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Ekonomihögskolan

## **Why do preparers participate in the development of the accounting standard IFRS 15?**

*- A study on the aspects of region, industry, opinion and argumentation*

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## Abstract

<b>Title</b>	Why do preparers participate in the development of the accounting standard IFRS 15? – A study on the aspects of region, industry, opinion and argumentation
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<b>Key words</b>	IFRS 15, preparer lobbying, due process influence, accounting economic theory, sociological theory
<b>Purpose</b>	The aim of this study is to identify to what extent different preparers vary in participation among industries and regions and further examine what types of argumentation that is being used. The purpose is to improve and broaden the understanding of why preparers choose to participate in the due process and how this relates to previous research with the intention to provide contribution to the research landscape.
<b>Method</b>	A quantitative research strategy with a deductive approach was applied. To examine the comment letters, the content analysis method was used. In addition, statistical X <sup>2</sup> -tests was conducted.
<b>Theoretical perspective</b>	The theoretical framework was based on economic theory and sociological theory in order to identify the preparers arguments. In addition, previous research has been taken into consideration when discussing the results.
<b>Empirical foundation</b>	All of the comment letters sent from preparers on the discussion paper of the due process of IFRS 15 constitute the empirical foundation.
<b>Conclusion</b>	The study showed that there were no significant differences in opinion whether the regions or industries agree with one single revenue recognition standard IFRS 15. Furthermore, there were no significant differences between the argumentation among regions. However, there were significant differences in the use of argumentation among the industries. In general, all of the industries had a positive approach towards the introduction of one single revenue recognition standard. Regarding the argumentation, the objections of some industries were more categorised as economic than others. Those industries that were the most evident were the technology and the telecom industries. The industries that argued more in sociological terms were the financial industry as well as industrials & transport.

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# 1 Introduction

## 1.1 Background

In today's world, borders are being more blurred as markets blend due to increasing globalisation and internationalisation. This implies that occurrences that before could be seen as isolated events, nowadays affect neighbouring countries and markets in a greater manner. Regarding accounting, the setting is no different. Associated with the increased international trade, there is a view held by many that standardisation of financial reporting enables investors to understand and achieve a reasonable basis to compare the financial accounting of companies from different countries (Deegan & Unerman, 2011). By converging accounting standards, financial reports can become more comparable. The process of convergence is not an easy process, rather coupled with challenges (Satin & Huffman, 2015). Today, there are two main international accounting standard setters, the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). FASB originates from the United States, with its regulatory framework Generally Accepted Accounting Principles (US GAAP). IASB with its equivalent regulatory framework of International Financial Reporting Standards (IFRS) is considered as a wider spread international organization. Since 2002 and the *Norwalk Agreement* was entered between FASB and IASB, the agenda of the boards is dominated by their efforts to achieve greater convergence between IFRS and US GAAP (Holzmann & Munter, 2015). One topic of the convergence project is the development of a standard regarding revenue recognition (Garmong, 2012). The standard is developed jointly by the two regulators with the purpose to clarify the use of principles when recognising revenue (IFRS, 2015b). The main difference between the two regulatory frameworks IFRS and US GAAP is that IFRS is considered to be principle-based, whereas FASB is rule-based. FASB aims to anticipate potential problems and deliver solutions, while the IASB presents objectives consisting of principles that enables interpretation (Hlaciuc et al. 2014). The accounting standards are together the two most acknowledged of financial reporting worldwide.

The two accounting standard setting bodies work together with the purpose to increase the comparability of financial reports (Garmong, 2012). An essential element of a new standard development is the so called *due process*, which rely on the three principles; *transparency, full and fair consultation* and *accountability* (IFRS, 2013).

Different stakeholders with varying perspectives can lead to disagreements and conflicts of interest during the development of new accounting standards. How these questions are treated is a delicate balance of how to handle influence. On one hand, external input is needed in order to create successful and legitimate accounting standards, on the other hand it could lead to doubtful influence due to lobbying. Additionally, the standards should be based on and aligned with the *conceptual framework*. The conceptual framework describes the objective and the purpose of financial reporting, it assists the IASB to develop IFRS and are based on consistent concepts. The objective of financial reporting and the qualitative characteristics of financial information was revised by the IASB in 2010 as a result of the convergence project with FASB (IFRS, 2015a). These core values of the conceptual framework as well as the due process might be challenged due to the external exposure.

Cheney (2006) presented the increasing number of restatements that occurred in the US, which were explained by the mis-recognitions caused by the many, and sometimes unclear standards of FASB. The revelations of aggressive earnings accounting, by fraudulently capitalise revenue expenditure as capital expenditure in the case of WorldCom led to one of the world's largest company bankruptcy because of misleading accounting (Unerman & O'Dwyer, 2004). Unerman & O'Dwyer (2004) explained that in the aftermath of the WorldCom accounting failure, many accounting regulators, practitioners and politicians in European countries stated that the accounting method's that led to WorldCom's failure would not have been effective in Europe. Moreover, Nobes & Parker (2004) undertook a comparison of a company's result which accounted in accordance to IFRS and US GAAP and found significant differences in net income and in shareholder equity. Hence, a more converged and quality

standard setting between the two main regulatory bodies has become more relevant following such types of accounting differences.

Revenue has an effect on key financial indicators in all financial reporting and it is therefore of importance to achieve a correct and comparable revenue recognition accounting standard. It can be assumed to be vital to stakeholders in order to understand the value of a company. Hence, collaboration between IASB and FASB with the purpose to ensure comparable and quality accounting is welcomed. The development of revenue recognition regulation is considered by Nobes & Parker (2012) to be a major and complex issue. Since the process started in 2004, it has taken several years of far reaching consultation and deliberations to jointly issue converged accounting standards on the recognition of revenue from contracts with customers. It is known as the IASB's standard; *IFRS 15- Revenue from Contracts with Customers*. The process constituted of over 650 meetings and involved participation of numerous kinds of stakeholders, such as; academics, accountancy bodies, auditors & accounting firms, governments, individuals, industry groups, investors, preparers, regulators and standard-setting bodies (IFRS, 2014). The final converged accounting standard was issued in 2014, with the goal of implementation in 2017. The effective date was later deferred, which also points out the scale of complexity of the standard (IFRS, 2014). What further highlights the complexity of the development of the IFRS 15 is the fact that the due process, which is further explained in Chapter 3, goes beyond the normal requirements by the issuing of an additional revised exposure draft. In total for the whole due process, 1500 comment letters were received from various stakeholders.

The standard is to be applied on the annual reporting periods according to IFRS beginning after January 2018. Entities reporting their annual reports according to US GAAP with the equivalent standard called ASC 606, will be required to be apply the new standard in periods beginning after 15 December 2017 (IFRS, 2015c). The issuance of IFRS 15 is an important milestone in financial reporting. Companies who either report in accordance to IFRS or US GAAP will report using to the same principles regardless of which capital market the company operates in (McConnel, 2014). The purpose of the development of IFRS 15 is an increased alignment between a company's revenue and performance.

Accountants of financial reports highlights that IFRS 15 will affect some entities with significant changes from current standards. To comply with the standard will not solely be considered to be of accounting character, but also of a broader business challenge. These challenges include changes in processes and systems, the control environment, investor relations, tax planning, management information and business operations. The accounting firms EY (2014) and KPMG (2014) argued that due to new extensive disclosure requirements, a number of aspects of the organisation will need to be considered. Both of the accounting firms stressed the importance of having a holistic view when implementing the standard, considering different aspects in order to ensure that revenue is being accounted for correctly. The reason for this is according to EY (2014) and KPMG (2014) explained by the connection between revenue and the valuation of the company, which is seen in various key financial indicators. Since the standard has not yet been implemented, KPMG (2014) stated that the impact of the new standard is uncertain regarding whether revenue recognition is to be accelerated or deferred. The changes required in order to meet new demands are though expected to be coupled with cost, at least initially.

## 1.2 Problem formulation

The development of sufficient international accounting standards is coupled with opportunities and challenges, the balance of external influence on the standard setting process should be noted. There are several previous empirical studies of the comment letters sent to the standard setters, which have found a number of regularities. One significant previous finding is that preparers are predominant in the due process.

For groups and individuals who want to affect the accounting standard setting, lobbying through the due process is one approach to succeed influence. Sutton (1984) examined the characteristics of a lobbyist, which is argued to be those who expect large financial benefits from the activity. The preparers of the financial statements potential economic benefits of securing its favoured proposal are likely to be greater in absolute terms than for the user. The type of individual or organization who is more likely to find lobbying worthwhile are preparers of financial statements, large producers and undiversified producers. The reason why large and undiversified producers are concerned of individual standards is that the effect is often concentrated on certain industries, while users of financial statements tend to be diversified and therefore less concerned by the effects of individual standards. Sutton (1984) is supported by Deakin (1989) and Santos & Santos (2014) researches, which showed that large oil companies, considered to be undiversified, are more likely to lobby standard setters on accounting regulation to obtain standards that meet their needs. Larson (1997) found similar results in his study of corporate lobbyist of the IASC, where lobbying is exerted by a limited number of large companies. Another empirical study on comment letters is Jorissen et al. (2012) research about the level of different groups active participation in the due process. They also found that participating preparers in the IASB due process are larger and more profitable than non-participating preparers. Further empirical research on the corporate lobbying activities in the constituent participation in one significant part of the IASB, the International Financial Reporting Interpretations Committee (IFRIC) showed that the EU provided a majority of the comment letters, while the US, Canada and the developing countries generated fewer comments (Larson, 2007). Although it should be noted that the research is not based on a convergence project. At that time, the US still had interest in these issues since the SEC still required foreign companies listed on US exchanges to reconcile IFRS financial statements to US GAAP.

Zeff (1978) drew attention to the challenges of considering the different interests of different stakeholders during the standards setting process, both from a theoretical perspective with adherence to principle and where consistency implementation is held up as superior, and a practical perspective where economic consequences is considered to be most essential. The author called this a delicate balance of accounting and non-accounting variables that the standard setter is challenged with. Zeff (1978) highlighted that the American accounting profession and FASB has been exposed of an increased external influence in the standard setting process. Zeff (2012 cited in Nobes & Parker 2012) further testified of how the same influence had been occurring towards IASB. The stakeholders have emphasized economic consequences, which arguably could result in that these interests could be detrimental to the interests of other affected parties. The author stated that accounting standard setters must take this into consideration when dealing with accounting issues. Furthermore, Bamber & McMeeking (2012) pointed out the importance of that IASB during the due process remains highly impartial and independent in their treatment of the comment letters in order to be perceived as legitimate. Their empirical research found a certain amount of bias in the statistical analysis of the consultation responses to IFRS 7 Financial Instruments-Disclosures.

Watts & Zimmerman (1978) have also analysed the participation of the due process, highlighting the preparer's position of the economic effects of proposed standards. They assume that individuals act to in order to maximize their own utility. Hence, they assume that management lobbies on accounting standards based on self-interest.

Sutton (1984) research stated that lobbying and to exert influence is the most productive in an early stage of the standard setting process when the rule makers are still under consideration on how to move forward towards a final accounting standard. In regards to at what point preparers lobby the most, Sutton's research is supported by Giner & Arse (2012) study results, which showed that preparers are more active in sending comment letters in the beginning of the due process.

Stenka & Taylor (2010) investigated accounting standard setting in the UK. The research was based on comment letter responses on different related exposure drafts where they divided the preparers into

two categories, corporate and non-corporate. The study result showed how the preparers argue for their interests. Preparers and non preparers are found to use conceptually based arguments more often than economic based arguments. However, economic based arguments are solely used by corporate preparers. Another research which examined preparers and non-preparers position towards new accounting standards and how they argue in comment letters was Hartwig (2012). His study found that in regards to the prohibition of goodwill amortization, corporate preparers support non-amortization of goodwill to a higher extend than non-preparers due to economic consequences. The study also showed that both categories use conceptual based arguments in a higher extent than economic consequences based arguments.

Previous empirical researches have emphasised all the different comment letters, which are sent from preparers, academics, individuals, accountants, users of financial statement, professional bodies, industry organisations, standard setters, regulators and consultants etcetera. As presented in previous studies, the largest group of stakeholders which aim to influence the due process are the preparers of financial statements. However, there are limited researches that focus on preparers only. Chircop & Kiosse (2015) examined the characteristics of firms that lobbied on the exposure draft of IAS 19 - Employee benefits, and their position on two important proposals in the ED. Nevertheless, the research does not take any geographical aspects or comparisons into their conclusions.

As the preparer is a central actor and an influential part of the due process, we find it important to investigate what the opinions of the preparers of financial statements are and how they argue for them. We find this information essential since the standard setters IASB and FASB deal with heavy exposures of different preparers that wants influence in the standard setting process and furthermore remain impartial regardless and take different geographical regions in consideration in order to maintain its legitimacy as accounting standard setters.

A new revenue recognition standard has been long waited. The standard of one single revenue standard for all industries is described as a complex standard which will have great impact and lead to significant changes in some industries. There is an uncertainty whether the standard will impact the preparers financial statements in a positive or negative manner. There may be differences of opinion between the various industries the standard will impact. Therefore it would be interesting to investigate whether industries have different approaches towards the standard and the type of arguments that is expressed to highlight their standpoint.

Due to the fact that IFRS 15 is a standard created jointly by IASB and FASB as a part of the convergence project, it is likely that preparers differ in their opinions since their previous accounting standards regarding revenue recognition have considerably different characteristics. Therefore it would be interesting to investigate whether there are significant differences in whether preparers accept or object the new standard, and further if and how opinions are being argued for.

### 1.2.1 Research questions

- How are the comment letters sent by preparers distributed among regions and industries?
- Is it possible to see any differences in opinions and arguments used by preparers from different regions and industries?

### 1.2.2 Research hypotheses

The first research question is not subject to statistical tests in this study. However, the second question can be answered throughout statistical  $X^2$ -tests.

Nobes & Parker (2004) and Unerman & O'Dwyer (2004) researches illustrated major international differences in the adoption of either IFRS or US GAAP in the financial statements. Hence, the opinions towards the convergence project might differ between preparers from different regions. Thereof, the following hypothesis is tested for potential significant differences. If the test is significant, there are differences in the regions opinion.

1. *(H<sub>0</sub>): There are no differences in regions whether they agree with the single revenue recognition standard.*

Zeff (1978) and Watts & Zimmerman (1978,79,90) argued that preparers have economic interests. Hence, some preparers might have more economic based arguments than others. In order to investigate the second research question; *Is it possible to see any differences in opinions and arguments used by preparers from different industries and regions?* The following hypotheses are tested for potential significant differences. If the tests are significant, there are differences in the regions and industries argumentation.

2. *(H<sub>0</sub>): There are no differences in regions in how they argue.*
3. *(H<sub>0</sub>): There are no differences in industries in how they argue.<sup>1</sup>*

### 1.2.2 Purpose

This study examines the preparers of financial statements and their participation in the initial phase of the due process of the accounting standard IFRS 15 – Revenue from contracts with customers. The aim of this study is to identify to what extent different preparers vary in participation among industries and regions and further examine what types of argumentation that is being used. The purpose is to improve and broaden the understanding of why preparers choose to participate in the due process and how this relates to previous research with the intention to provide contribution to the research landscape.

In order to understand why preparers, participate in the due process, we assume that the arguments put forward in the comment letters represents the main reasons of why a preparer chose to agree or disagree with the proposed standard. Hence, by answering the research questions the purpose of the study will be achieved.

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<sup>1</sup> Additional hypotheses and statistical tests could not be conducted because of methodological considerations, see chapter 4.3.3.1

## 2 Theoretical framework

In the theoretical framework section, economic and sociological theories that seeks to explain why preparers will react in a certain way to different accounting characteristics will be presented. This is discussed by Hussein (1981), Kelly-Newton (1980), Davis et al. (1997), and Watts & Zimmerman (1978, 1990). The theories in this chapter is complemented by the previous research presented in Chapter 1.

### 2.1 Innovative process (Hussein, 1981)

Hussein presented in his study how the *Innovation process* is affected by sociological aspects in addition to traditional economic aspects when setting accounting standards. By addressing the process in a quite broad manner, Hussein (1981) suits as an introduction of the theoretical chapter. Among other thoughts, Hussein (1981) identified that stakeholders will interfere with accounting regulation only if management finds a *performance gap*. Whether or whether not stakeholders identify a performance gap depends on if there is a discrepancy between a desired and experienced level of satisfaction in the accounting innovation.

Hussein (1981) developed a model based on Zaltman et al. (1972 cited in Hussein, 1981) in the area of standard setting accounting norms. The model identified a discrepancy between a desired and experienced level of satisfaction referred to as a performance gap. The performance gap affects the regulation process where different actors and a variety of factors has an impact on the final accounting solution. The result is based on a collective decision by several different actors' participation in the standard setting process.

In an early stage, the study showed the importance to observe the different attitudes of an accounting innovation which can result in motivations to consider a change. The actors' perception of the accounting innovation is dependent on the characteristics, the same innovation may be perceived to have different characteristics and degree of importance by different actors. According to Hussein (1981), there are six characteristics that affects the perception of an accounting innovation; *relative advantage, relevance, reliability, compatibility, communicability and radicalness*.

After the formation of attitudes, there is a phase where the accounting innovation must be regarded as legitimate in order to be accepted. The phase is characterized with implicit bargains between different groups with different interests'. Hussein called it implicit bargaining because of that smaller groups may not be influential enough alone to able to affect the accounting innovation. Therefore, a compromise is created through implicit bargaining, which means that the relative influence of different groups will determine the final result. Different actors can also create coalitions to increase its relative influence in the process (Hussein, 1981).

### 2.2 Aspects specific to the innovation (Kelly-Newton, 1980)

As a continuation on the theory of Hussein (1982), Kelly-Newton (1980) focuses on the factors influencing managements' reaction to new accounting standards. One of the categories she considered to influence the acceptance or the rejections by corporate management of a proposed change in accounting practices is the aspects specific to the innovation. These aspects are; *relative advantage, compatibility with norms, complexity in use, trialability of the change, and observability of perceived benefits*. As the characteristics are discussed, it is of importance to have in mind that it is the perception of the attributes that is essential, since these understandings will determine the accounting innovations' acceptability.

### 2.2.1 Relative advantage

The relative advantage, or the benefits of the accounting change management believes will accrue from adopting the accounting method is primary along the characteristics. The benefits are often measured in economic terms and may include expectations of economic profitability, implementation costs, related risks and time savings. Kelly-Newton (1980) refers to Watts & Zimmermans' studies as examples of positive accounting theory, where managers' goal is to maximize its own wealth through stay positive or oppose an accounting innovation. Furthermore, the impact of increased accounting costs is also central in assessing the relative advantage of an accounting change. These costs can include expenses to engage outsiders in the implementation phase and opportunity costs from diverting employees into increased accounting tasks.

### 2.2.2 Compatibility with norms

The second characteristic which influence the adoption of an accounting innovation is the perceived consistency of a proposed change with management's norms, values, attitudes, past experiences and needs. The variable of compatibility with norms involves the cultural and sociological attributes of the business community. The greater the similarity with existing norms, the less change the innovation represents. The value scheme must be clearly distinguished from the accounting profession. The accounting profession is user-oriented concerning the financial statement reports, stressing decision-useful information to the user. Management adopts a user perspective only to the extent necessary for maintaining its equity market. Management finds it less important for financial statements to have qualities such as relevance, timeliness, consistency, lack of bias, uniformity and comparability. The business community thus stresses values such as objectivity, accuracy, reliability and verifiability.

### 2.2.3 Complexity in use

The perceived difficulty in implementing and understanding the accounting innovation represents the complexity factor. This aspect will be determined by the preparers existing technical skills, education, knowledge, prior experiences, expected learning curve, availability to outside consultants etcetera. Predicted implementation costs are not directly involved in this particular aspect as they impact the perceived relative advantages, see 2.2.1.

### 2.2.4 Trialability of the change

A fourth aspect is trialability or divisibility, meaning as to which extent an accounting innovation can be implemented on a partial basis. Selective implementation may be seen as beneficial if management perceives from partial adoption, and is thus encouraged to experiment. Furthermore, the gradual approach relies on one basic assumption, the smaller the amount of change, the greater the chance of acceptance by management.

### 2.2.5 Observability of perceived benefits

Finally, the degree of visible results from adopting the accounting change and how it is communicated to management is an aspect of the accounting innovation. If positive benefits are clearly stated in the accounting proposal, it enhances the accounting innovations acceptability with management. In general, management place lower value in controversial disclosures but higher value on basic and commonly disclosed information items. The observability of perceived benefits can be improved through appropriate use of strategy. Persuasion programs can heighten the visibility of the advantages

to the preparers of the accounting change. Education strategies which may involve experimentation of the new accounting method can reduce initial resistance by management.

### 2.3 Sociological man (Davis et al., 1997)

Davis et al. (1997), stated that the stewardship theory is sprung out of sociological and psychological approaches of governance. Since the theories of Kelly-Newton (1980) involved aspects both considered to be economic and sociological, a continuation on the sociological framework is suitable. Davis et al. briefly described the theory as a way to highlight how “stewards are motivated to act in the best interest of their principals” (1997, p.24). Some characteristics will be further examined with inspiration of Davis et al. (1997) framework, focusing on motivation, identification and the use of power as they can be seen to be psychological mechanisms affecting how the agent is assumed to act.

When investigating what tends to motivate individuals that is more aligned with the theories of stewardship governance, the intrinsic values are of utmost importance. Intrinsic values can be the possibility to grow, achieve goals and be able to self-actualise. Even though the intrinsic values are difficult to quantify, these values are keys of motivation. A steward’s goal is to be aligned with the organisation, since goal congruency is to benefit the organisation. The values motivating a steward are explained to be of high order put into context in Maslow’s hierarchy of needs (1970 cited in Davis et al., 1997).

The observation of how an individual’s identification with an organisation can lead to positive outcomes is not exceptional. Davis et al. (1997) stated how identification enables individuals to strive for altruistic behaviour and continuous improvement, thus it's not being rewarded in financial terms. Continuous improvements are though coupled with the self-actualisation which in itself is rewarding.

With governance comes power. Davis et al. (1997) used the simplified typology of Gibson et al. (1991 cited in Davis et al., 1997) dividing power into the categories of *institutional* and *personal power*. Stewardship is characterised by personal power. Personal power is not inherited in the structure of an organisation as an institutional power, nor is it legitimate by law, but by interpersonal experience created and tended for over time. Personal power is in this sense the main source of influence in an organisation permeated by stewardship values.

### 2.4 Economic man (Davis et al., 1997)

Davis et al. (1997) presented how the traditional view of economic governance and agency theory is affiliated with the assumptions of individualistic, opportunistic and self-serving behaviours. In other words, it is called: the assumptions of *homo economicus*. Moreover, the economic man constitutes the base of agency theory, assuming the agent to be an actor characterised as a rational and self-maximising individual. The economic man is therefor assumed to act in self interest when making decisions. The same psychological mechanisms as presented in the chapter of sociological man are to be treated in the light of the economic man. These are motivation, identification and the use of power. Additionally, Watts & Zimmermans' theory of positive accounting is presented.

Davis et al. (1997) explained the economic man to be motivated by low order economic needs. The authors draw parallels to Maslow (1970), who describes lower order needs as physiological and security needs. The authors proposed that individuals with extrinsic motivations tend to in higher degree be acting in self interest, and is further characterised in accordance to economic man (Davis et al., 1997).

Kelman and Mael & Ashforth, (1958, 1992 cited in Davis et al., 1997) define to which extent the manager is identifying itself with an organisation as when “accepting the organisation’s mission, goal and objectives” (1997, p. 29). Individuals that are not accepting and identifying themselves with the organisation are proposed to be more likely to act in line with the economic man. Furthermore, Davis et al. (1997) stated that an individual who does not identify with the organisation could actually be harmful due to the risk of not accepting responsibility and not act in the organisation's best interest.

Davis et al. (1997) stated that institutional power is common in the use of controlling an agent as the agent is assumed to act self-serving and or opportunistic. The use of legitimate power often takes form as rules and regulation and could for example be coercive or legitimate, often hierarchal and centralised.

#### 2.4.1 Positive accounting theory (Watts & Zimmerman (1978, 1979 & 1990))

Watts & Zimmerman (1978, 1979, 1990) are the founders of *positive accounting theory*. Positive theories try to explain and predict which accounting policies firms will choose and how firms will respond to newly proposed accounting standards. The theory recognized that economic consequences in taken into consideration when companies makes its decision of accounting policies. This is an explanation why managers want flexibility in choosing accounting policies, which brings forward the problem of opportunistic behaviour. This occurs when management acts in their own personal interests. Positive accounting theory has three hypotheses from which it is organized (Watts & Zimmerman, 1990). The first two following hypotheses are most relevant for the thesis.

The bonus plan hypothesis related to firms with bonus plans for the managers. They will be more likely to choose accounting policies that shift reported earnings from future periods to the current period to receive higher bonuses.

The debt/equity hypothesis predicted that the higher the dept/equity ratio is, the likelihood increases that management move earnings from the future to current period. It is then less likely to disrupt debt covenants and management has reduced its constraints in running the firm.

Political cost theory predicted that it is more likely for the management to move current earnings to the future to prevent the greater the political costs faced by the firm. Increased political pressure can derive from high profitability and result in higher taxes or regulations, especially for larger companies which is often held to higher reporting standards.

## 2.5 Theoretical framework summary

The theories presented is a basis for the understanding of the characteristics of the innovation process as well as the managerial traits. The theories are the base of the categorisation of the regions and industries opinion and argumentation. Argumentation that can be related to Davis et al. (1997), Watts & Zimmerman (1978,1979,1990) and Kelly-Newton's (1980) first topic, relative advantages, which are categorised as economic arguments. Argumentation that can be related to Kelly-Newton (1980) headlines about compatibility with norms, complexity in use and trialability of the change are categorised as sociological arguments. Further explanation of our categorisation is explained in chapter 4.3.2.3.

### 3 Institutional context

In this chapter, overall information is provided about the main actors that develops international accounting standards. Moreover, general information about IFRS 15 and the process of the standard development will be presented.

#### 3.1 Financial Accounting Standards Board – FASB

FASB is establishing standards for financial accounting that govern the preparation of financial reports by nongovernmental entities in the US. The standards are recognized as respected by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants (AICPA).

The mission of FASB is to create and improve financial accounting standards reports that provide decision-useful information to investors and other users of the financial reports. The mission is accomplished over an independent and comprehensive process that encourages broad participation that objectively considers all stakeholders view (FASB, n.d.).

#### 3.2 International Accounting Standards Board – IASB

IASB is a non-profit public interest organisation which mission is to develop IFRS that brings accountability, transparency and efficiency to the world's financial markets. The organisation's work serves the public interest in the global economy by fostering growth, trust and long-term financial stability.

IFRS brings transparency by improving international quality and comparability of financial information, supporting investors and other participants to make informed economic decisions.

IFRS strengthens accountability by reducing the information gap between companies and their investors. The standards aim to provide the necessary information to hold management in to account. Also, IFRS aim to contribute to the global economic efficiency by helping investors around the world to identify risks and opportunities. The use of a single trusted accounting standard lowers the cost of capital and international reporting costs for businesses (IFRS, n.d., e).

In 2002, the European Parliament decided that according to EC nr. 1606/2002 art. 4, listed companies of every member state of the European Union should apply from January 2005 its consolidated financial statements according to IFRS (European Parliament, 2002). Altogether, 120 countries around the world have required or permitted the use of IFRS (IFRS, 2015f).

IFRS are developed through an international consultation process, which involves stakeholders from around the world which is called the due process.

#### 3.3 IFRS 15

The goal of the jointly conducted revenue project by IASB and FASB was to clarify and the principles of recognising revenue from contracts with customers. The final issued version of IFRS 15 applies to all contracts except for financial instruments, insurance contracts and leases<sup>2</sup>.

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<sup>2</sup> In the discussion paper, financial instruments, insurance contracts and leases had not yet been excluded from the scope.

The main objectives of the project were to provide clear principles for revenue recognition in a robust framework to remove weaknesses and inconsistencies in existing revenue recognition standards. Furthermore, to provide a single revenue recognition model in order to increase comparability over a range of companies, industries and geographical regions.

The current revenue recognition standards in US GAAP has broad concepts of revenue recognition which numerous industry and transaction specific requirements exists to handle with different types of contracts. IFRS consists of fewer standards, however they can be difficult to apply in complicated transactions due to limited rules and guidelines (IFRS, n.d., m).

IFRS 15 replaces all previously issued standards and interpretations relating to revenue recognition, which include IAS 11 – Construction contracts and IAS 18 – Revenue among other relevant standards (Anjou, 2014). IAS 11 and IAS 18 have been the applicable regulation since 1995 (Deloitte IAS plus, n.d., a) (Deloitte IAS plus, n.d., b).

The standard will apply to annual periods beginning on or after 1 January 2018 for companies applying with IFRS. For US GAAP, the effective date starts the 15 December 2017. Early adoption is acceptable in IFRS but not for public entities reporting under US GAAP. (IFRS, 2015c) Entities will shift following either a full retrospective approach or a modified retrospective approach (EY, 2014).

The standard’s principles will be applied by using a five step model, see Figure 3.3. The entities will have to exercise judgement when considering the terms of the contract and all relevant circumstances and facts. The requirements will have to be applies consistently to contracts with comparable features and in similar circumstances (EY, 2014).

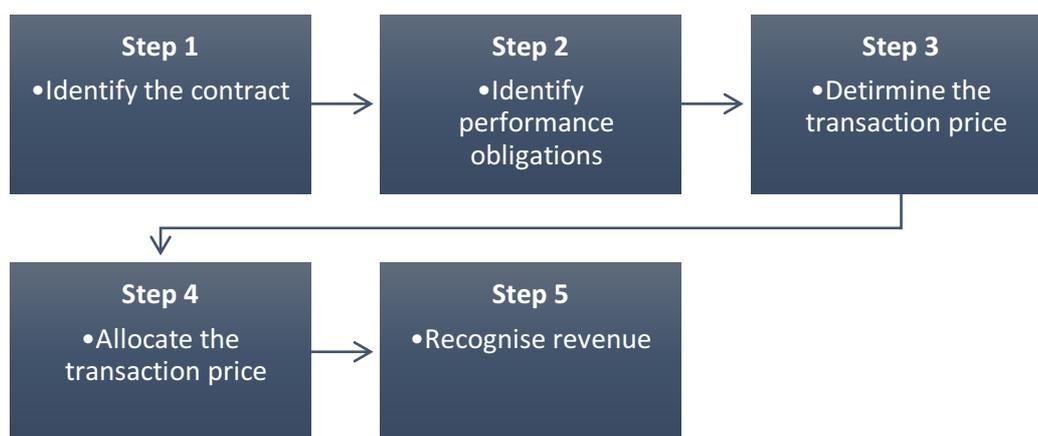


Figure 3.3 – Five step model (EY, 2014).

### 3.4 The due process of IASB accounting standard setting

In order to be able to reach IASB's objective of developing high quality accounting standards, the organisation starts first stage with an analysis of what is of value to the users of financial statements. High quality information is the primary goal, which as well is a key aspect of other stakeholders, such as preparers. When initiating the standard setting process and *setting the agenda*, the following aspects are considered; the relevance to users, whether existing guidance is available, the possibility of increasing convergence, the quality of standard to be developed, and finally; possible resource constraints (IFRS, n.d., g). See Figure 3.4 for visualisation of the due process.

In the second stage, when further planning the project, the IASB consider whether the standard setting process is to be conducted alone or with the help of another standard setting body. In the case of IFRS 15, the standard is developed jointly with FASB. During the case of planning, possible consultative groups are created to assist the project (IFRS, n.d., h).

The third stage is not a mandatory process, although a discussion paper is often published. The purpose of the discussion paper is to collect solicit opinions at an early stage. In the case of the development of IFRS 15, a discussion paper was publicly published in 2008 containing preliminary views of the new standard (IFRS, n.d., i).

In fourth stage, an exposure draft is published. This contains a concrete standard proposal and handles earlier research made by staff and further comments obtained internally from IASB consultative groups (IFRS, n.d., j).

In stage five, a consideration whether a second exposure draft, a so called, re-exposure draft is needed. The decision of whether or not to re-publish a draft is taken on an IASB-meeting and if chosen, the due process is the same as before. If and when the standard has been re-published, the result is put together in order to create the final draft. Usually, it is reviewed externally by the Interpretation Committee (IFRIC) (IFRS, n.d., k).

As in stage six, the standard has been issued and new objectives can arise. IASB facilitate education and handles possible eventualities. IASB also conduct studies in the effects due to the implementation of a new standard and how it might have affected the information environment and its quality (IFRS, n.d., l).

In the due process of IFRS 15, the possibility to send comment letters were given at 4 times. The first possibility was given in the discussion paper. Further, there were two exposure drafts open for comments on the standard specifications. In addition, because of the complex and extensive implementation consequences of the standard, an exposure draft of the effective date of IFRS 15 was issued. Hence, the standard development of IFRS 15 has been more extensive than the due process described above.

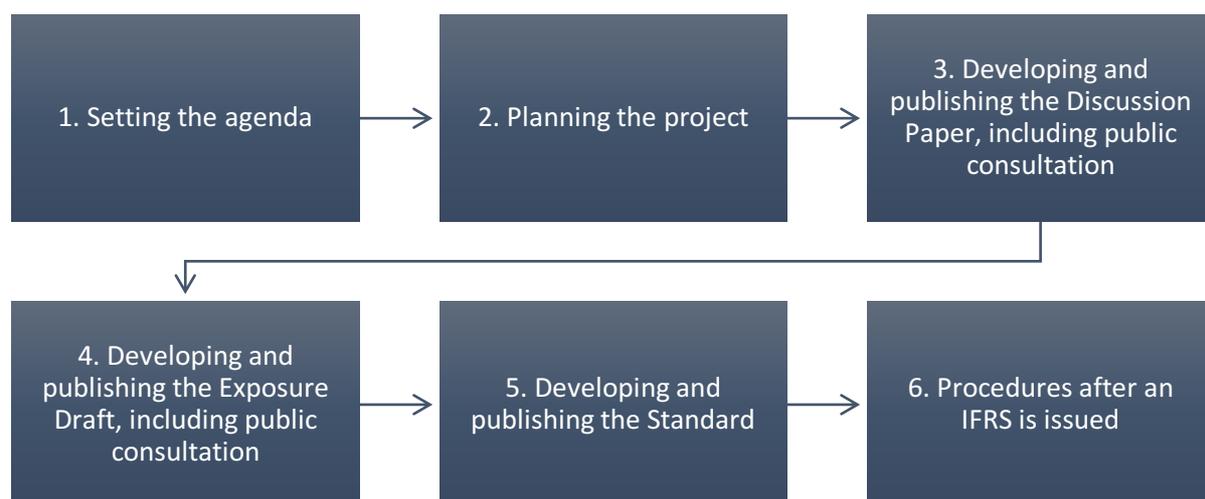


Figure 3.4 – The due process (IFRS, 2015d)

### 3.4.1 The IASB Discussion Paper (DP) of the due process of IFRS 15

In December 2008, the first discussion paper regarding IFRS 15 was published. The purpose of the publication was to create a basis for discussion and enabling every stakeholder which believes themselves to experience any affects of the new revenue standard to be able to influence the development. The discussion paper consists of five chapters which together holds a total of thirteen questions (IASB, 2008). All of the questions are presented in Appendix 6.

## 4 Methodology

### 4.1 Research strategy and design

The purpose of the thesis is to identify to what extent different preparers vary in participation among industries and regions and further examine what types of argumentation that is being used. As introduced in Chapter 1, IFRS 15 is an interesting standard to focus on since it is a current subject in the area of accounting and a standard that has recently been developed. In May 2014 the standard was finally issued. The thesis is based on quantitative research to broaden the perspective of the preparer's role in the standard setting process. This has been achieved by collecting information qualitatively in comment letters.

The hypotheses based on the thesis research questions are deduced from theory and is subsequently tested. It is one of the main characteristics of a quantitative research (Bryman & Bell, 2007). Although the thesis is based on a deductive approach, we still had an inductive approach where we tried to seek other observations which were not based on particular theory. The quantitative research has been focusing on one exposure draft of the discussion paper of IFRS 15. The choice of investigating one particular standard could be seen as a limitation, since alternative standard developments were discarded.

The research was based on a comparative design. We compared preparers from different industries and regions and their respectively opinions and argumentations. The data was collected by the use of a cross-sectional design, see Appendix 1. The cross-sectional design involved the collection of data from more than one case at a certain time in order to come up with a set of quantitative data relating to two or more variables. These were further examined in order to detect patterns of different relationships (Bryman & Bell, 2007). We have collected the data by examining preparers comment letters from the discussion paper and further searched for differences and relationships between their opinion and argumentation.

### 4.2 Literature search

When the research question had started to take form, our search for existing literature began. It is according to Bryman & Bell (2007) of importance to investigate what subjects and what perspectives that has been examined in previous research. Our main source of literature was the database of references LUB Search which has been complemented by the database of Google Scholar. LUB Search is Lund University's libraries shared reference database which provides a broad range of research, including regarding the field of accounting.

The searching in the databases started with the use of general accounting terms regarding accounting standards setting such as; *standard setting*, *standard setting process*, *due process* and *lobbying*. When the scope further was narrowed, keywords such as; *corporate lobbying*, *preparer lobbying*, *decision process*, *lobbying in the due process*, IFRS 15 etcetera were used. Furthermore, while investigating earlier empirical studies of the subject, keywords such as; *empirical studies due process*, *corporate lobbying empirical study* and *preparer lobbying empirical study*. The majority of the theories which the study relies on were also found in the databases, using keywords such as *economic man*, *sociological man*, *innovation process* and *positive accounting theory*. These keywords provided us with an initial insight of the previous research but also with additional references. We also took valuable advice from our supervisor regarding additional relevant literature in order to broaden our perspective of accounting theory.

### 4.3 Research method – Content analysis

When aiming to understand, analyse and draw conclusion from the primary source of comment letters, content analysis approach was chosen as a suitable method. Content analysis is an appropriate method when systematically and in a replicable manner analyse documents and texts that seeks to qualify and quantify content by categories that has been designed in advance. The positive aspects of a content analysis are that it is an *open* research method that makes it easy to describe the sample population and the design of the coding manual, which makes future studies simpler to replicate and follow up (Bryman & Bell, 2007). Krippendorff (2013) argued that the trait of content analysis as being replicable increases the chances of a reliable study. The limitations of the content analysis are that it relies on the quality of the documents which it is based on. One should assess the documents according to Scott (1990, cited in Bryman & Bell, 2007) on the following three criteria: *authenticity*, that the document is what it is purports to be, *credibility*; whether there are reasons to believe that the documents have been or are distorted, *representativeness*; whether or not the documents examined are representative of all possible relevant documents. All the original comment letters sent are publicly published on the IASB and the FASB webpages. Furthermore, the comment letters contact person is clearly stated in each of the documents. Hence, the three criteria were considered to be met and the comment letters were considered to be a high quality source of documents analysed in the content analysis.

This study was conducted with a deductive and an inductive approach. It took previous research into consideration when formulating method and purpose but we still tried to have a curious approach and search for new findings. The deductive approach represents the most common perception of the relationship between theory and practice (Bryman & Bell, 2007). Other authors have a different opinion. Polit & Beck (2004 cited in Elo & Kyngäs, 2008) stated that the method of content analysis is to be more difficult than a more ordinary quantitative method since it is less standardised. Elo & Kyngäs stated that one of the main challenges lies in choosing how to construct the framework of analysis since it is very flexible, meaning that there is "no simple 'right' way" (2008, p. 113) of conducting such a study. We therefore also applied an inductive approach in order to seek if there were any new observed patterns in argumentations and opinions of the preparers comment letters.

The content analysis can be conducted through a process according to the description of Elo & Kyngäs (2008), see Figure 4.3.

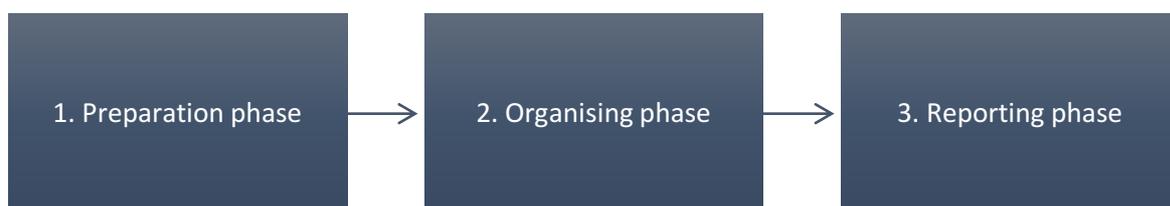


Figure 4.3 – The process of the content analysis (Simplified) (Elo & Kyngäs, 2008)

#### 4.3.1 Preparation phase

The process starts with the *preparation* phase where the material is being reviewed and the key figure is to classify larger amounts of information into more manageable content categories. With background of our research question, we categorised basic information of region and industry. Moreover, the primary focus lied in the opinions and the types of argumentation communicated through the comment letters. When we investigated the characteristics of actors that chose to influence the standard setting process and further understand their standpoint, various research

methods could have been used. In order to achieve a simplified understanding and to get an overview of the due process, a useful basis was to read comment letter summaries published by IFRS. A comment letter summary is considered to be a secondary data source since it is an analysis conducted by the staff of IFRS of the primary source of the original comment letters (Bryman & Bell, 2007). This was therefor not used as the main source of information, merely as an introduction of the subject.

#### 4.3.2 Organising phase

##### 4.3.2.1 Coding schedule

To be able to extract desired information of the empirical material, the next step was to *organise* the content analysis. By constraining the structure of the coding schedule, the research structure facilitated the information that was desired, leaving out answers to questions that were not of interest of our particular study (Elo & Kyngäs, 2008). This was achieved by focusing on the respondents' region, industry, whether they agree or disagree with the proposition and if and how it is being argued for.

The structure of the coding process is visualized in Figure 4.3.2.1. The coding manual is found in Appendix 1, where a more detailed structure and categorization is found.

When we categorised the origin of the preparer, major regions were used in order to improve the comparability. By major regions, we divided those in North America, Europe, Asia and Africa. Some countries had very few, if any respondents, and were therefor compounded into larger regions. Since the revenue recognition standard affect various type of preparers, it was difficult to take every perspective into consideration and were therefor compounded into industries, see categorisation of region and industry in Appendix 5. The industry categorisation was inspired by the same categorisation as IFRS uses when presenting comment letter summaries (IFRS, 2011).

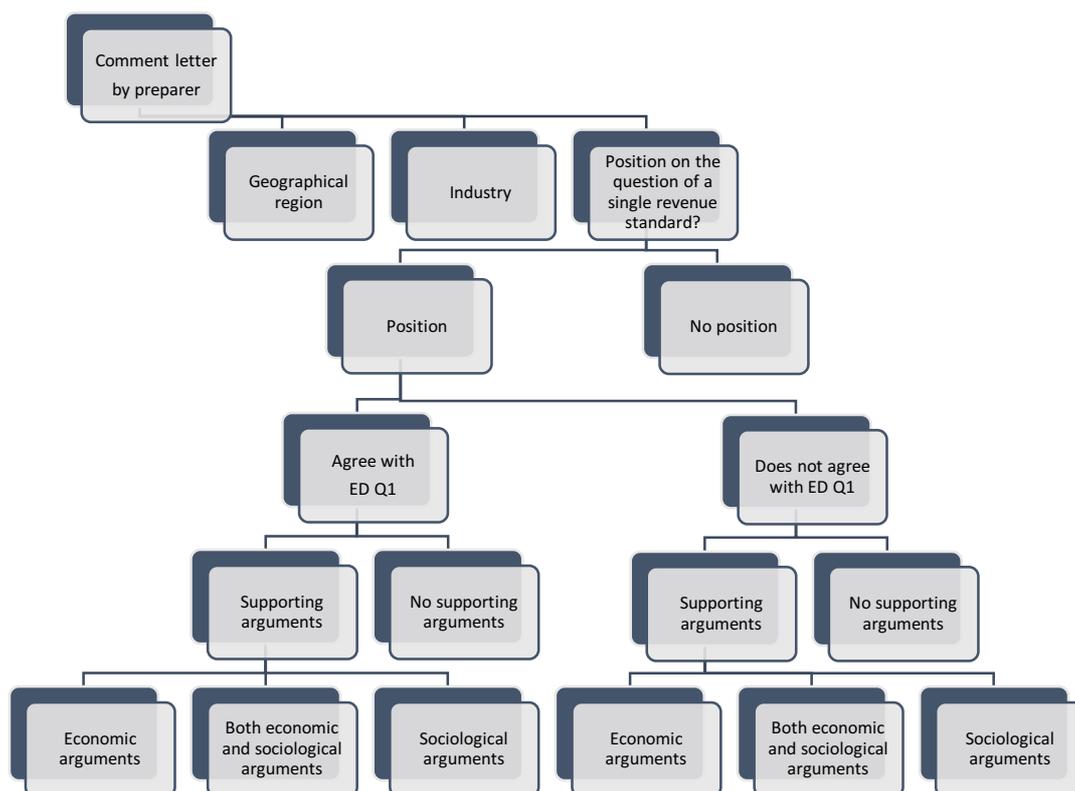


Figure 4.3.2.1 – The coding schedule

#### 4.3.2.2 Categorisation whether the respondents agree or not agree with the one single revenue recognition standard

When coding the comment letters, we wanted to investigate whether the preparer accepts or opposes with the one single revenue recognition standard. Question 1 of the Discussion Paper (IASB, 2008) sent out in the due process aims to investigate this matter. The question is:

*“Do you agree with the boards’ proposal to base a single revenue recognition principle on changes in an entity’s contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?”*

IASB (2008, p.14)

The decision to categorise whether the preparer agree or disagree with the one single revenue recognition standard was not always a simple task. Some respondents answered with clarity which made the categorisation easy. A positive approach could be coded by a quote such as:

*“We fully support the boards’ intention to develop a single principle for revenue recognition and hence eliminate the inconsistencies between current IAS 11 Construction Contracts and IAS 18 Revenue.”*

- Deutsche Telekom AG (2009, p.2)

An evident negative response could be:

*“No. Historically, revenues are recognized when they are realized or realizable, and are earned (when goods and/ or services are transferred or rendered.). Under the matching principle expenses are recognized when goods and/ or services are transferred or rendered and offset against revenues generated from those expenses. Applying the boards’ proposed model would violate these principles, causing mismatching of costs vs. revenues for long-term contracts. “*

- Dee Brown Inc. (2009, p.1)

Sometimes the responses whether the preparer agree or disagree needed deeper deliberations. It could sometimes be time consuming for us to conclude a well thought categorization. An example of a more problematic comment letter to decipher could be:

*“The Swatch Group welcomes the work of the boards to issue a comprehensive discussion paper that addresses possible shortcomings of IAS 11 and IAS 18. Such a standard should increase the transparency of the recognition of revenue for the users and result in requirements that are practicable for the preparers. We therefore view the discussion paper as a positive first step. Nevertheless, after having analysed the impact of the discussion paper on the financial statements of Swatch Group, we established the following concerns:”*

- The Swatch Group Ltd (2009, p.2)

After deliberation we chose to believe this answer corresponds to a negative attitude to the new standard proposal and therefore categorised as "do not agree". We found too many negative arguments in the comment letter to believe the company actually is in favour of the one single revenue recognition standard.

#### 4.3.2.3 Example phrases of economic & sociological arguments

To categorise the argumentations of the respondents by their standpoint, the argumentation was based on chosen theories in Chapter 2 (Kelly-Newton, 1980; Hussein, 1981; Watts & Zimmerman, 1978, 1990 and Davis et al. 1997) which provided us with a framework of why preparers react to new types of accounting innovations, either based on economic, sociological or both types of arguments. In addition, we aimed for an inductive approach and identified new types of argumentation patterns which have been noted in the coding under *Other thoughts*, see Appendix 1.

Example quotes which we categorised as sociological arguments are related to the preparers *norms*, *complexity* in applying the new standard and *resistance to be in the scope* of the new standard.

Example quotes regarding that the accounting innovation contrary to norms:

*"In relation to our industry, we believe that current standards in SOP 81-1, SAB 101 and SAB 104 provide decision-useful information to the users of financial statements for engineering and construction industry, but which are not evident in the proposed model."*  
- URS (2009, p.8)

*"In this case revenue is delayed to the end of the project. In this case revenue will not be a good measure of the work that the supplier has been doing and the user of the financial statements would gain an incomplete picture of the company activities."*  
- Fujitsu (2009, p.2)

Example quotes regarding arguments for the complexity in applying the standard:

*"The application of the proposed revenue allocation model as it relates to... may be difficult to implement... the proposals in the discussion paper need to be explained further..."*  
- Telstra (2009, p.1)

*"Developing a single revenue recognition model is difficult due to the complexity of revenue transactions with varying contractual rights and...."*  
- Intel Corporation (2009, p.1)

Example quotes regarding arguments for being scoped out of the standard:

*"We would otherwise be in favour of allowing for an exception to the general principles for these specific situations"*  
- Syngenta International AG (2009, p.2)

*"We believe all financial instruments should be scoped out of the proposed model/new revenue recognition standard as the nature of financial instrument contracts are fundamentally different from the contract described in the DP..."*  
- Deutsche Bank AG (2009, p.1)

Example quotes we that have been categorised as economic arguments are related to whether the accounting innovation will result in financial burden for the preparer, or if the preparer argues for flexibility in the application of the accounting standard.

*"The necessity to implement new IT systems and the recognition of assets and liabilities on a contract-by-contract basis would significantly increase the level of internal controls necessary to ensure compliance with the proposed model in our financial statements. We acknowledge that these additional costs are only indirectly linked to the proposed model but we believe that they should be taken into account in any cost/benefit-analysis of the proposed model."*  
- Deutsche Telekom AG (2009, p.6)

*"any revenue recognition concept needs to be flexible"*

- Siemens AG (2009, p.1)

In Figure 4.3.2.3, in the context of coding a comment letter, we have highlighted quotes which are aligned with economic and sociological arguments.

**General**

*"3.3. In telecommunications industry the application of DP could be **complex or even not practicable** and, in some cases, **highly expensive***

*In telecommunications industry the literal application of DP **could be complex or even not practicable** due to the features of the telecommunications transactions. Telecommunications industry is characterised by a customer base of millions of people, several products and kinds of services and offers, several tariffs (regulated and not), different country markets, and different terms of payment due from customers (e.g. pre-paid, post-paid).*

*This means a huge number of combinations in contracts with customers. Therefore, the application of the DP on a contract-by-contract basis **could result difficult to manage or in some circumstances not feasible.***

*Furthermore, the abovementioned complexity of the DP would involve for the telecommunications companies the incurrance of **significant expenditures in order to upgrade their information technology systems, operational procedures, internal control and reporting systems.***

(Telecom Italia, p.2)

- Arguments aligned with economic theory
- Arguments aligned with sociological theory

Figure 4.3.2.3 – Example of conducted coding

#### 4.3.3 Reporting phase

When the data has been collected, the *reporting* process starts. In order to do so successfully the data has to be simplified, analysed and put into categories (Elo & Kyngäs, 2008). In this study, the preparer respondents were categorised into groups as geographical region, industry, opinion and what type of argumentation communicated. Furthermore, the data was used to create various tables and pie charts in Excel and  $X^2$ -tests that was conducted in SPSS in order to present the information in an understandable and overall manner.

##### 4.3.3.1 The $X^2$ -method

The  $X^2$ -method tests were made in order to complement the various tables and pie charts on the differences between regions and industries in their opinions and arguments. A  $X^2$ -test is a statistical test on applied set of categorical data to estimate the possibility that any observed difference between the sets occurred by chance. By observing our tables, it might look like there are differences in opinions and arguments between regions and industries. Hence, in order to confirm whether our results are statistically significant or based on chance was possible by making  $X^2$ -tests. The test method involves a comparison between the observed class frequencies with corresponding expected frequencies, which are calculated on the assumption that the null hypothesis ( $H_0$ ) you want to try is

correct (Körner, 1985). The  $\chi^2$ -tests answer whether the results we have in the sample valuation differs from the valuation of the null hypothesis. It is estimated by the  $p$ -value. The significance level is at a  $p$ -value at 0,05, meaning that if the correlations show a  $p$ -value  $\leq 0,05$ , we reject the null hypothesis. If the correlation shows a  $p$ -value  $> 0,05$ , the null hypothesis can not be rejected and that there is no statistic significance (Körner & Wahlgren, 2015).

In order to perform the  $\chi^2$ -tests we had to make some limitations. In order to perform an adequate approximation, it usually sets as a general rule that all expected frequencies must be at least five (Körner, 1985). In other cases, a merger of two or more classes can take place in order to meet the condition. In our rather small sample of 81 comment letters we had to make some merges in order to perform the  $\chi^2$ -tests. When testing if there was a correlation between how industries argues with economic, both economic & sociological and sociological arguments, we merged solely economic arguments with economic & sociological arguments to raise the frequency of the group to the desirable minimum. In addition, the "non arguments" were excluded. We did not believe this would make poorer results, because it is relevant to distinguish between those industries who argue economic and those who do not.

We also had to exclude preparers from Africa and Asia from the statistical testing because they contributed with much less comment letters than North America and Europe. It would have been too small frequencies and subsequently contributed to a misleading result. Moreover, the industries which sent a small number of comment letters; consumer goods, consulting, Medical & pharma chemicals and energy & utilities, had to be excluded in order to conduct a  $\chi^2$ -test.

The null hypothesis can not be rejected if the test function value,  $\chi^2$ -sum, falls below a certain critical value. The approximation requires that the expected frequencies are not overly too small. The general rules are that no expected frequency is to be less than 1, and that maximum of 20 % of the expected frequencies is to be less than 5 (Körner & Wahlgren, 2015).

#### 4.4 Empirical sample

When we made the decision to make a content analysis on the comment letter sent by preparers, we had to make a choice which stage in the due process we should focus on. The due process of IFRS 15 have four different stages where the possibility to send comment letter were given. In the light of what Sutton (1984) stated, which is further strengthen by Giner & Arse (2012), is that preparers tend to try to affect policy makers in early stages in the accounting standard setting process since it is assumed to have greater affect due to that different alternatives are still under consideration. In the process of setting the standard of IFRS 15, the discussion paper is the first document which is being open for comments. Hence, we chose to investigate the comment letters to that document. Furthermore, we considered the document of the discussion paper to contain questions concerning the main principles and objectives of the new revenue recognition standard rather in the latter documents in the standard setting process, such as the exposure drafts where more specific technical details are present.

Based on the questions in the discussion paper, we observed the preparers opinion and their arguments whether they accept or opposes the proposed standard. Some of the preparer respondents have followed each and every question of the discussion paper, and answered to its specific issue, but the majority have written a general answer without a clear structure. The answer to Question 1 is almost always included within the general section or under Question 2. Question 2 refers to whether the standard will provide decision-useful information, where many preparers argues pros and cons about the implementation of the standard, see Appendix 6. Therefore, we were often required to read the whole comment letter since the opinions and arguments towards Question 1 could exist throughout the document.

Out of a total of 211 respondents of the discussion paper, 81 of them were sent from preparers, constituting the largest group of respondents at a percentage of 38%. All of the 211 original comment letters are published on IASB's and FASB's webpages, where the preparers were identified and downloaded.

When we identified the testing sample selection we had to make some limitations to get as a reliable and representable picture of the proportion of the preparers as possible. This study focus on single preparers, meaning that trade associations representing dozens or hundreds of companies were excluded from the testing sample. We believed the comment letters from trade associations could not be coupled to all of the individual companies' specific opinions and arguments. The same decision was made regarding comment letters sent from a smaller amount of companies, which we decided to be a maximum of 5 units, where a representative from only one company refers to "on the company's behalf..." and only that company representative signature is present. However, if a smaller amount of companies had written a comment letter jointly, referring to "we" and the presence of signatures by representatives from all of the companies existed, we accepted the comment letter to our sample referring the opinions and arguments to each individual company.

#### 4.5 Evaluation of method

Replicability, reliability and validity is usual aspects and important subjects in an assessment of a business research.

Reliability is defined as to whether the investigation result would be the same if the study would be conducted again or if the result is based on random or occasional conditions. As Bryman & Bell (2007) state, it is almost impossible to conduct a content analysis that is completely free from interpretation and having a subjective approach from the encoders' side. We have in our study put a lot of effort to get familiar with the comment letters that we later worked on when conducting the analysis. By reading several comment letters together before we started the coding, we believed that we to the greatest extent as possible designed a coding manual that could provide us a generalizable implementation. Since we do a quantitative analysis based on qualitative data, we have conducted the coding of every comment letter together to increase the reliability. By manually conducting the coding, Krippendorff (2013) explains how humans can analyse content in a way that computers find difficult, creating a better understanding of the material. This is why we coded manually, in order to ensure that every comment letter got the same process. Further, all of the important questions that occurred during the work process were solved together after discussing them and reaching a joint conclusion.

Bryman & Bell (2007), describes replicability as the possibility to reproduce or repeat a study. As mentioned, content analysis is a very open research method where the sample selection and coding is described concretely. Since the documents, the comment letters are available at IASB's and FASB's websites; there are no obstacles to repeat our study. We have aimed to be as descriptive and transparent of the conducted method throughout the whole chapter to increase the possibility to make a replicable study. This is a prerequisite to access the possibility to replicate a comparative and cross-sectional design study (Bryman & Bell, 2007).

Validity is to assess whether the chosen method actually provides a valid ground to draw a relevant conclusion. Two various kinds of validity are internal and external validity. Internal validity is based on causality, meaning that which is intended to be measured is actually measured (Bryman & Bell, 2007). The study investigated the opinions and arguments used by preparers from different regions and industrial sectors. This was feasible by reviewing their accessible original comment letters, which as mentioned in Chapter 4.3 is perceived as a reliable, since is it a primary source and can arguably increase the research's internal validity. Sending comment letters is a way for the preparers to

influence the accounting standard setting. Hence, many of the preparers opinions and arguments are often clearly stated in order for the preparer to be understood and evaluated by the standard setter. If not, we have had guidelines which are addressed in Chapters 4.3.2.2 & 4.3.2.3 in order to collect consistent information in the coding process. In addition, we have gone through several comment letters twice in order to ensure consistency. Nevertheless, researches based on a comparative design usually has low internal validity. Based on the collected information and results, it is hard to explain the reasons for the outcome (Bryman & Bell, 2007). However, the study was based on the assumption that the different types of argumentation represents the reason why a preparer want to participate in the due process. We think it is a valid assumption, since we do not believe a preparer without any objections with subsequent argumentation would participate at all.

External validity is based on the extent to which the study can be generalised beyond the specific study context. Since we did not make a random selection of the population, the external validity is doubtful (Bryman & Bell, 2007). Thus, the study results can not be perceived as general. Nevertheless, our study is based on the comment letters on the discussion paper document of the due process of IFRS 15, and our purpose is to contribute to the research landscape focusing on the preparer aspect of accounting standard setting. Hence, our study on the recently published and long waited standard of IFRS 15 can broaden the understanding of why preparers choose to participate in the due process.

#### 4.6 Ethical considerations

Ethical considerations have been taken into account during the whole work process. Ethical principles have been broken down to four main areas (Diener & Crandall, 1978 cited in Bryman & Bell, 2007) these are whether there is; *harm to the participant, a lack of consent, an invasion of privacy or if deception is involved in the research*. The documents, the comment letters, that has been examined in order to conduct the content analysis are publicly published on IFRS webpage and are only withheld from the public and the website if there might be any harm for the submitting party (IFRS, 2013). Hence, this means we did not have to deal with the issue of data anonymity and confidentiality which according to Bryman & Bell (2007) raises particular problems for many methods of qualitative studies. The preparers which sent comment letters are aware that the comment letters are published publicly, which made no lack of consent in using the comment letters as empirical data. Deception means that the researchers present their research to something other than it is (Bryman & Bell, 2007). Our ambition has been to be as consistent and unbiased as possible while reading and interpreting the content of the comment letters, aiming for high level of objectivity. Nevertheless, we acknowledge there were probably some extent of subjective approaches which might affect the conclusions.

## 5. Empirics

This chapter describes the results of the study of the comment letters on the first discussion paper in the due process of IFRS 15. As the coding manual in the methodology chapter explains, and as seen in Appendix 1, the coding process has provided the thesis with information regarding numerous aspects. These will be further presented in the order of the coding manual.

### 5.1 Region

The countries are categorised according to region, the result is; 37 preparers from North America, 33 from Europe, 9 from Asia and 2 from Africa. North America and Europe is almost singlehandedly representing half of the total comment letters, resulting in Asia and Africa as undisputedly minorities. Giving a total of 81 comment letters provided by preparers.

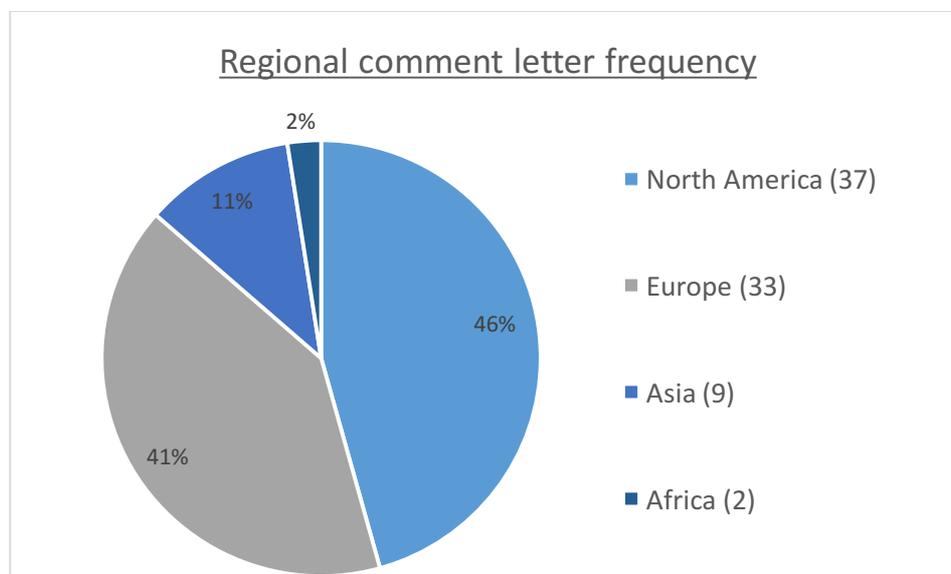


Figure 5.1

### 5.2 Industry

The result shows that respondents from some industries are more active in the process of developing the accounting standard. As the most frequent participating preparers, construction, technology, financials and utilities & transport industries appear as the most active. Even if preparers in the consumer goods- and consulting industries are seen to be relatively less active, one should bare in mind that there is at least some activity, there are industries which do not participate at all in this process.

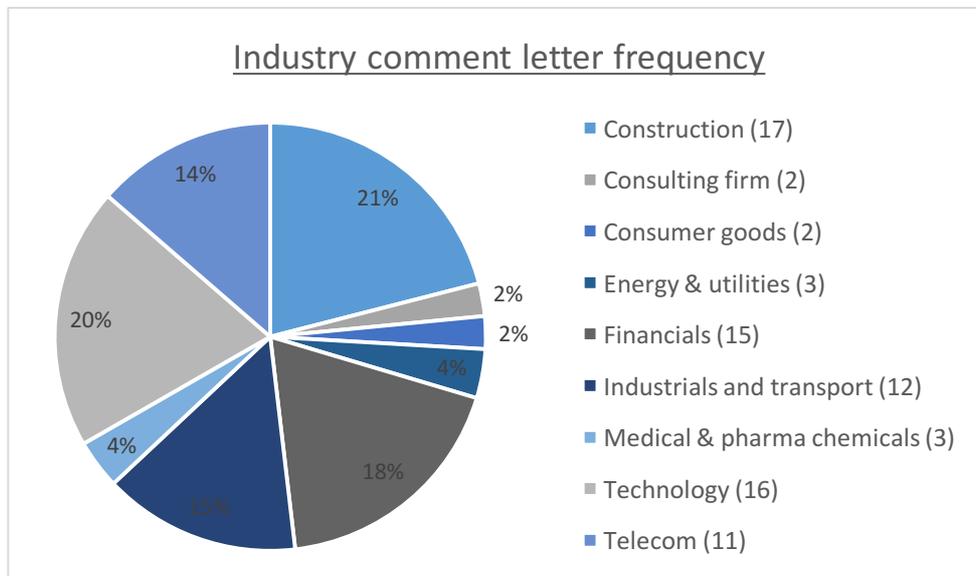


Figure 5.2

### 5.3 Preparers' opinion regarding the development of IFRS 15

As for whether the preparer of the comment letter has a clear opinion regarding whether they agree or disagree with the drafted proposals of the discussion paper, the conducted content analysis finds every single preparer to have a position. On the question of whether the preparer agrees with the proposal of a single revenue standard, the content analysis shows that 55 preparers (68%) agrees and 26 (32%) do not agree. All of the preparers opinion are accounted for in Figure 5.3.

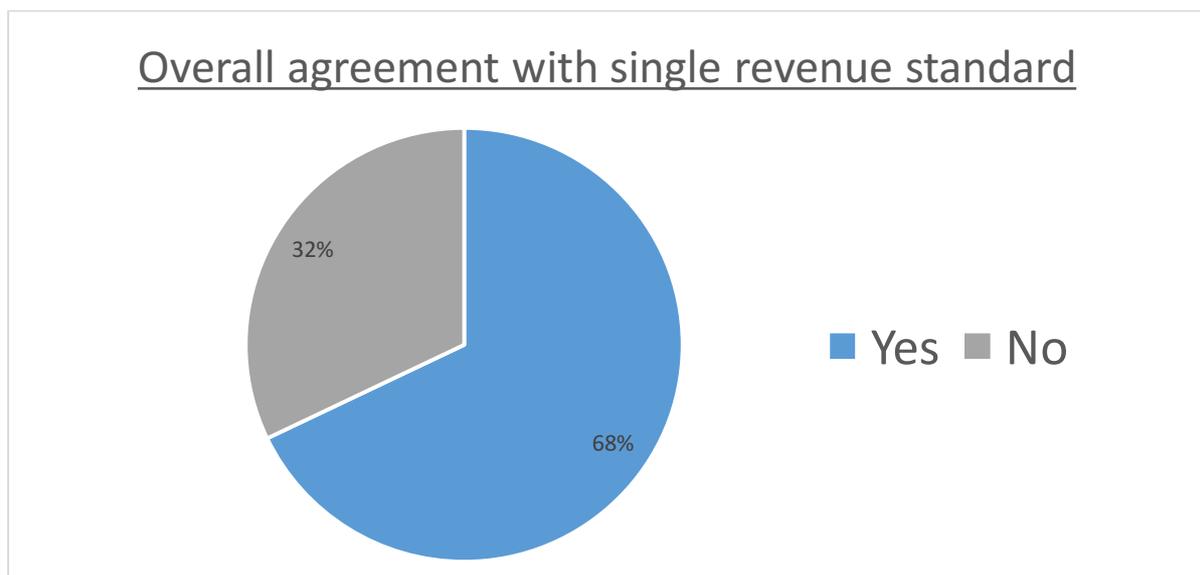


Figure 5.3

### 5.3.1 Which regions agree with the proposed single revenue standard?

Table 5.3.1 shows how different regions agree or do not agree with the new single revenue standard. All of the regions are in majority positive to the new standard. Looking at the percentage, Asia (78%) and Africa (100%) are most positive, but should be recognized as smaller groups of respondents. North America (70%) and Europe (61%), which together answer 86% of the total preparers are positive but with a slightly more even distribution of opinions.

#### Agree or disagree with a single revenue standard?

Regions	Yes	No	Total	% Yes	% No
North America	26	11	37	70%	30%
Europe	20	13	33	61%	39%
Asia	7	2	9	78%	22%
Africa	2	0	2	100%	0%
All regions	55	26	81	68%	32%

Table 5.3.1

The observations in Table 5.3.1.1 are tested with a  $\chi^2$ -test. The test shows no significance at a  $p$ -value at 0,395 (Appendix 2).

*(H<sub>0</sub>): There are no differences in regions whether they agree with the single revenue recognition standard.*

We can therefore not reject ( $H_0$ ), there are no statistically significant differences among regions whether they agree with the single revenue standard.

#### $\chi^2$ -test - Agree or disagree with a single revenue standard?

Regions	Yes	No	Total	% Yes	% No
North America	26	11	37	70%	30%
Europe	20	13	33	61%	39%
All regions	46	24	70	66%	34%

Table 5.3.1.1

### 5.3.2 Which industries agree with the proposed single revenue standard?

In Table 5.3.2, one can read the distribution of the preparers over industries. The industries with the most frequently occurring positive opinion towards the single revenue standard are *consulting firms* (100%), *technology* (81%), *construction* (76%), *industrials & transport* (75%) and *telecom* (73%). One

should bare in mind, that some industries has a low number of respondents, which possibly affects the result. When looking at the number of preparers who do not agree with the proposed single revenue standard, the industries of *consumer goods* and *energy & utilities* stands out where all of the preparers are opposing (100%). As mentioned above, some industries contribute with a lower number of comment letters, this is the case for the both industries just mentioned, as *consumer goods* and *energy & utilities* only contributes with two respectively three comment letters.

## Agree with single revenue recognition standard?

Industry	Number of "Yes"	Number of "No"	Total	% Yes	% No
Construction	13	4	17	76%	24%
Consulting firm	2	0	2	100%	0%
Consumer goods	0	2	2	0%	100%
Energy & utilities	0	3	3	0%	100%
Financials	8	7	15	53%	47%
Industrials & transport	9	3	12	75%	25%
Medical & pharma chemicals	2	1	3	67%	33%
Technology	13	3	16	81%	19%
Telecom	8	3	11	73%	27%
<b>Total</b>	<b>55</b>	<b>26</b>	<b>81</b>	<b>68%</b>	<b>32%</b>

Table 5.3.2

Due to the limited number of respondents, a  $\chi^2$ -test is not allowed to be conducted due the critical criteria of the model, which is presented in Chapter 4.3.3.1. Therefor, we can not determine whether these observations regarding industry and opinion are significant or not.

## 5.4 Type of argumentation used by preparers

As presented in chapter 5.3, all of the preparers who contribute with comment letters have a position. Whether they present economic or sociological arguments is further examined. A majority of the respondents argue their position as economic or sociological, although five preparers (6%) do not use arguments characterised as neither, see examples of argument in 2.3.2.2 and further.

### 5.4.1 What type of arguments are used in different regions?

In Table 5.4.1, the number of comment letters that contains argumentation considered as economic, both economic & sociological and sociological are presented. The headline *Distribution* provides a simplified allocation of the arguments.

As the number of comment letters sent by the regions North America and Europe provides the largest samples, they are relevant to compare. The results show that the two regions also in type of argumentation are quite like. What separates them is that three European preparers argue solely on the basis of economic grounds. On the other hand, North American preparers uses both economic and sociological arguments to a higher extent. Looking at the results of the two remaining regions, Asia

and Africa, the number of comment letters published is relatively low. The majority of the Asian preparers uses sociological arguments whereas the two African preparers' argumentation are equal.

## Type of argument - Economical, Both & Sociological

Region	Nr of Eco	Nr of Both	Nr of Soc	Nr of Non	Distribution	Total
North America	1	13	21	2	— ■ —	37
Europe	3	7	21	2	— ■ —	33
Asia	1	0	7	1	— ■ —	9
Africa	1	0	1	0	■ ■	2
<b>Total</b>	<b>6</b>	<b>20</b>	<b>50</b>	<b>5</b>		<b>81</b>

### % of total

Region	Of Eco	Of Both	Of Soc	Of Non	Total
North America	3%	35%	57%	5%	100,00%
Europe	9%	21%	64%	6%	100,00%
Asia	11%	0%	78%	11%	100,00%
Africa	50%	0%	50%	0%	100,00%

Table 5.4.1

The observations in Table 5.4.1.1 are tested with a  $X^2$ -test. The  $X^2$ -test is conducted with only the largest regions, North America and Europe. Economic arguments and both types of arguments compound and put into comparison with sociological arguments. The test shows no significance at a  $p$ -value at 0,514 (Appendix 3).

*(H<sub>0</sub>): There are no differences in regions in how they argue.*

We can therefore not reject ( $H_0$ ), there are no statistically significant differences among regions in how they argue.

## Type of argument - Economical, Both & Sociological

Region	Nr of Both	Nr of Soc	Distribution	Total	% of Both	% of Soc
North America	14	21	— ■	35	40%	60%
Europe	10	21	— ■	31	32%	68%
<b>Total</b>	<b>24</b>	<b>42</b>		<b>66</b>		

Table 5.4.1.1

### 5.4.2 What type of arguments are used by different industries?

As presented in Table 5.3.1, the participation in the due process by industries vary. The most active group of preparers, construction companies are predominantly using sociological arguments. Looking at the second largest group of preparers, technology companies, the arguments are more evenly distributed, although the sociological arguments are slightly more dominant. The third and the fourth

most active preparers, financial companies and industrials & transport companies, uses a majority of sociological arguments. Two groups of preparers which are seemingly united in their opinions are; energy & utilities and medical & pharma chemicals, as all of them uses sociological argument solely. The relatively low number of participating preparers in these two industries should be noted though.

### Type of argument - Economical, Both & Sociological

Industry	Nr of Eco	Nr of Both	Nr of Soc	Nr of Non	Distribution	Total
Construction	0	3	13	1	— ■ —	17
Consulting firm	0	0	1	1	■ ■	2
Consumer goods	0	1	1	0	■ ■	2
Energy & Utilities	0	0	3	0	■	3
Financials	2	0	12	1	— ■ —	15
Industrials and tr:	0	2	9	1	— ■ —	12
Medical & Pharm	0	0	3	0	■	3
Technology	2	7	6	1	— ■ ■ —	16
Telecom	2	7	2	0	— ■ —	11
<b>Total</b>	<b>6</b>	<b>20</b>	<b>50</b>	<b>5</b>		<b>81</b>

### % of total

Industry	Of Eco	Of Both	Of Soc	Of Non	Total	Total
Construction	0%	18%	76%	6%	100,00%	17
Consulting firm	0%	0%	50%	50%	100,00%	2
Consumer goods	0%	50%	50%	0%	100,00%	2
Energy & utilities	0%	0%	100%	0%	100,00%	3
Financials	13%	0%	80%	7%	100,00%	15
Industrials and transport	0%	17%	75%	8%	100,00%	12
Medical & pharma chemicals	0%	0%	100%	0%	100,00%	3
Technology	13%	44%	38%	6%	100,00%	16
Telecom	18%	64%	18%	0%	100,00%	11

81

Table 5.4.2

The observations in Table 5.4.2.1 are tested with a  $\chi^2$ -test. The  $\chi^2$ -test is conducted with only the largest industries, excluding consulting, consumer goods, energy & utilities and medical & pharma chemicals. The test shows a strong significance level at a  $p$ -value at 0,001.

$(H_0)$ : There are no differences in industries in how they argue.

We therefore reject  $(H_0)$ , there are statistically significant differences among industries in how they argue.

## Both economical & sociological or only sociological arguments?

Industry	Nr of Both	Nr of Soc	Distrubution	Total	% of Both	% Soc
Construction	3	13	— █	16	19%	81%
Financials	2	12	— █	14	14%	86%
Industrials and tr:	2	9	— █	11	18%	82%
Technology	9	6	█ —	15	60%	40%
Telecom	9	2	█ —	11	82%	18%
<b>Total</b>	<b>25</b>	<b>42</b>		<b>67</b>		

Table 5.4.2.1

### 5.5 Other findings

The results of the preparers economic and sociological arguments are presented. In addition to the argumentation, we present additional specific observations in the comment letters by some of the respondents. Due to the limited number of respondents in the section of other findings, a  $X^2$ -test is not allowed to be conducted due to the critical criteria of the model. Therefore, we cannot determine whether these observations are significant or not.

#### 5.5.1 PAT contradictions

Several comment letters contain warnings to the standard setters that the new revenue recognition model may increase the risk for management to be able to manipulate revenue in the financial statements. Some preparers counteract the positive accounting behaviour by warning the boards of how proposed accounting standards can lead to unwanted affects due to a "too flexible" regulation. These warnings can result in regulation which may limit managements possibility of shifting revenue in time in order to obtain certain benefits, associated with for example earnings', bonuses or tax planning.

The results are presented in table 5.5.1. North American and European preparers represent the majority of comment letters that contradicts PAT. North American preparers give slightly more contradictions to PAT in their comment letters than European preparers. The construction and the telecom industry represents the largest industry groups which contribute most contradictions to PAT.

Two examples of such statements are:

*"Moreover, it would increase the susceptibility of financial statements to manipulation by timing the final delivery of an asset to the customer"*

- United Technology (2009, p.8)

*"... this would lead to a more aggressive profile of revenue recognition"*

- BAE Systems plc (2009, p.3)

## Contradiction PAT

Industry	Frequency	Region	Frequency
Construction	3	North America	6
Energy & utilities	1	Europe	5
Financial	1	Other	1
Industrial and transport	1		
Technology	2		
Telecom	4		
<b>Total</b>	<b>12</b>		<b>12</b>
<b>15 % out of total 81 comment letters</b>			

Table 5.5.1

### 5.5.2 Complexity of current standards in US GAAP

Another observation of the preparers comment letters is how they emphasize that the current standards in US GAAP are complex and difficult and furthermore encourage the boards' efforts to simplify the accounting treatment of revenue.

North American and European preparers represent the majority of comment letters that mediate that US GAAP is complex. European preparers highlight the complexity of US GAAP slightly more than North American preparers. What stands out in the industry column is the technology industry, which represents 30 % of the total comment letters highlighting this issue, see table 5.5.2. Examples of such argument could be:

*"UBS believes that the DP offers a significant improvement over current US GAAP "*  
 - UBS (2009, p.1)

*"We acknowledge there may be too many revenue recognition concepts under US GAAP"*  
 - Raytheon (2009, p.1)

## Complexity of US GAAP

Industry	Frequency	Region	Frequency
Construction	1	North America	5
Consumer goods	1	Europe	6
Energy & utilities	1	Other	1
Financial	2		
Industrial and transport	1		
Medical	1		
Technology	4		
Telecom	1		
<b>Total</b>	<b>12</b>	<b>Total</b>	<b>12</b>
<b>15 % out of total 81 comment letters</b>			

Table 5.5.2

### 5.5.3 Not in my backyard (NIMBY)

Regardless of that a majority of the preparers have a positive attitude towards a single revenue recognition standard, many of the preparers argue in their comment letters that because of the technical and complex transactions within their business, they communicate that they should be considered to be an exception. As the standard during the discussion paper phase is in an early stage of the development, industries which do not experience benefits of the new regulation or considers to be a subject of great disadvantages want to be scoped out. In addition, many industries are well established in current accounting practises which has been considered viable for long periods of time, as long as several decades. These established accounting practices are well implemented in enterprise resource planning systems. Hence, this might lead to re-regulation and the creation of exceptions.

The preparers urge that they either should not be obliged to fully implement the new standard or should be scoped out. Examples of such argument could be:

*" All insurance contracts will be excluded from the scope of this project and our answers might change if that were not to be the case."*

- FirstRand (2009, p.1)

*"AMP believe that the development of a workable, decision-useful insurance standard should not be constrained by any conclusions made as part of the Customer Contract Revenue standard...All of the above would contribute to the over-complication of a relatively straightforward arrangement. AMP recommends that initial and trial commissions earned by Dealer Groups be excluded from the Customer Contract Revenue standard."*

- AMP Limited (2009, p.3)

## NIMBY

Industry	Frequency	Region	Frequency
Construction	4	North America	10
Consulting	1	Europe	10
Energy & utilities	1	Other	2
Financial	7		
Industrial and transport	3		
Technology	4		
Telecom	2		
<b>Total</b>	<b>22</b>	<b>Total</b>	<b>22</b>
<b>27 % out of total 81 comment letters</b>			

Table 5.5.3

A total of 27 % of the preparers do not want their business to be obliged to the new revenue recognition standard. The industry that stands out, is the financial industry where 46 % of the total financial preparers urge that they should not be obliged to fully implement the standard or should be scoped out. The North American and European preparers represent the vast majority of the comment letters that mediates NIMBY.

## 6. Discussion

This chapter aim to explain the results of the study by referring to economic and sociological theories and as well take previous research in to consideration, focusing on the preparer aspect and their attempts to influence the accounting standard setter.

### 6.1 Discussion of the results of the regions

As presented in the empirical chapter, the geographical distribution of the preparers differs. A clear majority of the respondent preparers belongs to either the European or the North American region. The article by Larsson (2007), presents how European companies dominates the influencing of the constituent participation of the IFRIC, as American and developing countries are less inclined to participate. Put into comparison to this study, the European group of preparers as the second largest group represents a substantial part but are not in majority. As the study focuses only on one standard development due process, the sample is limited and makes it difficult to draw generalizable conclusions. This issue is apparent when testing the significance of the result of the relationship between region and opinion in the  $X^2$ -model. It can not be denied that with a different or a larger sample, it could possibly provide more significant results which might either support or oppose previous research by Larsson (2007). However, it should be noted that based on this particular study, the result opposes the perception of dominating comment letters from European companies. Moreover, this could arguably depend on that the development of IFRS 15 is a convergence project, and issues regarding IFRIC is not.

The IFRS standard setting process is to be based on the principle of full and fair consultation, among other criteria (IFRS, 2013). Hence, it is of importance to obtain knowledge and expertise of how the suggested standard is perceived and how it is expected to affect future accounting. Preparers from the regions of Asia and Africa are undisputedly underrepresented in the participation of the due process of IFRS 15. A lack of participation among different regions may threaten important source of information and possibly also the main goal of IFRS and FASB, which is; developing high quality accounting standards (IFRS g, n.d.).

Overall, the attitude towards the standard is greeted positively by all participating regions. Even if differences in opinion are apparent in this particular study, the divergence between regions can not be said to be of significant character.

Kelly-Newton (1980) refers to the question of complexity as whether the practitioner holds the right type of knowledge and experience or if there is a possibility to usurp it externally in order to face future complex accounting challenges. As noted, the regions do not differ substantially in terms of acceptance towards a single revenue recognition standard and could therefor be assumed to posses the same opportunity facing the new regulation. The fact that many of the preparers operates on a global market, being part of consolidated groups, might create a greater understanding in international accounting standards and thereby a better knowledge and expertise of its complexity.

North American preparers are at times found to welcome the IFRS as it provides a less complex and detailed framework than US GAAP, but sometimes also on the contrary, rejecting IFRS as it could provide room for interpretation. About as many European preparers argues for the complexity in US GAAP as North American preparers. This could also be explained by the global character several of the respondent preparers have. Many of the sample of European companies have subsidiaries that are obliged to US GAAP standards and claim that IFRS are less complex and more user friendly. Hence, a convergence towards a more principle based accounting standard is positively received by some extent of the European parent companies.

The different types of arguments used between different regions do not differ notably, which is also confirmed by the  $X^2$ -test as it is not significant. A possible explanation could be that considering the globalised business community that prevails today with subsequent harmonisation of accounting, regional differences in opinions and argumentation is in decline. The performance gap which may arise by a new accounting proposal that enables a preparer to lobby the accounting standard setting bodies, is according to our study results depending on industry rather than regional differences. However, the results show that preparers from North America have a relative larger percentage of comment letters containing economic arguments and combined economic & sociological arguments than European respondents. It might have been significant differences with a larger sample between the regions, as positive theory derives from the US where bonus-plans (Watts & Zimmerman, 1990) and other financial incentives to management are more common than in Europe.

## 6.2 Discussion of the results of the industries

Our results show that five industries, the construction, financial, industrial & transport, technology and telecom dominate the sent comment letters of the discussion paper. The remaining four industries have far fewer comment letter responses. It may be depending on that these industries are considered to be more undiversified compared to, for example consulting firms, which represents a diversified industry that have significantly fewer comment letters sent. The effects of IFRS 15 will affect industries which manages income from long term-contracts, which all of the overrepresented industries deal with. Moreover, it is worth mentioning that the majority of the respondents are management representatives of well known large global companies, see Appendix 5. This research shows no other results than previous research, but rather confirms the arguments of Sutton (1984), Jorissen et al. (2012), Deakin (1989) and Santos & Santos (2014) who all characterises corporate lobbyists as large and undiversified.

In general, all of the industries have a positive attitude towards IFRS 15 rather than negative. Nevertheless, there is a lot of additions as; "We agree with the one single revenue recognition standard, however..." and subsequent objections to many parts of the standard. The following arguments towards the standard are quite different between the industries. The majority use sociological arguments to a greater extent than economic arguments. Although, the technology and the telecom industries stands out and argues to a greater extent in economic terms compared to the others. There are occurring economic based arguments from the preparers of the largest industries, which goes in line with the economic theories of Davis et al. (1997) and Watts & Zimmerman (1978, 1979, 1990). The fact that sociological arguments are found to be more frequently used than economic opposes the study by Zeff (1978), who argues that the latter is on the rise. It should be noted though, that the study by Zeff was conducted in 1978, and that changes in argumentation might have occurred. Hence this further enhances the relevance of a contemporary study. Nevertheless, it was highlighted by Stenka & Taylor (2013) that economic consequences based arguments might be seen as self serving and therefore be less likely to be considered by a regulator. Stenka & Taylor (2013) found in their study that corporate actors are more likely to use conceptual arguments rather than economic based arguments. Our study results have the same tendencies, and the same conclusions can be drawn, that preparers are more likely to favour other types of arguments as they believe such arguments will be more efficient in influencing a regulator.

We also find that 15 % of the total sent comment letters included warnings to the standard setter that the IFRS 15 proposal is too flexible and could lead to management earnings manipulation. According to Zeff (1978) and Watts & Zimmerman (1978, 1979, 1990), management act in their own interest as they are assumed to have self-maximizing intentions. Even if the study results show that economic arguments are more frequently used in the region of North America compared to Europe (sometimes in combination with sociological arguments), contradictions of PAT are seen to be more occurring in

the aforementioned region. As Cheney (2006) presented in his study, complicated and the sometimes unclear regulation in US GAAP might be the cause of misrecognition of revenue. Moreover, complicated and unclear regulation in US GAAP could increase the possibility of preparers to exploit standards in their objective of self-maximization. However, the result of this study points towards a willingness among the North American preparers to 'do the right thing' and strive for high quality accounting by informing on possible vulnerabilities.

The comment letter respondents from the financial sector dominates the comment letters that want to be scoped out and excluded from IFRS 15. In the discussion paper, the financial industry was given the alternative to be scoped out by the standard setting bodies. Close to half of the respondents from the financial industry were reluctant to change current revenue recognition accounting. As Kelly-Newton (1980) theory stated, management tend to be more in favour of an accounting standard which allows partial basis adoption. The gradual approach by the author is based on the assumption that the smaller amount of change, the greater the chance of acceptance by management. The unwillingness of being a part of the standard scope testifies that there might be a lack of performance gap (Hussein, 1981) in the accounting innovation. The lack of performance gap can be assumed be experienced by both of the standard setting bodies as well as the financial industry. Both parties may not experience discrepancy between desired and experienced level of satisfaction in the area of revenue accounting in the financial industry. Moreover, of all the industries, a total of 27 % wish to be scoped out of the single revenue standard, which further can confirm preparers general reluctance to change. Furthermore, we noted that the largest respondent industry group, construction companies, drew a lot of their attention to the possible elimination of *the percentage of completion* accounting method. IFRS 15 would mean a significant change in the norms and past experiences of accounting for construction companies. The greater the similarity with existing norms, the less change the innovation represents (Kelly-Newton, 1980). Hence, this could explain that most of the respondents belong to the construction industry.

### 6.3 General discussion of the results

The psychological mechanisms presented by Davis et al. (1997), which describes the economic man, could be put into context of how preparers chose to argue. It is shown in this study how a minority use economic arguments in order to influence the standard setting bodies. The self-maximizing arguments such as highlighting implementation cost referring to reorganisation or updating enterprise systems are not predominant. Rather the contrary, sociological arguments are more common. Sociological arguments, such as emphasising current sufficient and understandable accounting norms, are argued by preparers because it is believed to represent more high quality accounting and decision usefulness than the new accounting innovation. This can relate to Kelly-Newton's (1980) accounting theory regarding management's complexity in understanding new accounting standard proposals and their reluctance to change norms. Whether the preparer can be perceived as an un-selfish actor because of the concern of providing decision usefulness for the users of financial statements, or if it is simply a strategy in order to gain influence by the standard setter could be questioned.

As Davis et al. (1997) described how identification affect the way individuals act in regards to the overall organisations, the same relation could be drawn between a preparer and the standard setters, IASB and FASB. In this study, the argumentation by preparers is more characterised as sociological, expressed as aiming for high quality accounting standards in order to maintain and improve a well functioning capital market. This could be put in the light of Davis et al. (1997) since the sociological view is more collectively-serving in opposite to the economic view which is considered to be self-serving. The preparers of this study could thereby be considered to in a larger extent serve the overall objective of IFRS and FASB rather than perusing their own self-maximising agenda.

The participation in the development of a new accounting standard is voluntary, meaning no preparer holds any coercive or institutional power in the due process. Hence, this might have had an affect on the type of argumentation which is noted in the results. The participating preparers in the due process of IFRS 15 appear to identify themselves more with sociological traits. As Davis et al. (1997) observed, an individual's identification with an organisation can lead to consensus and positive outcomes. Hence, argumentation aligned with IASB's and FASB's values and objectives can be assumed to enhance the chance of acquiring influence.

## 7. Conclusion

This study examines preparers of financial statements and their participation in the initial phase of the due process of the accounting standard IFRS 15 - revenue from contracts with customers. The aim of the study has been to identify to what extent different preparers vary in participation among regions and industries and further examine what types of argumentation that is being used. The research is based on a comparative study design investigating these potential differences in comment letters sent in regards to the discussion paper of the development of IFRS 15. The potential differences are dependent on whether they agree or disagree with the proposal and whether the argumentation is based on economic or sociological arguments. The study is based on a content analysis of publicly published comment letters.

Some regions have more active preparers in the due process than others. The majority of the preparers are either from North America or Europe, while a small number of participants are from Asia and Africa.

The five largest participating industries, which are relatively equally divided are; construction, technology, financial, industrial & transport and telecom. The remaining four smaller industries are energy & utilities, medical & pharma chemicals, consumer goods and consulting firms.

Overall, our study shows that the all regions have a positive approach towards one single revenue recognition standard. The result shows that there are no significant differences between the opinions of preparers categorised as regions, whether they agree or not agree with the single revenue recognition standard. The same result is evident regarding the use of different types of argumentation. The results show indication of differences in our particular sample but it may not be considered as significant, considering the scope of the sample and noted frequencies.

In general, all of the industries have a positive approach towards the introduction of one single revenue recognition standard. The study shows no significant differences in opinion whether the industries agree with the one single revenue recognition standard. However, there are significant differences in the use of argumentation. The arguments of some industries are more categorised as economic than others. Those industries that are the most evident is the technology and the telecom industry. The industries that argues more in sociological terms are the financial industry as well as industrials & transport.

Moreover, we find additional information of certain content of the comment letters. Some preparers contradict PAT by warning the standard setter that the proposed revenue recognition standard might increase the risk of accounting manipulation. Furthermore, we find several tendencies of preparers that want to be scoped out of the standard because of the complex nature of their industry. Finally, some preparers highlight the complexity of current US GAAP accounting and welcomes a simplified and principle based revenue recognition standard.

### 7.1 Reflection and future research suggestion

This thesis provides results that indicates that there are differences in how preparers from different regions and industries opinion and argumentation differ. However, it should be noted that the study is based on a comparative study, focusing on preparers comment letters from the discussion paper of the due process of IFRS 15. The discussion of only one step in the due process represents a limitation of possibilities to generalize the research results. The interest from different preparers might vary depending on which accounting area it covers. IFRS 15 affects many industries, although to different extents whereas some industries might be underrepresented.

Nevertheless, the thesis give rise for future research as the content analysis can be conducted on the whole due process of IFRS 15 or of other standards and exposure drafts as well, and consequently distinguish general trends. A limitation of the study is the relatively small sample of comment letters from preparers from only one due process document. While this choice is made based on resource constraints, a more generalizable result and complete picture in regards to the preparers view of IFRS 15 could have been achieved by examining the whole due process.

A future research suggestion is to examine a larger and broader sample whether these argumentations and opinions have any influence in the standard setting and to which extent, for IFRS 15 and other accounting standards. It would be possible to map if one type of argumentation has more impact than the other. As a critique to our thesis, another categorisation of the preparers perhaps would have been more interesting to examine and could further be conducted by future research. Instead of dividing the preparers in to regions, it would be interesting to do a comparative examination of IFRS adopters and US GAAP adopters. This topic is relevant due to the current convergence project between IASB and FASB.

We also recommend future research on the general approach towards US GAAP standards, since a considerable part of the thesis sample welcome a less complex and more principle based accounting framework than current US GAAP.

Moreover, future research recommendations could be to make an investigation based on our research findings that a part of the preparers contradicts the positive accounting theory. It would be of interest to examine if it is a trend that has emerged over the past years, perhaps as a result of historical corporate fraudulent accounting manipulation events.

By conducting a study of one due process document of the standard development of IFRS 15, the thesis contributes to the research landscape by providing an improved and broadened understanding of why preparers choose to participate. The study research and method can be replicated and extended in order to further examine the preparer in the standard setting process of new accounting regulation.

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## Appendix 1 – The coding manual

### **1. Introduction**

- 1.1. Group
- 1.2. Comment letter number
- 1.3. Affiliation
- 1.4. Country
- 1.5. Region

Region are coded as following:

- North America (1)
- Europe (2)
- Asia (3)
- Africa (4)

### 1.6. Industry

- Construction (1)
- Consulting firm (2)
- Consumer goods (3)
- Energy & Utilities (4)
- Financials (5)
- Industrials and transport (6)
- Medical & Pharma Chemicals (7)
- Technology (8)
- Telecom (9)

### **2. Is there a position regarding of agreeing or not agreeing with the Boards' proposal of a single revenue standard?**

- 2.1. Yes (1)
- 2.2. No (2)
- 2.3 None (3)

### **3. What is the potential position?**

- 3.1. Agree with single revenue standard (1)
- 3.2. Do not agree with the new standard (2)
- 3.3 None (3)

### **4. Is there argumentation for position?**

- 4.1. Yes (1)
- 4.2. No (2)

### **5. What type of argument is being used?**

- 5.1. Economic arguments (1)
- 5.2. Both economic- and sociological arguments (2)
- 5.3. Sociological arguments (3)
- 5.4 None (4)

### **6. Other thoughts**

## Appendix 2 – $\chi^2$ -test Region and opinion

**Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
"Agree" NR * Region NR	70	100,0%	0	0,0%	70	100,0%

**"Agree" NR \* Region NR Crosstabulation**

			Region NR		Total
			North America	Europe	
"Agree" NR	Yes	Count	26	20	46
		Expected Count	24,3	21,7	46,0
	No	Count	11	13	24
		Expected Count	12,7	11,3	24,0
Total		Count	37	33	70
		Expected Count	37,0	33,0	70,0

**Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	,723 <sup>a</sup>	1	,395	,455	,275
Continuity Correction <sup>b</sup>	,358	1	,550		
Likelihood Ratio	,723	1	,395		
Fisher's Exact Test					
Linear-by-Linear Association	,713	1	,399		
N of Valid Cases	70				

a. 0 cells (0,0%) have expected count less than 5. The minimum expected count is 11,31.

b. Computed only for a 2x2 table

**Symmetric Measures**

		Value	Approximate Significance
Nominal by Nominal	Phi	,102	,395
	Cramer's V	,102	,395
N of Valid Cases		70	

## Appendix 3 – $\chi^2$ -test Region and argument

**Case Processing Summary**

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Type of arguments * Region	66	100,0%	0	0,0%	66	100,0%

**Type of arguments \* Region Crosstabulation**

			Region		Total
			North America	Europe	
Type of arguments	Both economical and sociological arguments	Count	14	10	24
		Expected Count	12,7	11,3	24,0
	Sociological arguments	Count	21	21	42
		Expected Count	22,3	19,7	42,0
Total		Count	35	31	66
		Expected Count	35,0	31,0	66,0

**Chi-Square Tests**

	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	,426 <sup>a</sup>	1	,514	,611	,347
Continuity Correction <sup>b</sup>	,157	1	,692		
Likelihood Ratio	,427	1	,513		
Fisher's Exact Test					
Linear-by-Linear Association	,419	1	,517		
N of Valid Cases	66				

a. 0 cells (0,0%) have expected count less than 5. The minimum expected count is 11,27.

b. Computed only for a 2x2 table

**Symmetric Measures**

		Value	Approximate Significance
Nominal by Nominal	Phi	,080	,514
	Cramer's V	,080	,514
N of Valid Cases		66	

## Appendix 4 – $\chi^2$ -test Industry and argument

### Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Type of arguments * Industry	67	100,0%	0	0,0%	67	100,0%

### Type of arguments \* Industry Crosstabulation

			Industry					Total
			Construction	Financials	Industrials & Transport	Technology	Telecom	
Type of arguments	Both economical and sociological arguments	Count	3	2	2	9	9	25
		Expected Count	6,0	5,2	4,1	5,6	4,1	25,0
	Sociological arguments	Count	13	12	9	6	2	42
		Expected Count	10,0	8,8	6,9	9,4	6,9	42,0
Total		Count	16	14	11	15	11	67
		Expected Count	16,0	14,0	11,0	15,0	11,0	67,0

### Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	19,868 <sup>a</sup>	4	,001
Likelihood Ratio	20,543	4	,000
Linear-by-Linear Association	11,802	1	,001
N of Valid Cases	67		

a. 2 cells (20,0%) have expected count less than 5. The minimum expected count is 4,10.

### Symmetric Measures

		Value	Approximate Significance
Nominal by Nominal	Phi	,545	,001
	Cramer's V	,545	,001
N of Valid Cases		67	

## Appendix 5

### List of preparers in DP (1/3)

#### Preparers with comment letters on due process of IFRS 15

Nr	Comment letter nr	Affiliation /Company	Country	Region	Industry
1	3	Dee Brown, Inc.	US	North America	Construction
2	18	General Dynamics	US	North America	Industrials and transport
3	20	Fujitsu	Japan	Asia	Technology
4	24	Deutsche Telekom AG	Germany	Europe	Telecom
5	27	Roche	Switzerland	Europe	Medical & pharma chemicals
6	30	Raytheon	US	North America	Technology
7	31	Verizon	US	North America	Telecom
8	33	TDS	US	North America	Telecom
9	33	US Cellular	US	North America	Telecom
10	34	United Technologies	US	North America	Technology
11	35	Intel	US	North America	Technology
12	36	Dell	US	North America	Technology
13	44	Morgan Stanley	UK	Europe	Financials
14	46	Telstra	Australia	Asia	Telecom
15	53	Cobham	UK	Europe	Industrials and transport
16	54	Telecom Italy	Italy	Europe	Telecom
17	56	AMP	Australia	Asia	Financials
18	57	Vodafone	UK	Europe	Telecom
19	62	Nokia	Finland	Europe	Technology
20	64	Hewlett & Packard	US	North America	Technology
21	67	KBR	US	North America	Construction
22	69	IBM	US	North America	Technology
23	71	Apple	US	North America	Technology
24	74	Air Products and Chemicals	US	North America	Industrials and transport
25	75	McDermott	US	North America	Construction
26	78	L&T	India	Asia	Construction
27	79	Orange	France	Europe	Telecom
28	83	URS	US	North America	Construction
29	85	TransCanada	Canada	North America	Industrials and transport
30	88	Brookfield Multiplex	Australia	Asia	Construction
31	91	FirstRand	South Africa	Asia	Financials
32	91	ANZ	Australia	Africa	Financials
33	94	Leighton Holdings	Australia	Asia	Construction
34	100	Novartis	Switzerland	Europe	Medical & pharma chemicals
35	104	DHL	Germany	Europe	Industrials and transport
36	106	BP	UK	Europe	Energy & utilities
37	107	Nestlé	Switzerland	Europe	Consumer goods
38	109	Sappi	South Africa	Africa	Industrials and transport
39	111	SAP	Germany	Europe	Technology
40	116	HSBC	UK/Switzerland	Europe	Financials
41	118	BAE Systems	UK	Europe	Industrials and transport

## List of preparers in DP (2/3)

42	120	Syngenta	Switzerland	Europe	Industrials and transport
43	122	Deutsche Bank	UK/Germany	Europe	Financials
44	126	Tyco International	Bermuda	North America	Technology
45	128	Foster Wheeler	US	North America	Construction
46	129	Lockheed Martin	US	North America	Industrials and transport
47	130	Pfizer	US	North America	Medical & pharma chemicals
48	131	Shaw	US	North America	Construction
49	132	Boeing	US	North America	Industrials and transport
50	133	MBIA	US	North America	Financials
51	137	PKS	US	North America	Construction
52	142	Lane	US	North America	Construction
53	144	Liberty Mutual	US	North America	Financials
54	145	Northrop Grumman	US	North America	Industrials and transport
55	146	Flour	US	North America	Construction
56	147	Nationwide	US	North America	Financials
57	152	AIB	Ireland	Europe	Financials
58	153	Allianz	Germany	Europe	Financials
59	155	Telefonica	Spain	Europe	Telecom
60	158	UBS	Switzerland	Europe	Financials
61	163	Fletcher Building	New Zealand	Asia	Construction
62	164	Alcatel	France	Europe	Telecom
63	165	Honeywell	US	North America	Technology
64	166	Credit Suisse	Switzerland	Europe	Financials
65	167	Huron Consulting Group	US	North America	Consulting firm
66	174	John Kimmer TC	UK	Europe	Construction
67	175	RWE	Germany	Europe	Energy & utilities
68	176	The Hartford	US	North America	Financials
69	177	Cisco	US	North America	Technology
70	183	Emerson	US	North America	Technology
71	191	JM	Sweden	Europe	Construction
72	191	NCC	Sweden	Europe	Construction
73	191	Peab	Sweden	Europe	Construction
74	191	Skanska	Sweden	Europe	Construction
75	195	Qantas	Australia	Asia	Industrial and transport
76	198	BT	UK	Europe	Telecom
77	203	GDF Suez	France	Europe	Energy & utilities
78	205	Siemens	Germany	Europe	Technology
79	220	Sales Force	US	North America	Technology
80	223	The Swatch Group	Switzerland	Europe	Consumer goods
81	226	Insco Insurance	US	North America	Financials

## Appendix 6

### Questions of the DP in the due process of IFRS 15 (1/3)

(IASB, 2008)

#### Chapter 2

##### Question 1

Do you agree with the boards' proposal to base a single revenue recognition principle on changes in an entity's contract asset or contract liability? Why or why not? If not, how would you address the inconsistency in existing standards that arises from having different revenue recognition principles?

##### Question 2

Are there any types of contracts for which the boards' proposed principle would not provide decision-useful information? Please provide examples and explain why. What alternative principle do you think is more useful in those examples?

##### Question 3

Do you agree with the boards' definition of a contract? Why or why not? Please provide examples of jurisdictions or circumstances in which it would be difficult to apply that definition.

#### Chapter 3

##### Question 4

Do you think the boards' proposed definition of a performance obligation would help entities to identify consistently the deliverables in (or components of) a contract? Why or why not? If not, please provide examples of circumstances in which applying the proposed definition would inappropriately identify or omit deliverables in (or components of) the contract.

##### Question 5

Do you agree that an entity should separate the performance obligations in a contract on the basis of when the entity transfers the promised assets to the customer? Why or why not? If not, what principle would you specify for separating performance obligations?

##### Question 6

Do you think that an entity's obligation to accept a returned good and refund the customer's consideration is a performance obligation? Why or why not?

##### Question 7

Do you think that sales incentives (eg discounts on future sales, customer loyalty points and 'free' goods and services) give rise to performance obligations if they are provided in a contract with a customer? Why or why not?

## Questions of the DP in the due process of IFRS 15 (2/3)

(IASB, 2008)

### Chapter 4

#### Question 8

Do you agree that an entity transfers an asset to a customer (and satisfies a performance obligation) when the customer controls the promised good or when the customer receives the promised service? Why or why not? If not, please suggest an alternative for determining when a promised good or service is transferred.

#### Question 9

The boards propose that an entity should recognise revenue only when a performance obligation is satisfied. Are there contracts for which that proposal would not provide decision-useful information? If so, please provide examples.

### Chapter 5

#### Question 10

In the boards' proposed model, performance obligations are measured initially at the original transaction price. Subsequently, the measurement of a performance obligation is updated only if it is deemed onerous.

- (a) Do you agree that performance obligations should be measured initially at the transaction price? Why or why not?
- (b) Do you agree that a performance obligation should be deemed onerous and remeasured to the entity's expected cost of satisfying the performance obligation if that cost exceeds the carrying amount of the performance obligation? Why or why not?
- (c) Do you think that there are some performance obligations for which the proposed measurement approach would not provide decision-useful information at each financial statement date? Why or why not? If so, what characteristic of the obligations makes that approach unsuitable? Please provide examples.
- (d) Do you think that some performance obligations in a revenue recognition standard should be subject to another measurement approach? Why or why not? If so, please provide examples and describe the measurement approach you would use.

## Questions of the DP in the due process of IFRS 15 (3/3)

(IASB, 2008)

### **Question 11**

The boards propose that an entity should allocate the transaction price at contract inception to the performance obligations. Therefore, any amounts that an entity charges customers to recover any costs of obtaining the contract (eg selling costs) are included in the initial measurement of the performance obligations. The boards propose that an entity should recognise those costs as expenses, unless they qualify for recognition as an asset in accordance with other standards.

- (a) Do you agree that any amounts an entity charges a customer to recover the costs of obtaining the contract should be included in the initial measurement of an entity's performance obligations? Why or why not?
- (b) In what cases would recognising contract origination costs as expenses as they are incurred not provide decision-useful information about an entity's financial position and financial performance? Please provide examples and explain why.

### **Question 12**

Do you agree that the transaction price should be allocated to the performance obligations on the basis of the entity's stand-alone selling prices of the goods or services underlying those performance obligations? Why or why not? If not, on what basis would you allocate the transaction price?

### **Question 13**

Do you agree that if an entity does not sell a good or service separately, it should estimate the stand-alone selling price of that good or service for purposes of allocating the transaction price? Why or why not? When, if ever, should the use of estimates be constrained?