – but I think there is potentially more cost, or real effects, that are still to come as that plays out.

The other point I raised was disclosure – and there certainly is more disclosure. As to whether that is providing more information, I think that remains to be seen. I did look at the FRC's latest thematic review on revenue recognition and I think we are on a journey. There has been more progress, but I think there is still a potential need for more specificity and clarity around the detail (in particular company-specific detail) of what performance obligations are and how they are being recognised, together with the perennial question of what are the key estimates and judgements impacting revenue recognition. Certainly, I saw a call in there for more disclosure, which obviously takes us into territory where companies may not be comfortable to go given revenue recognition disclosures are a window into the underlying competitive business models a company has.

In summary, I think Napier and Stadler (2020) is an excellent study. I think it is very consistent with what I see out there in the world when I am talking to companies about this topic. Ultimately, IFRS 15 does not seem to have had as big an impact on numbers as I expected, and certainly companies may not have spent as much time re-engineering contracts or business models as maybe I thought. But I do wonder, similar to the authors, whether there is still more to come, and more costs to be incurred as either regulators get involved, investors get involved, or business models continue to change.

Disclosure statement

No potential conflict of interest was reported by the author(s).

Reference

Napier, C., and Stadler, C., 2020. The real effects of the new revenue accounting standard. *Accounting and Business Research*, 50 (5), 474–503.