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IFRS 15: A critical evaluation of the newly issued revenue recognitions standard's ability to reflect economic reality

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Abstract

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Keywords: Revenue recognition, IFRS 15, Economic reality, Economic substance over legal form, True and Fair view

Purpose: The purpose of this study has been to critically evaluate the newly issued revenue recognition standard's ability to reflect economic reality.

Methodology: To fulfil the purpose of this study, a qualitative document analysis of how different wide-spread perceptions of economic reality have been accommodated by the IASB under the development of IFRS 15 has been conducted with a backdrop in the developed framework.

Framework: The framework of this study entails an in-depth background to the new revenue recognition standard, IFRS 15, and the notions of the central accounting concepts used for the study.

Empirical foundation: The empirical foundation in this study rests on four documents and one collection of received letters. These are described in further detail under section 2.3.

Conclusions: During the standard-setting process of IFRS 15, different wide-spread perceptions of economic reality have, seemingly, been acknowledged by IASB. Different degrees and ways of accommodation, per area of critique, could be found. However, as the notion of economic reality is highly dependent on perceptions, and is frequently a subject of change, IFRS 15 ability to reflect economic reality is hard to adequately determine.

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List of abbreviations

AASB	Australian Accounting Standards Board
ASC	Accounting Standards Codification
FASB	Financial Accounting Standards Board
FEI	Financial Executives International
GAAP	General Accepted Accounting Principle
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards

1.Introduction

From a general point of view, revenue can be described as a "[...] key performance metric used by investors and other stakeholders in assessing a company's performance and future prospects" (Jones & Pagach, 2013, p.30). The revenue line item on the income statement typically is the largest amount reported and is, thereby, a crucial number in assessing a company's financial performance (Kasztelnik, 2015). Hameed, Al-taie and Al-Mashhadani's (2019) view are congruent with that assessment and claim that revenue is one of the most important elements of an organizational sustainability index and basic financial statements.

Due to revenue being one of the most important areas of financial accounting, as well as, a crucial figure that investors use in their decision-making process (Zhang, 2005), how to recognize revenue has been a frequently debated subject. Moreover, in more recent times, the debate of revenue recognition has amplified due to the burst of the Internet bubble, in the late 1990s and early 2000s, and the emergence of business models that include complex promises of goods and services in conjunction with more complex customer contracts (Wagenhofer, 2014; Marton, Lundqvist & Pettersson, 2018). Thus, revenue recognition is a crucial issue that standard-setters and accountants have to deal with and should not be understated (Wüstemann & Kierzek, 2005; Eccles, Holt & Fell-Smith, 2005; Dalkilic, 2015; Hasanen & Talib, 2014; Steele, 2012).

However, despite revenue recognition being a significant reporting issue, previous revenue recognition standards (i.e. IAS 18 and IAS 11) have been described as materially different from each other, something that has made the process of recognizing revenue more difficult. Jones and Pagach (2013) explain that the guidance in IAS 11 and IAS 18 differed and that they were difficult to understand and apply to complex revenue transactions. Additionally, the disclosures were described as inadequate and inconsistent with other standards´ requirements (ibid.). Haggenmüller (2019) has further specified and asserted that IAS 18 was missing navigation with respect to multiple-element contracts. Specifically, the standard required a separation of transactions into individually identifiable elements, but did not explain how to divide the transaction into individual components, as well as how to quantify them (ibid.).

The difficulties in understanding the different guidances, depending on which standard has been applied, have contributed to varying financial statements (Marton, Lundqvist &

Pettersson, 2018). This subsequently opened up for discretionary application of the standards, where companies were able to manipulate their reported revenue (Eccles et al. 2005). Thus, sacrificing economic reality in favor of dubious reporting. Haggenüller (2019) has built on to the former and described that the various ways of which companies have been able to manipulate their reported revenue, under previous standards, have lead to a high presence of class-action lawsuits due to improper revenue recognition. Moreover, it was argued that restatements of financial reports due to timing problems, or from considering fictitious revenues, exceeded 50 percent of the total amount of revenue related restatements. It was also found that more than half of the financial reporting frauds among US public companies between 1987 and 1997 involved overstating revenue (ibid.).

As an initiative to erode the aforementioned problems, IASB and FASB came together in 2002 for a joint project on how to recognize revenue (IASB, 2002). The main objective of the joint project was to replace previous revenue recognition standards with a single, comprehensive framework for revenue recognition, that would be applied consistently across transactions, industries, and capital markets. Altogether, this would hopefully remove previous inconsistencies and weaknesses in accounting practice, as well as improve the comparability of revenue across companies and geographical boundaries (IASB, 2008). The project resulted in two new standards, IFRS 15 (promulgated by IASB) and ASC 606 (promulgated by FASB), that was issued in May 2014.

1.1 Knowledge gap

As mentioned in the introduction, how to recognize revenue has been a frequently debated subject. Consequently, this has sparked a significant interest within the academic setting as well, which has resulted in a riptide of studies within the subject of revenue recognition and its appurtenant standards. Eccles et al. (2005); Wüstemann, and Kierzek (2005); Jones and Pagach (2013); Tong (2014); Wagenhofer (2014); Aurora and Bontas (2014); Kasztelnik (2015) and Yeaton (2015) have all conducted studies within the subject of revenue recognition. However, one common denominator is that these studies either cover the old standards for revenue recognition or are speculative studies, covering what the outcome, may or may not be, of the new, jointly developed, revenue recognition standard, IFRS 15.

More recent studies within the subject are those of Khamis (2016); Oyedokun (2016); Haggenmüller (2019) and Hameed et al. (2019). Similar to some of the previously mentioned

studies, the more recent studies have had an increased focus on the outcome of IFRS 15. However, the difference is that the more recent studies are conducted subsequent to the implementation of IFRS 15. The study of Haggenmüller (2019) provides a profound basis for further research, covering different aspects and implications of IFRS 15. Apart from Haggenmüller (2019), Oyedokun (2016) has focused on i.a. the drawbacks and potential consequences of the new revenue recognition standard. Khamis (2016) has focused on the perception of preparers and auditors on IFRS 15, whilst Hameed et al. (2019) have elaborated on the impact of IFRS 15 on earnings quality.

Besides the research mentioned above, other studies have also highlighted the importance of accounting concepts, such as true and fair view as well as substance over legal form, to reflect economic reality, but questioned the presence and meaning of these in previous and current accounting standards (Lee, 2006; Mattessich, 2009; Parker & Nobes, 2016; Walton, 1993; Nobes, 2009; Walton, 2009; Ciocan, 2019; Meyer, 1976; Martens & McEnroe, 1992; Baker & Hayes, 2004; Zeff, 1978; Edeigba & Amenkhienan, 2017). However, hardly any previous studies have examined these accounting concepts in relation to the discourse surrounding the development of IFRS 15. The underlying cause for this mainly stems from the fact that the standard is rather new and previous studies were conducted at a point in time that only allowed a preliminary or superficial assessment.

According to Mouck (2004), the development of a new accounting standard can be seen as an attempt to lessen the gap between financial accounting representations and wide-spread perceptions of economic reality. However, Lee (2006) points out that, depending on the underlying intentions of the development of a new accounting standard, economic reality might become sacrificed. The primary goal of IFRS 15 was, according to IASB (2008), to provide consistent principles for revenue recognition, regardless of industry or geographic region. Thereby, the question arises of whether economic reality potentially has been sacrificed in the development of IFRS 15, in the strive for comparability and consistency. According to Zeff (1978), it is an increasingly complex process to reach a delicate balancing of technical considerations (e.g. comparability and consistency) and the adverse economic and social consequences that might follow the proposed actions. Even though, one not necessarily need to exclude the other (i.e. increased comparability could in some instances be argued to lower the risk for misrepresentation and discretionary application of standards), it might be that the construction of IFRS 15 has been too entrenched with the idea of providing consistent

principles for revenue recognition, regardless of industry or geographic region, to achieve greater comparability and consistency, rather than how the proposals correspond with the reflection of economic reality.

Two studies that have partially touched upon the subject are those of Khamis (2016) and Haggenmüller (2019). On the other hand, their studies have only captured an Egyptian or German view of the matter. These limitations implies a knowledge gap and calls for additional scientific research, to reach a higher degree of generalizability, as the development of IFRS 15 has consisted of several other actors beyond those from Germany and Egypt. Overall, the standard-setting process can be described as a bipartisan dynamic, with standard setters on the one end, and actors from *different* countries on the other. Throughout all stages of the development, a wide range of views from interest parties have been considered in order to gain a better understanding of different accounting alternatives and evaluate the potential effect of the proposals on affected parties (IASB, 2016). Thus, different comments and opinions from a wide range of actors are of great significance as they have posed as a basis for the entire development. Adding the fact that economic reality does not exist independently, but is contingent on accounting practices (Hines, 1988), these comments and opinions could therefore also be depicted as crucial for the assessment of whether IFRS 15 provides for a fair presentation or if fairness has been down-prioritized in the strive for greater comparability and consistency.

As there, seemingly, have existed diverse perceptions, both in theory and practice, of what best reflects economic reality, and a non-unified understanding of central accounting concepts such as true and fair view and economic substance over legal form (Hines, 1988; Walton, 1993; Alexander, 1993; Baker & Hayes, 1998; Ciocan, 2019), the evaluation of IFRS 15 ability to reflect economic reality is therefore highly dependent on how IASB[1] has managed to combine and accommodate these different wide-spread perceptions of economic reality during the development of the standard.

Hereby, by critically going through the given feedback from different actors, via e.g. exposure drafts and comment letters during the development of IFRS 15, a comprehensive view of the

[1] Even though the standard-setting process of IFRS 15 was a joint project with FASB, the authors of this study have decided to refer to IASB when mentioning IFRS 15, due to them being the ones who issued the standard.

potential issues raised against the proposed standard's ability to reflect economic reality can be achieved. By then comparing how that feedback has been accommodated by the IASB, both during the development and in the effective standard, this study could provide insight into; (I) whether there is a risk that economic reality would not be reflected to a sufficient degree in IFRS 15 and, (II) the complexity in consolidating different perceptions of economic reality into a uniform standard. Additionally, by examining the development of IFRS 15, in conjunction to given accounting concepts, this study builds on to previous research by providing additional aspects on IFRS 15.

1.2 Purpose and research question

With respect to the above mentioned, the purpose of this study has thus been to critically evaluate the newly issued revenue recognition standard's ability to reflect economic reality. Given the purpose, the following research question is set to be answered in our study:

- How have different wide-spread perceptions of economic reality been accommodated by IASB in the development of IFRS 15?

1.3 Outline of the Thesis

Chapter 2: Research method

Contains information on the methodological approach taken, together with how information has been collected, sorted and analyzed, as well as the reliability and validity of our study, is explained and discussed.

Chapter 3: Literature review

Under this chapter, a literature review is conducted and provides the study with an in-depth background of the new revenue recognition standard, IFRS 15, and the central accounting concepts used as a framework for the study.

Chapter 4: Findings and analysis

In this chapter, the study's findings and analysis is provided. The chapter is divided into two sections, with their own respective subsections. The first section focuses on the feedback provided by different actors related to economic reality in the development process of IFRS 15, whereas the second section focuses more on what response(s), if any, were made as a consequence and how this could be re-related to the study's constructed framework.

Chapter 5: Conclusion and further research

Under this chapter, the study's results are presented by focusing on, and highlighting, the most important parts from chapter 4. Subsequently, a discussion on a higher-level of these findings is conducted. Finally, the limitations of this study and suggestions for further research are provided.

2. Research method

In the following section the methodological approach, together with how information has been collected, sorted and analyzed, as well as the reliability and validity of our study, is explained and discussed.

2.1 Methodological approach

Due to the prevalent degree of generalizability inherent in the research question of our study, a qualitative approach has been used in order to investigate how different actors wide-spread perceptions of economic reality in the proposals for IFRS 15 have been accommodated by IASB, and thus if economic reality potentially has been sacrificed in the effective standard. According to Bryman and Bell (2017), a qualitative study, typically, consists of more general research questions and is more open-ended than quantitative research. Moreover, qualitative research often also, via e.g. a thematic analysis, focuses on how a certain social group(s) interpret a specific phenomena depending on their world view, rather than systematically gathering numerical data to statistically test how certain hypothesis can be generalized to larger populations. On the other hand, a qualitative approach is sometimes described as too subjective and impressionistic, due to its tendency to provide a detailed account, full of trivial details of what goes on in the setting being investigated. Hence, relying too much on the researcher's, sometimes, unsystematic views of what is significant and important to include (ibid.). However, in order to grasp a full contextual understanding of actors´ perceptions, to determine how they have been accommodated, a considerable descriptive detail of the matter has been necessary, and therefore has also the qualitative approach been most suitable for the purpose of our study.

To understand actors´ perceptions of economic reality, an interpretive approach, within the epistemological paradigm, has been used. As both Bryman and Bell (2017) and Jacobsen (2017) explain, one of the main objections against the positivism perspective is that there is a significant difference between studying physical objects and studying the social world or social phenomenons. Jacobsen (2017) further explains that the interpretative approach assumes that the social reality not is stable, but is constantly changing. Social systems and people are different from e.g. atoms and particles, and are also constructed by the theory and research being applied. Furthermore, an interpretative perspective implies that there is no objective social reality, but rather different perceptions of the reality, due to the research focusing on

socially constructed phenomenons. To gain a better understanding of economic reality, which is a subset of a wider social reality, constructed by humans (Lee, 2006), it is therefore argued that it is more fruitful to try to understand how other people are interpreting it (Bryman & Bell, 2017; Jacobsen, 2017). Hence, the interpretive perspective was adopted for this study.

Further, in order to study the perceptions of economic reality within IFRS 15, the ontological position chosen for this study has been constructionism. Unlike objectivism, which asserts that a certain social phenomena has an existence, that is independent of social actors, constructionism emphasizes that the social phenomena, continually, is being accomplished by social actors (Bryman & Bell, 2017). Given the aforementioned, when investigating the perceptions of economic reality, a constructionistic approach is, therefore, more suitable. Moreover, this study is characterized by an abductive approach. Traditionally, as Bryman and Bell (2017) and Jacobsen (2017) point out, qualitative and interpretive studies are typified by an inductive approach. However, even though the core of this study has been inductive, as the study uses a specific set of empirical material to draw a general conclusion of what may be true, some elements of a deductive approach have been prevalent. For instance, the direction of this study has partially been guided by the developed framework (see section 3) to navigate the research process in a cumulative manner. With an initial understanding of the notion of economic reality as due to the developed framework, a distinct focus in the specific set of empirical material could be achieved and later expanded upon as data were collected. Hence, an interplay between the developed framework and the empirical material has taken place throughout the research process, something that, according to Alvehus (2019), is stereotypical for an abductive approach.

2.2 Literature review

According to Hart (1998), a literature review is an essential part of the research process and the research report, as it helps to narrow down and define an existing knowledge gap based on the findings in previous studies. Moustakas (1994) points out that, by identifying factors surrounding a particular research topic, a contribution to existing knowledge, as well as structuration of the research, is possible. Typically, advanced master's theses and doctoral dissertations include a literature review as the basis for providing background statements and arguments for their research (Machi & McEvoy, 2016). Moreover, a literature review demonstrates the researchers ability to engage in scholarly reviews, which is based upon their

readings, interpretations and understandings of the work of others in the same field (Bryman & Bell, 2017).

When constructing our review of previous literature, the literature review model, suggested by Machi and McEvoy (2016), in conjunction with the proposed course of action to review literature by Bryman and Bell (2017), as well as Snyder (2019), has been used. Similar for all is that they have functioned as a toolkit to facilitate the process of specifying and framing existing knowledge, in order to discover and define an issue for further study as well as provide a framework which an analysis later can be based on. Overall, the proposed structure for conducting a successful literature review, according to Machi and McEvoy (2016), Bryman and Bell (2017) and Snyder (2019), and that has been followed in the construction of ours, are: (I) recognize and define a research interest, (II) design an overall review approach and search strategy, (III) search the literature, (IV) survey the literature, (V) critique the literature and, (VI) write the review.

For this study, the topic of interest has been the development of IFRS 15. According to Snyder (2019), after identifying an area of interest, it is important to scan the chosen area as a initial step to account for other literature reviews that already exist. This has been done in order to estimate the number of research studies that approximately must be assessed, and to help formulate and clearly define the specific research question(s) the review will address. By scanning the environment surrounding the topic of interest, and identifying specific research questions that the review will address, an appropriate search strategy and review approach have been easier selected as well (ibid.).

The questions that arose as a result after a general scan of the environment and that our literature review sought to address were: (I) what potential benefits and disadvantages have previous studies found with standards concerning revenue recognition (especially IFRS 15); (II) how have economic reality, true and fair view, as well as substance over legal form been addressed in conjunction to revenue standards, and; (III) does the distinction of these accounting concepts differ depending on if a standard is considered principle or rules-based.

In regard to the width of aforementioned questions, a semi-systematic approach (i.e. narrative review) was most suitable. According to Snyder (2019), a semi-systematic literature review approach is used when wanting to study a broader topic that has been conceptualized differently

and studied by various groups of researchers within diverse disciplines. Additionally, the semi-systematic approach is claimed to be useful for the purpose of detecting themes or common issues within a specific research field, something that induces the ability to map a certain field of study and synthesize, in complex, the current state of knowledge within that field (ibid.). As the purpose of our literature review fell within this asseveration, this type of approach was a given choice.

With an identified review approach in place, a search strategy to conduct the semi-systematic review could, thereafter, be developed. Snyder (2019), Bryman and Bell (2017) and Machi and McEvoy (2016) argue that a search strategy involves developing search terms, identifying appropriate databases and setting boundaries (i.e. inclusion and exclusion criteria) for the review. The constructed search terms, that was developed out from our defined topic of interest and research questions, was: *revenue recognition, IFRS 15, ASC 606, economic reality, legal reality, economic substance over legal form, economic substance, legal form, fair presentation, true and fair view and principle versus rules-based standards.* These search terms, then worked as boundaries in the process of identifying suitable references.

The electronic search engines that have been used in order to find relevant literature in this study are LUBsearch and Google Scholar. LUBsearch is Lund University's shared search engine and provides access to a variety of peer reviewed articles, journals, doctoral theses and books (Lund University Libraries, 2020). According to Bryman and Bell (2017), internet is an invaluable source of journal references, and is also the main reason why this course of action has been taken. Once identifying an article of interest, via the developed search terms, its abstract, findings and conclusion were skimmed through in order to determine whether or not it was appropriate for the final selection. This assessment was mostly done based on the identified articles ability to answer our constructed questions for the review. If found relevant, the references in the selected article were scanned to identify other articles that may potentially be relevant for our review. According to Bryman and Bell (2017), this strategy is called snowball sampling and is a type of technique that is often included to efficient the process of reviewing current literature within the proposed research area.

In total, approximately 35 articles were identified as relevant for answering our research questions in the literature review (some additional articles were added later to complement certain sections). Thereafter, via the semi-systematic approach, a thematic/content analysis was

performed in order to sort and group the articles depending on their orientation and findings. After sorting and grouping the articles, the texts were screened in full and summarized in bullet points. With a complete list of summarized articles in bullet points, sorted per their orientation, the articles could thereafter be synthesized to serve as a ground for the identified knowledge gap and research question, as well as to provide a framework for this study.

2.3 Data collection

In this study, the main source of information has consisted of the empirical material covering the development of IFRS 15, published by the IASB. For the purpose of comparing how different actors´ perceptions of economic reality have been accommodated by IASB, the effective standard has been used as well. In total, the empirical material used in this study stems from four documents and one collection of received letters (see table 1), that later have been sorted, synthesized and divided into different themes depending on its orientation (see section 2.4).

Source	Description
Revised Exposure Draft: Revenue from Contracts with Customers (November 2011)	Proposed revenue recognition standard, for comment only. Subject to subsequent modification.
Feedback summary from comment letters and outreach (May 2012)	This paper provides a summary of the feedback received in response to the Revised Exposure Draft: Revenue from Contracts with Customers (November 2011). In total, 357 comment letters were summarized.
Staff Paper: Effects of joint IASB and FASB redeliberations on the November 2011 Revised Exposure Draft Revenue from Contracts with Customers (February 2013)	This staff paper indicates changes to the Revised Exposure Draft: Revenue from Contracts with Customers (November 2011)
Comment letters received during re-deliberation from different actors (2012-2013)	AASB (2012), Bayer (2013), FEI (2013), GlaxoSmith (2013), La Roche (2013), Novartis (2013) & Sanofi (2013).
IFRS 15 Revenue from Contracts with Customers (May 2014)	The new effective revenue recognition standard, IFRS 15, issued by IASB

Table 1. List of the empirical material

According to Bryman and Bell (2017), collection of data is an important part of every study as it pose as the basis for the analysis and inferences. Thereby, it is important to carefully consider the different options available (ibid). In this study, neither of the authors had the necessary contact network to attain multiple interviews with the actors that were involved in the

development process of IFRS 15. Moreover, as described in the knowledge gap (see section 1.1), a higher degree of generalizability of actors´ perceptions, regarding economic reality, under the development of IFRS 15, wanted to be achieved. By these means, even though a couple of deep-interviews would have yielded a large amount of qualitative data, they would most probably, similar to Khamis (2016) and Haggenmüller (2019) studies, only have shed light on certain types of perceptions of different actors. Hence, it was believed that the above-mentioned documents could provide information of greater depth and width, without sacrificing quality, as well as being adequate for the purpose of this study.

Furthermore, the major benefit with documents is that they are often unobtrusive, which implies that potential effects that usually limits the validity are alleviated, as the data has not been created due to a certain intention (Bryman & Bell, 2017). Additionally, the risk of developing an affection or sympathy, for the people being studied, substantially decreases when examining published documents, as the interviews have been conducted by others. Documents also have the ability to be quite objective. E.g. one can readily follow what has been said, as well as who has said or opined what. This aspect could prove to be valuable when wanting to know what others actually have said and/or done.

On the other hand, one of the most fundamental issues when using documents from organizations, concerns the reliability of the data source, i.e. about the one(s) who has published the information. When using primary data, the scientist(s) has a degree of control over factors that may affect the reliability in the data. In secondary sources, this control is absent. Thus, it is important to understand, to the degree it is possible, *who* has collected the information, *how* has it been done, and *how* has it been registered, in these instances (Jacobsen, 2017). This is also supported by Bryman and Bell (2017), who further highlights the importance of knowing *why* a document was produced, whether the material is genuine, whether the meaning of the document is clear, and whether the person or group that produced the document was in a position to write authoritatively about the subject.

As seen in table 1, and mentioned in the introduction of this section, four documents and one collection of received letters have posed as the empirical foundation for this study. Out of the five categories of sources in table 1, the feedback summary from comment letters and outreach (May 2012) is the only one characterized as a secondary source, as it is a summary of comment letters prepared by the staff of the IFRS Foundation and the FASB for discussion at a public

meeting of the IASB or FASB (Feedback summary, 2012). In general, there has been no major reason to believe that the information used from this source would have been significantly incorrect, misleading, misstated, or otherwise, as it is explicitly claimed that the document does not include any staff recommendations or views of the IASB. On the other hand, to secure the credibility and representativeness of the document, a random sample among the 357 comment letters, which the feedback summary is based on, has been conducted and compared with the summary. It was decided that 36 comment letters would be sufficient to make a general assessment, even though a sample test has its own limitations. The conducted sample test gave no significant indication of misstatement or otherwise, as the feedback in general was in line with what was presented in the "feedback summary" (see appendix 1).

2.4 Data analysis

As explained in section 2.1, this study is characterized by an abductive approach. This implies that, the direction of the research process has initially been navigated by the developed framework (see section 3) to create a distinct focus in the specific set of empirical material chosen (see table 1). Thereby, with an interplay between the developed framework and the empirical material, the selection of what to include and exclude was easier done. However, this did not indicate that the findings and analysis chapter (see section 4) could be written directly after the data collection had been completed. According to Bryman and Bell (2017), the data collected for qualitative studies must first be sorted and divided into different themes, in order to later be structured and synthesized in a coherent manner.

By reviewing the collected empirical material, four areas could be identified in the proposals for IFRS 15, were concerns related to the reflection of economic reality were most prevalent. These were; performance obligations, constraining the cumulative amount of revenue recognized, customer credit risk and time value of money. Moreover, some minor concerns, that were found as equally important as the more prevailing, were also identified. However, due to their discreteness, they were grouped together. These five identified areas then posed as the empirical basis for this study, and subsequently guided the analysis which later was inferred upon to evaluate how different perceptions of economic reality have been accommodated.

When conducting the analysis, the identified raised concerns within these five critical areas were firstly presented and related to the developed framework of this study (see section 4.1). By these means, a comprehensive picture of what the concerns raised might imply for the

depiction of economic reality could be achieved. Thereafter, the identified concerns were examined and compared against what preliminary changes IASB made as a response, in conjunction with additional comment letters submitted subsequent the tentative changes of the new standard (see section 4.2). Lastly, the identified concerns, proposals for tentative change and additional comment letters, were compared to how the effective standard has been structured (see section 4.2). In summary, this complete process is displayed in figure 1 (see below).

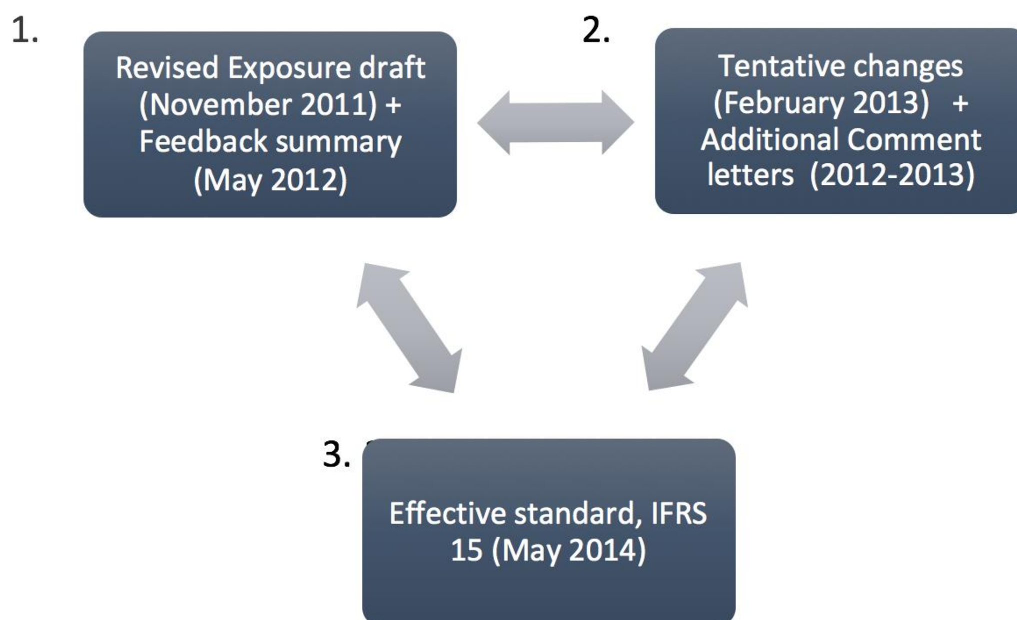

Figure 1. Process of analyzing the findings

2.5 Validity and Reliability

Validity and reliability are two central concepts when conducting research, and especially when choosing research methodology for the study. It is always important to have a critical perspective to ascertain how reliable and valid the collected empirics is (Bryman & Bell, 2017). According to Erikson and Wiedersheim-Paul (2014), validity is one of the most important requirements when a measurement of any kind is to be performed. The requirement concerns whether you measure, or not, what you really want to measure. Bryman and Bell (2017, p. 159) specify the concept's meaning by explaining that "[v]alidity refers to whether or not an indicator (or set of indicators) that is devised to gauge a concept really measures that concept".

Furthermore, the validity concept can be divided into two sub-categories; internal validity, and external validity.

Internal validity is defined as "[w]hether or not what has been identified as the cause actually produces the effect" (Johnson & Duberley, 2000, p. 46). I.e. it is about how well the study corresponds between reality and the researcher's description of reality, and about whether we actually measure what we think we measure (Jacobsen, 2007). External validity is defined as "[t]he extent to which the research findings can be extrapolated beyond the immediate research sample" (Johnson & Duberley, 2000, p. 46). It concerns the degree of generalizability and how the result could *transition* to other contexts. For transferability of the results to be possible, however, what is studied must be representative of the context in which we want to make the transfer (Jacobsen, 2007).

In this study, in terms of external validity, the degree of generalizability could be considered fairly high. The number of different actors that have been involved in the development process of IFRS 15, as well as the sheer amount of empirical material considered, should pose as a basis for greater generalizability. However, since this study covers the development process of one specific accounting standard, the argument could be made that the result of the study is less generalizable to other development processes of other accounting standards. Nevertheless, some aspects of the development processes, e.g. the interaction between actors and standard setters, should be somewhat similar, even though each process has its own peculiarities. But an extension of our results to other accounting standard-setting processes was not the main objective in this study and should, thus, be taken into consideration. In terms of internal validation, this study is strengthened by the fact that it uses documents that cover what actually has been said and done - feedback and responses. Perhaps the argument could be made that the "feedback summary" used as empirical material potentially could exclude important and relevant material and, thus, resulting in a biased inference of the procured material. To strengthen the internal validation of this study, from that aspect, a sample of 36 comment letters have been contrasted with the "feedback summary" (see section 2.3). Additionally, multiple documents, plus a collection of comment letters sent in from different actors, have also been used.

Reliability refers to the consistency of a measure of a concept. It is about the reliability of the study's conclusions and the extent to which the chosen method measures reliable answers. And

it also about whether another researcher could replicate the original research at a different time and to what degree the study gives the same result if replicated. The latter, i.e. the study's replicability, is sometimes referred to as the external reliability of a study (Johnson & Duberley, 2000; Jacobsen, 2007; Bryman & Bell, 2017). This study relies on documents, published by an authoritative actor (i.e. IASB), which should prove to be a valid source and, thus, making the material more reliable. Conducting a document analysis of the chosen documents should therefore yield sufficiently reliable results, considering the fact that it will most likely be evident what the different actors are conveying, and how it has been accommodated. Nevertheless, though, the identification of relevant comments for this study will partly rely on judgment, which could be argued to lower the reliability. To counteract this, when going through and trying to identify the relevant material in these documents, search-words have been used, as well as familiarization with e.g. previous studies and the accounting concepts, to strengthen our judgment and, thus, trying to reach an acceptable level of reliability. On the other hand, qualitative studies are in general difficult to replicate as the focus is heavily dependent on the researchers predilections (Bryman & Bell, 2017), something that could be argued to hold true even for this study to some degree. But as Burawoy (2003 p.650, as referenced in Bryman & Bell, 2017 p.42) has remarked, "[In] academia the real reward comes not from replication but from originality!".

3. Literature review

In the following chapter, a review of the relevant literature surrounding the topic of revenue recognition is conducted. This is done to provide a backdrop for this study and set a framework on which our analysis later is based on. The chapter is divided into three parts: The first part includes literature related to the new revenue recognition standard, IFRS 15, whereas the second part contrasts the characteristics of principle- and rules-based accounting standards. Finally, the third part includes studies related to central accounting concepts, which have worked as a lens for the findings in this study.

3.1 The new standard

As described in the introduction, IASB and FASB came together in the fall of 2002 for a joint project on how to recognize revenue (the “Norwalk Agreement”), making a big step toward formalizing each party’s commitment to converge the accounting standards of U.S and internationally (IASB, 2002; FASB, 2002). The main objectives from IASB’s point of view were elimination of inconsistencies between, and inherently in, the existing revenue recognition standards and the definition of assets and liabilities in the IASB Framework (ibid.). Carmichael (2019) explains that FASB’s goals were somewhat in line with those of IASB. FASB wanted to remove inconsistencies in multiple sources of guidance and to provide a more robust comprehensive framework to address issues related to revenue recognition (ibid.) Additionally, there was an emergence of new business models which has created a void in the existing way of recognizing revenue (Johnson, 2002). The project resulted in the issuance of two new revenue recognition standards in May 2014; the IASB’s IFRS 15 and the FASB’s ASC 606. These standards contain a five-step model for recognition of contracts and are claimed to provide a greater formality and discipline to revenue recognition than previously (Jones & Pagach, 2013). According to Tong (2014), the new IASB approach for recognizing revenue would be more systematic and consistent, implying an enhancement of the comparability between financial statements.

In a study by Yeaton (2015), similar claims, as above mentioned by Tong (2014), were made. The new IFRS standard would arguably provide a single, comprehensive accounting model for revenue recognition, as well as a more robust framework for addressing revenue issues. Another point made by Yeaton (2015) was that the primary goal of IFRS 15 was to provide consistent principles for revenue recognition, regardless of industry or geographic region.

Additionally, the new standard was expected to significantly expand current revenue recognition disclosure requirements (ibid.). Aurora and Bontas (2014) described that IFRS 15 also would set out a new control-based revenue recognition model. The authors remarked that the prescriptive implementation guidance, contained in the new standard, could result in a change in the timing and/or the amount of revenue recognized. It was also almost a guarantee that IFRS 15 would impact all entities in all industries, even though the magnitude could vary (ibid.). Tong (2014) argued similarly and explained that the nature and extent of the change would vary between companies and between industries. For e.g. ordinary, straight-forward, contracts for sales of goods or rendering services, the effect of the change would be minor, and for other contracts such as multiple-element arrangements, the effect of the change could be more significant.

Oyedokun (2016) argued that, even though the definition for revenue is simpler in IFRS 15, than in IAS 18 and 11, the new standard would entail increased judgment. Haggenmüller (2019) also made this point and specified that areas such as e.g. determination of transaction price, separation of performance obligation, allocation of transaction price and the consideration of financing components, would require professional judgment. Moreover, Haggenmüller (2019) explained that interpretation will be a crucial part in applying the new standard (i.e. IFRS 15). These assertions are supported by Khamis's (2016) study, where the author partly found that Egyptian accountants and auditors were somewhat unsure and even afraid of adopting the new standard, due to the increased discretion and professional judgment. Carmichael (2019) also noted that, even though improvements in accounting standards will mitigate and to some extent eliminate certain revenue frauds and abuses, some will prevail and new ones will emerge. The new revenue recognition standard requires estimates of factors, in addition to those presented above, such as e.g. variable considerations, the magnitude and likelihood of reversal of those estimated amounts, and standalone selling prices (Haggenmüller, 2019). These estimates and judgment calls create new opportunities for manipulation, and even biases, in the amount of revenue recognized (Carmichael, 2019).

Furthermore, some research has shown that the implementation of IFRS 15 may have no significant impact on companies financial statements, whereas other research has shown the contrary result of material expected impacts due to IFRS 15 (Haggenmüller, 2019; Tysiac, 2014). Moreover, Haggenmüller (2019) explains that IFRS 15 may have other implications beyond those related to accounting. Implementing IFRS 15 will necessitate e.g. new systems,

processes and know-how. Entities are *still,* the author argues, unfamiliar with IFRS 15 and the entailing method of recognizing revenue, as the process of implementing the new standard needs constant monitoring and is complex, time-consuming and costly. Wüstemann and Kierzek (2005) agreed but argued, a priori, that the previous standards should have been improved instead of developing a comprehensively new standard, and concluded that a major revision of existing IFRS revenue recognition as proposed by the IASB and the FASB was not required.

3.2 Principle versus Rules-based standards

According to Agoglia, Doupnik and Tsakumis (2011), much of recent years interest in IFRS can be derived from the fact that IFRS standards are principles-based. Given a strong regulatory environment, the authors argue that preparers using principles-based standards are likely to perceive greater risk of regulator sanctions due to the inherent uncertainty of the standard. Hence, inducing a greater desire to reflect the economic substance of a transaction. Financial managers, under principles-based standards, are therefore less likely to report aggressively and more likely to report accurately, than under rules-based standards (McCarthy, 2012).

With an increased likelihood of reporting accurately, principle-based standards may be more effective in stopping biased financial reporting than rules-based standards (Psaros and Trotman, 2004). According to Agoglia, et al. (2011), rules-based standards implies a possibility for dysfunctional financial reporting behavior. Benston, Bromwich and Wagenhofer (2006) builds on to the latter and explain that rules-based standards often lead to avoidance of the accounting objectives inherent in a standard, which can result in non-faithfull financial reporting - as the substance of events are undermined in favor of compliance with rules. Thereby, it is argued in Agoglia et al's. (2011) study that financial statements preparers will strive for accounting choices that best reflect economic reality when rules-based standards are removed.

On the other hand, principle-based standards require greater interpretation and judgment within various transactions than rules-based standards. According to Alali and Cao (2010), the main disadvantage that follows a greater interpretational requirement is that the reliability and credibility may get reduced, as countries have a tendency to succumb to biases and interpret IFRS based on national interests. Moreover, the comparability across firms, industries, and nations is exacerbated when multiple interpretational differences between countries, due to

national interests and biases, prevails. Parker and Nobes (2016) continue and highlight that, nationalism often is a factor that, together with regulational and cultural differences between countries, also contribute to an unwillingness in adopting a new standard. This unwillingness may exist on the part of accountants and companies or on the part of states that may not wish to lose their sovereignty. In addition, factors such as present differences between the accounting practices of different countries and economic consequences of standards, which might vary by country and to the extent that they are taken into account by those who set standards, also are prevailing problems in the standard-setting process (ibid). For instance, depending on the legal system and providers of finance in a certain country, a proposition of a new standard might get neglected or received differently if its surrounding factors are not in compliance with their national specificities (Wong, 2016). Parker and Nobes (2016, p.92) address it as: "[t]he general dichotomy between investor/fair accounting and creditor/tax/conservative accounting is an obstacle that cannot be overcome without major changes in attitudes and law".

3.3 Accounting concepts

3.3.1 Economic and social reality

The proposal by FASB in 2002, in its joint project with IASB to produce principle-based accounting standards, was an explicit commitment to improve its financial accounting (Lee, 2006). In fact, it could be interpreted as a proposal to assist accounting for economic reality, as principles-based standards, theoretically, are based on the notion of faithful representation. However, Lee (2006) stresses that it is important to make a distinction between economic and social reality. Economic and social reality differ in that, accounting for economic reality is a philosophical problem and a subset of a wider social reality, constructed by humans, and social reality is subjective and dependent on human observation, consensus, and communication for its existence (ibid.). Moreover, Lee (2006) argues that accounting comprises institutional facts which are ontologically subjective due to its human creation, and that task is to produce standards that permit presentation of such facts in an epistemologically objective way. I.e. accounting cannot be made objective, but the representation of it can be.

Mouck (2004) builds on to the former and claims that constructing new standards for accounting can be seen as attempts to lessen the gap between financial accounting representations and wide-spread perceptions of economic reality, while Lee (2006) concludes that constructing an accounting standard to achieve comparability and consistency, might come

at the sacrifice of economic reality. According to Zeff (1978), this constitutes a dilemma, which requires a delicate balancing of technical considerations (e.g. comparability and consistency) and the possible adverse economic and social consequences of its proposed actions. As it follows, that could be an increasingly complex process for the standard-setter to deal with adequately. Adding the facts that economic reality does not exist independently, but is contingent on accounting practices (Hines, 1988), and that there seemingly exists different views of economic reality, exacerbates the process even further.

3.3.2 Economic substance over legal form

To reflect an objective representation of accounting information, it should reflect the substance of transactions if that deviates from its form. Economic substance of events is therefore of utmost importance in accounting and should be greatly emphasized, even if the legal form differs and suggests a different treatment (Parker & Nobes, 2016). American Institute of Certified Public Accountants (AICPA) stated in its 1973 report, on the objectives of financial statements, with respect to qualitative characteristics of financial reporting; "the guidelines for reporting information should be expressed so that substance, not form, governs" (Meyer, 1976, p.80). Martens and McEnroe (1992) further highlight the latter by pinpointing that financial statements should not fail to reflect the substance of the business transactions represented in their components.

The aforementioned are in line with the reasoning of Baker and Hayes (2004), who explain that to accurately reflect a company's financial position and results of operations (i.e. reflect economic reality), accounting standards should be applied to be consistent with the economic substance underlying the economic transactions of the entity. Zeff (1978) further expands by explaining that accounting reports have economic consequences, as it influences behaviour of e.g. business, government and investors. Thereby, it is important that such reports reflect the substance of underlying transactions. However, one of the major issues is determining what the economic substance underlying a particular transaction or event is, as it is a matter and degree of opinion in different circumstances (Meyer, 1976). Moreover, Baker and Hayes (1998) note that substance over form has frequently, and over time, been defined ambiguously - creating a shadowy nature to both the meaning and status of the concept, as well as the practice of it. Thus, compromises in revenue recognition, which consists of assets and liabilities that increase financial performance - whilst the real accounting value is unknown until the conversion is realized, is one of the areas in which corporations are likely to engage in (Edeigba &

Amenkhienan, 2017). A prime example of this is Enron Corp., which provides a good illustration of how a corporation can use the legal form of a transaction to obscure the economic substance (Baker & Hayes, 2004).

Furthermore, Baker and Hayes (2004) in their study assert that US GAAP does not provide a specific definition of substance over form, whilst substance over form, according to the authors, is defined in a relatively precise and extensive manner in IASB standards. Substance over form may thus be subject to whether the system is rules- or principle-based. This assertion is supported by the evidence in Martens and McEnroe's (1992) study, where they found that auditors in the US, who are engaged in rule-based practice, neglect the substance of the underlying transactions.

3.3.3 True and Fair view

Another central concept for the reflection of economic reality, is that financial statements should provide a true and fair view of an entity's position and performance. This implies that assets and liabilities are ought to be presented in such a way as to represent what underlies them. Furthermore, for information to be faithful, it also has to be complete, free from error and neutral - to the degree it is possible (Parker & Nobes, 2016). Walton (1993) has studied the concept of true and fair view within British accounting practice and has concluded that the true and fair view, seemingly, towers over British accounting practice. However, the claim is permeated with a curious characteristic, as no one distinctively knows what it means, as well as very little academic analysis has been done on its role in accounting. Nobes (2009) states that IFRS statements must both give a true and fair view as well as be presented fairly. However, Walton (1993) argues that there is no pure definition of the terms in accounting standards, auditing standards or other professional pronouncements. Ciocan (2019) agrees with Walton (1993) and makes the point that, even though time has past since the proposal through the Fourth Directive for a true and fair view as the objective of financial reporting, there is still no universally accepted definition of the concept.

The general perception, according to Walton (1993), is that European accountants do not understand true and fair view, due to its mystification, although the concept is considered an important notion. Chastney et al. (referenced in Walton, 1993) all find little evidence to support the understanding of true and fair as an independent quality, and all lean towards the argument that true and fair view mainly is defined by current accounting practice. As described by Hines

(1988, p.252), “[h]aving the full picture - a true and fair view of something - depends on people deciding that they have the full picture”. Alexander (1993) has expanded upon this, and claims that different perceptions of the concept of true and fair’s meaning and significance are symptomatic of different cultural, legal and accounting attitudes, and perceptions. Although IASB standards seemingly lack a pure definition of true and fair view, Parker and Nobes (2016) add that there is a defined overriding requirement. If compliance with an IFRS requirement would be significantly misleading, and would sacrifice the objectiveness of the financial statements, then the entity is required to depart from the IFRS requirement and add a detailed disclosure in the notes of the nature, reason and impact of the departure.

4. Findings and Analysis

Under this section, the different concerns raised under the development of IFRS 15, tied to the depiction of economic reality, are presented and contrasted (see section 4.1). Thereafter, the identified proposed tentative changes by IASB, before the issuance, are presented and evaluated against the given feedback related to economic reality (see section 4.2). Together with the aforesaid, a comparison between the effective standard, the found proposals in the latest feedback summary and the tentative changes before issuance of the effective standard, is made to fully evaluate how the different perceptions of economic reality have been accommodated by IASB.

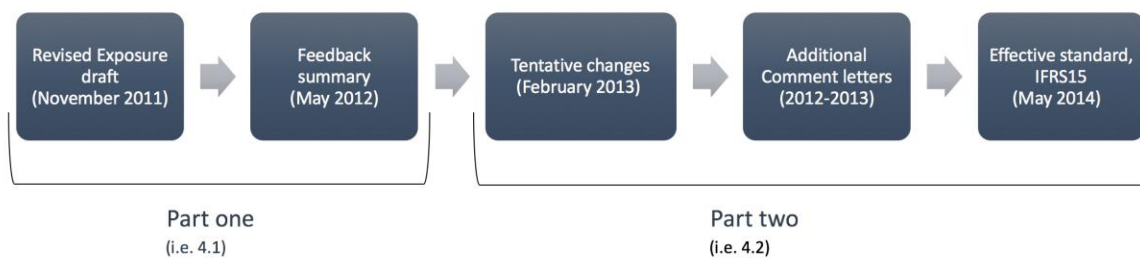

Figure 2. Illustration of 4. Findings and Analysis chapter outline

4.1 Areas of concern related to the reflection of economic reality

In reviewing different actors´ perceptions of the proposals for IFRS 15, four core areas under the latest feedback summary before issuance of the standard have been identified as insufficient for the reflection of economic reality. These areas and its appurtenant paragraphs are displayed in table 2 (see next page). Two common denominators for these four core areas, derived from the actors´ feedback, were that each of them either stemmed from interpretational issues or from an inappropriate amount of needed "assessment and judgment" in applying the standard as proposed. This imposed a threat for the reflection of economic reality, as increased confusion, without clear guidance of how to interpret the proposals, might lead to new opportunities for manipulation and hence hinder the "objectivness" of accounting. In addition to the four core areas, a fifth category has been identified as well. This category contains a collection of feedback relating to discrete issues, sharing the same characteristics as the former categories, not being covered in the other core areas, but still considered of great importance.

Revised Exposure Draft	Paragraphs	Application guidance
Core areas		
Performance obligations		
Identification of performance obligations	28-29	
Performance obligations satisfied over time	35-36	
Onerous test of performance obligations satisfied over time	86	
Constraining the cumulative amount of revenue recognized	81 & 53	
Inclusion and scope of paragraph 85; Licenses and rights to use	85	B34 [IG34]
Revenue constrainment and measurement of the transaction price	55b	
Customer credit risk	68-69	
Time value of money	58-59 & 62	
Miscellaneous		
Repurchase agreements	37	B38 [IG38]- B58 [IG58]
Combination of contracts	17	

Table 2. Areas in which the proposals of IFRS 15 seemingly fail to reflect economic reality to a sufficient degree (Revised Exposure draft, 2011).

4.1.1 Performance obligations

One of the areas within the proposals for IFRS 15 (i.e. revised exposure draft, 2011), were the presence of economic reality has been questioned by actors, is performance obligations. As displayed in table 2, the major concerns raised within this area were connected to the identification of performance obligations (paragraph 28 & 29), as well as the determination of when a performance obligation is satisfied over time and thus when revenue can be recognized (paragraph 35 & 36). In addition, paragraph 86, which concerns an onerous test of performance obligations, was also questioned for its ability to depict economic reality.

4.1.1.1 Identification of performance obligations

Regarding the identification of performance obligations, paragraph 28, in the proposals for IFRS 15, stated that: “a good or service is distinct if either of the following criteria is met: (a) the entity regularly sells the good or service separately; or (b) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer [...]” (Revised Exposure draft, 2011 p.24), whereas paragraph 29 assessed that: “the entity shall account for the bundle as a single performance obligation if both of the following criteria are met: (a) the goods or services in the bundle are highly interrelated and transferring them to the customer requires that the entity also provide a significant service of integrating the goods or services into the combined item(s) for which the customer has

contracted; and (b) the bundle of goods or services is significantly modified or customised to fulfil the contract" (ibid. p.25).

According to the IASB, these criteria were set out to give a clear picture of when an entity should bundle goods or services into one performance obligation, or if they should be distinct from each other (i.e. several performance obligations). However, it was found that many actors disagreed with this notion, claiming that the proposed criteria of paragraphs 28 and 29 were difficult to apply on certain contracts. For instance, when it comes to contracts that provide repetitive services, which is delivered consecutively, or for contracts that consist of producing similar specialized items, the distinction of whether to account as a bundle, or many separate performance obligations, became significantly unclear. The reason for this, according to some actors, was that the proposed criteria were too rules-based, which generally is atypical for IFRS (Agoglia et al., 2011).

From a critical point of view, including criteria that are characterized as too rules-based might in turn impose a risk of not depicting economic reality to a sufficient degree, as rules-based standards implies a possibility for dysfunctional financial reporting behavior (ibid.). As described by McCarthy (2012), financial managers, under rules-based standards, are more likely to report aggressively than accurately. Relating to the empirical material, McCarthy's (2012) view was found shared by some of the actors, who flagged for the opportunity of entities strategically applying the practical expedient that results in the most favorable outcome in lieu of the most economical transparent one (i.e. two or more distinct goods or services may be accounted for as a single performance obligation). For the proposed standard's ability to reflect economic reality, this was therefore not optimal. As Eccles et al. (2005) have pointed out, there have been various ways in previous standards in which companies have been able to manipulate their reported revenue. The guidance, as proposed in paragraphs 28 and 29, could thereby risk being applied in such a way as to pose the reporting in a more favorable light. By these means, the information would not be complete, free from error and neutral - to the degree it is possible, which is crucial for the concept of an objective and fair representation of accounting information (Parker & Nobes, 2016). It was found that this view seemed to coincide with the view of the actors, that responded to the proposals, as they requested clarification and a more explicit approach of when performance obligations should be bundled, to minimize the practical difficulties and achieve a more faithful depiction of reality in the effective standard.

4.1.1.2 Performance obligations satisfied over time

As for the other major area of concern found within the category of performance obligations, paragraph 35, in the proposals for IFRS 15, described that a performance obligation is satisfied over time and revenue can be recognized if either: "(a) the entity's performance creates or enhances an asset [...] that the customer controls as the asset is created or enhanced [...]; or (b) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and at least one of the following criteria is met: (i) the customer simultaneously receives and consumes the benefits of the entity's performance as the entity performs. (ii) another entity would not need to substantially re-perform the work the entity has completed to date if that other entity were to fulfil the remaining obligation to the customer [...] [without the benefit of any asset that is presently controlled by the entity]. (iii) the entity has a right to payment for performance completed to date and it expects to fulfil the contract as promised [...]" (Revised exposure draft, 2011, p.26-27).

Overall, it was found that many actors agreed with the proposed guidelines for determining when a performance obligation is satisfied over time. However, despite a general acceptance among a vast majority of actors, a few were skeptical of the proposals' ability to reflect economic reality. This notion was mainly rooted in certain elements in the definition of "alternative use" (displayed in paragraph 35b). According to the proposals of paragraph 36, when assessing whether an asset has an alternative use, "[...] an entity shall consider at contract inception the effects of contractual and practical limitations on the entity's ability to readily direct the promised asset to another customer" (ibid. p.27). Also, "[an] asset would not have an alternative use if the contract has substantive terms that preclude the entity from directing the asset to another customer" (ibid. p.27-28). Why these elements were perceived as troublesome, for the reflection of economic reality, laid within the explanation that they could permit an inclusion of inventory items that an entity may be explicitly (and contractually) prohibited to transfer to another customer. E.g. if a customer has made a non-refundable payment in full for a newly produced item, and the customer is entitled to that product (which can be identified via e.g. a serial number), it would be possible for the entity, via the proposed criteria, to recognize revenue as the item is manufactured. However, in those instances, actors argued that the criterion of "alternative use" should not be met, as it would not result in a fair presentation.

On the other hand, although an entity could conclude that their performance does not create an asset with an alternative use (in accordance with paragraph 35b), it was found that actors within the real estate industry claimed that applying the criterion of paragraph 35b (iii), right to payment, could be increasingly onerous as well. According to these actors, the criterion would imply that revenue could only be recognized at a point in time for the sales of their units, something that would not be an appropriate depiction of their performance. Altogether, as mentioned earlier, for information to be faithful, and thus reflect economic reality, it has to be complete, free from error and neutral - to the degree it is possible (Parker & Nobes, 2016). In this case, though, actors´ perception was that the proposals would imply a risk for revenue being recognized prematurely, or not at all, and thus failing to provide faithful accounting information. Hereby, it could be argued that the proposals should instead be constructed in such a way that a faithful representation easier could be achieved, and not the opposite.

4.1.1.3 Onerous test of performance obligations satisfied over time

In conjunction to the questions raised towards when a performance obligation is satisfied over time, it was found that many actors aimed critique at the proposal in paragraph 86 of including an onerous test of performance obligations as well (as displayed in table 2). Paragraph 86, in the proposals for IFRS 15, proposed that an entity should recognize a liability and a corresponding expense if a performance obligation is considered onerous and if it is satisfied over time as well as over a period of time greater than one year. However, according to the actors that aimed critique against an onerous test, it would be economically counterintuitive to record a loss on e.g. one component (i.e. one performance obligation) of the contract, if the contract as a whole is expected to be profitable. Henceforth, this would distort the overall economic intent of the contract and, thus, also sacrifice economic reality. As Martens and McEnroe (1992) have pointed out, financial statements should not fail to reflect the substance of the business transactions represented in their components. And as Parker and Nobes (2016) explained, the economic substance of events should rule, regardless of the treatment under legal form, to achieve a faithful representation of accounting information. Thereby, accounting standards should be applied to be consistent with the economic substance underlying the economic transactions of the entity (Baker & Hayes, 2004).

However, in this case, the actors´ perception of the proposal in paragraph 86, was that it is not economically logical as proposed. Instead, it was argued that it would be more reasonable for the depiction of economic reality to conduct a test at contract level or higher, rather than at the

performance obligation level. By these means, the economic benefits that may be obtained beyond the contract, would be included. On the other hand, as explained by Meyer (1976), one of the major issues is determining what the economic substance underlying a particular transaction or event is, as it is a matter and degree of opinion in different circumstances. Given that the notion of economic substance is highly dependent on perceptions, it would therefore not necessarily imply that the proposals of actors, in this case, would be the most adequate one in terms of the reflection of economic reality.

4.1.2 Constraining the cumulative amount of revenue recognized

The second contentious area (as seen in table 2) where economic reality, according to the perception of actors, was not being reflected to a sufficient degree, included paragraphs related to the proposal to constrain revenue recognition when the amount of consideration is variable. In the proposals for IFRS 15, paragraph 81 stipulated that the constraint, given that the consideration was variable, would limit the cumulative amount of revenue that could be recognized to the amount to which the entity was *reasonably assured* to be entitled. The "reasonably assured"-criteria was explained to be fulfilled when (1) the entity had had experience with similar performance obligations and (2) that experience was predictive of the amount of consideration to which the entity would be entitled (Revised Exposure draft, 2011 p. 39).

For some of the actors, most of them part of the asset management industry, it was found that these proposals in paragraph 81 of the constraint, would lead to economic reality not being reflected in certain instances. According to them, the constraint, if applied as proposed, would result in performance-based fees being incorrectly reported for. As a consequence of the constraint, revenue could not be recognized until all of the uncertainty would have been resolved, a process that could take several years. Similar to the outcome for the actors of the real estate industry (see section 4.1.1.2), under the proposals of paragraph 35b (iii), the outcome for the actors within the asset management industry, under paragraph 81, would not result in an appropriate depiction of their performance.

Furthermore, it was found that a vast majority of actors also were concerned about what type of amounts that would be considered variable under the proposals of paragraph 81. This concern arose despite the provided guidance in paragraph 53, where it stated that "[t]he promised amount of consideration in a contract can vary because of discounts, rebates, refunds,

credits, incentives, performance bonuses, penalties, contingencies, price concessions or other similar items" (Revised Exposure draft, 2011 p.32). According to some of the concerned actors, the proposed guidance was quite broad and thereby led to inconsistent interpretations. For instance, it was found that many interpreted e.g. the term 'contingencies' to be limited to consideration that is contingent on outside events, beyond the control of the entity. Yet, the proposal seemed to imply a broader definition of the term 'contingencies', than its usual meaning and thereby caused confusion. How to interpret the guidance, as well as the needed judgment to determine whether an amount would be considered variable, were thereby two issues relating to the revenue constrainment, which in turn, could have an effect on the proposed standard's ability to reflect economic reality. As described by Haggenmüller (2019), the new standard would put an increased requirement on estimating factors such as variable considerations. Without a proper guidance on how to estimate such factors, new opportunities for manipulation or biases in the amount of revenue recognized could potentially emerge (ibid.). Thus, it was requested that the definition of variable consideration and the meaning of the term 'contingencies' ought to be clarified.

In addition to the concerns raised under the proposals of paragraph 81, about what type of amounts would be considered variable, it was found that the term 'reasonably assured' and its underlying criteria caused additional confusion among the actors as well. The cause for the confusion was partly due to the term 'reasonably assured', having a different meaning than what it traditionally has had in IFRS standards. The other factor for the confusion was that some actors were skeptical of the degree of judgment required when determining when an entity's experience is predictive (second criteria of reasonably assured). The latter was found reinforced by other actors as well, who suggested that the term 'predictive experience' was "too vague and could be loosely interpreted".

To exemplify the underlying concern surrounding the degree of judgment required to determine when an entity's experience is predictive, some actors claimed that others may reason that e.g. historical experiences are predictive and, thus, can be recognized - although prevailing factors may exist, that could cause significant changes in the amount of variable consideration. Actors from the software and technology industry explained that, if historical experience was named predictive, it may require recognition of revenue for variable consideration when products are being sold to a distributor, instead of when those products are sold through to the end customer. Based on the aforesaid, the outcome of the proposal would be similar to the potential effects of

paragraph 36, under the section of performance-based obligations satisfied over time (see section 4.1.1.2), in the sense that it would pose a risk for recognizing revenue prematurely. For the reflection of economic reality, this would be problematic as well as inappropriate, since a significant degree of uncertainty about the amount an entity is entitled still exists at the time the products are sold to the distributor. Thus, the perception of actors was that the prevailing confusion would not only require a greater degree of interpretation of what the terms, predictive experience and reasonably assured, actually purport and how they should be understood, but would also culminate in inconsistencies in practice, as well as allow for a practice that is not optimal for the depiction of economic reality.

4.1.2.1 Inclusion and scope of paragraph 85; Licences and rights to use

Another paragraph, in the proposals for IFRS 15, that was found troublesome in terms of the ability to reflect economic reality to a sufficient degree, and relating to the constrainment of recognizable revenue, was paragraph 85. The paragraph stated that: "[...] if an entity licences intellectual property [...] to a customer and the customer promises to pay an additional amount of consideration that varies on the basis of the customer's subsequent sales of a good or service (for example, a sales-based royalty), the entity is not reasonably assured to be entitled to the additional amount of consideration until the uncertainty is resolved (ie when the customer's subsequent sales occur)" (Revised Exposure draft, 2011 p.40).

Even though actors agreed with the intention of paragraph 85, it was found that some argued that the paragraph was too rules-based (which may have unintended consequences, as well as not reflecting economic reality as described under section 4.1.1.1). To mitigate the risk of not reflecting economic reality, it was found that many actors suggested that, if a specific exemption from recognizing some types of variable consideration is retained, the scope of the example of sales-based royalty resulting from intellectual property in paragraph 85 should be expanded to include other similar economic transactions, such as e.g. sales-based royalty *not* resulting from a licence. Apart from the latter, one actor instead proposed that the paragraph should be "re-drafted to include a general principle that would permit revenue recognition only in circumstances where the customer cannot avoid the liability" (Feedback summary, 2012, p.23). Overall, the perception of actors was that these aforementioned measures would most likely lead to economic reality being better reflected, as transactions with similar economic circumstances then would be treated similarly.

Furthermore, it was not only the proposal of paragraph 85 that was found problematic by the actors, in terms of reflecting economic reality, but also its appurtenant application guidance (i.e. paragraph B34 [IG34]). The guidance in paragraph B34 [IG34] specified that "[i]f an entity grants to a customer a licence or other rights to use intellectual property of the entity, those promised rights give rise to a performance obligation that the entity satisfies at the point in time when the customer obtains control of the rights" (Revised Exposure draft, 2011 p.59). I.e., an entity would recognize revenue for a licence or other rights to use intellectual property *at a point in time*, instead of over time as sales occur (unless it was bundled with an additional service or if the constraint in paragraph 85 applied). However, this could be considered problematic since economic substance might differ depending on the licence. Similar to the proposals of paragraph 85, it was found that the application guidance in B34 [IG34] was characterized as too rules-based as well, and thereby was considered inapt to deal with differences between licences. Moreover, it was found that some actors also claimed that the guidance does not reconcile well with other critical parts, such as the principles on identifying separate performance obligations and the criteria for determining when a performance obligation is satisfied over time, which ultimately would lead to confusion in practice.

4.1.2.2 Revenue constrainment and measurement of the transaction price

A final area relating to revenue constrainment, where some proposals have been perceived as problematic, is the interaction with the measurement of the transaction price. For instance, it was found that some actors perceived a fair amount of complexity when applying the proposed two-step process of estimating the transaction price that, subsequently, then may be constrained when revenue is recognized. Moreover, some actors perceived an inconsistency with the "most likely" method for estimating the transaction price (paragraph 55b) and the necessary assessment of whether the entity is 'reasonably assured' to be entitled to the amounts. According to some actors, this inconsistency within the "most likely" method, was in part prevalent due to the ambiguity over the account unit for the constraint. Amendments to make the paragraph more consistent would, therefore, be necessary to reach a higher degree of alignment in practice. In summary, this could be relatable to the perceived issues found under the section of the proposed onerous test of performance obligations satisfied over time (see section 4.1.1.3), where actors argued that account unit should be clearly defined and conducted on a contract level or higher.

Further, actors also noted that applying the constraint to performance obligations satisfied over time, when consideration is *both* fixed and variable, could result in a revenue and earnings profile that does not necessarily reflect the entity's operating performance, as the transaction price would include both the fixed consideration and an estimate of the variable (an entity would also have to constrain the cumulative amount of revenue recognized, as proposed in paragraph 81, thus posing a risk for hitting a ceiling). This would pose a risk for errors in, as well as misstatements of, financial reports, which in turn would result in unfaithful information as it would not be representative of the firm's activity (Parker & Nobes, 2016).

Similarly, it was found that actors requested clarification on how to account for a transaction in which an asset is transferred to another party in exchange for consideration that is *both* variable and fixed. When a non-financial asset is exchanged for fixed and variable consideration, the amount of variable consideration included in determining the profit or loss is constrained to the amount to which is 'reasonably assured' - which may be zero. It follows that the constraint, as proposed, may result in a loss being recognized upon derecognition of the transferred asset, which, according to several actors, might be inappropriate. Without adequate guidance on how to account for these transactions, the perception was that inconsistency in how to interpret the standard may occur and thus result in varying financial statements that not necessarily would reflect economic reality.

4.1.3 Customer credit risk

In the proposals for the core area of customer credit risk, it was suggested that the customer credit risk should be accounted for as a separate line item in the financial statement, adjacent to revenue (paragraph 68-69). By these means, entities would not have to include the effect of customer credit risk in determining the transaction price (Revised Exposure draft, 2011).

Even though it was found that a vast majority of the actors agreed with this proposal, since it would yield more transparent information regarding an entity's earnings, some argued that it was equally important to add a collectability threshold that must be passed before revenue can be recognized. By including this collectability threshold, a more faithful representation was claimed to be achieved, as amounts, that otherwise would have been recognized via the proposed approach in paragraph 68-69, would not be possible to brought up. This is because the threshold would facilitate the assessment of transactions where risks have not adequately transferred to the customer, hence lowering the risk of recognizing revenue inaccurately.

Further, it was also found that some actors sought clarification of how other revenues, that do not arise from contracts with customers, should be presented in relation to the line items of revenue from contracts with customers and customer credit risk.

4.1.4 Time value of money

The last identified core area where it was found that actors perceived the proposals for IFRS 15 as a threat for the reflection of economic reality, was in the proposals on time value of money (paragraphs 58-62). According to paragraph 58, "[i]n determining the transaction price, an entity shall adjust the promised amount of consideration to reflect the time value of money if the contract has a financing component that is significant to the contract" (Revised Exposure draft, 2011 p.33). When estimating whether a contract has a financing component that is significant to the contract, paragraph 59 described that an entity should consider factors such as: "(a) the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; (b) whether the amount of consideration would differ substantially if the customer paid in cash promptly in accordance with typical credit terms in the industry and jurisdiction; and (c) the interest rate in the contract and prevailing interest rates in the relevant market" (ibid. p.59).

From an overall view, as in the proposals for customer credit risk, it was found that many actors agreed on the proposals for time value of money. For instance, actors found it satisfactory to require an entity to only account for the time value of money if the contract has a significant financing component. Theoretically, this would ensure that the economics of such transactions were depicted faithfully. However, it was found that some actors perceived that a clear guidance on *how* to identify whether a contract has a significant financing component, under the proposals of paragraphs 58 and 59, was missing, and should be overseen in order to mitigate inconsistencies that could contribute to an unfaithful representation. Under the proposed guidance, as a consequence, the proposal would risk including situations were accounting for time value is not appropriate. For instance, the timing difference between when a payment from a customer is due to the entity, and when the goods or services are transferred to the customer (described in paragraph 59a) could arise due to other factors than financing. E.g. expressed terms of protection against customer credit risk by the entity or if the customer seeks to secure a source of supply/hedge against price changes.

Moreover, some actors found the process of recognizing both revenue and interest income/expense, as proposed in paragraph 62, when a contract includes a significant financing components, as troublesome. Accounting for time value of money, in instances when a contract includes a significant financing component, would, according to the actors, have implications for the assessment of an entity's financial performance, as it was claimed to have an affect on key balances and financial metrics in a less than optimal way. Hence, not depicting the reality of the entity's financial performance. Additional disclosures, about the amount of imputed interest recognized and the amount by which the revenue recognized differs from the cash expected to be received from the customer, were therefore requested as well.

4.1.5 Miscellaneous issues relating to economic reality

4.1.5.1 Repurchase agreements

Beyond the concerns raised related to economic reality, within the core areas described above, different actors posed additional questions within more discrete areas of the proposals for IFRS 15 (as described under section 4.1). One of those areas was repurchase agreements (B38 [IG38]- B58 [IG58]). It was proposed in the application guidance (B40 [IG40]), for paragraph 37, that a an entity should account for the contract as a lease, if "[...] the entity can repurchase the asset for an amount that is less than the original selling price of the asset" (Revised Exposure draft, 2011 p. 61), and as a financing arrangement if "[...] the entity can repurchase the asset for an amount that is equal to or more than the original selling price of the asset" (ibid.). For the depiction of economic reality, however, actors commented that it would be more appropriate to compare the repurchase price with the fair value of the item, rather than the purchase price as proposed. This was particularly crucial for cases where the fair value of the item is highly susceptible to change.

Overall, it was especially found that many actors from the automotive industry were in disagreement with the proposal for repurchase agreements. They explained that they often entered into agreements with rental car companies, where they either agreed to repurchase their vehicles after a specified time period or guaranteed the residual value of the vehicle. In the first scenario, the automaker gets the vehicle back and then sells it at auction, whereas in the second scenario the rental car company maintains custody of the vehicle and remarkets - but is entitled a payment from the automaker. According to the actors´ interpretations, the guidance as proposed for repurchase agreements would demand that the former transaction, i.e. the

repurchase, to be accounted for as a lease, whereas the latter scenario would require the transaction to be accounted for as a sale. This outcome, the actors argued, does not reflect the economic reality and would also be susceptible to abuse, if not amended.

4.1.5.2 Combination of contracts

The other discrete area that was found facing criticism, surrounded contract combinations (as seen in table 2). Paragraph 17, in the proposals for IFRS 15, stated that: "[a]n entity shall combine two or more contracts entered into at or near the same time with the same customer (or related parties) and account for the contracts as a single contract if one or more of the following criteria are met: (a) the contracts are negotiated as a package with a single commercial objective; (b) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or (c) the goods or services promised in the contracts (or some goods or services promised in the contracts) are a single *performance obligation* in accordance with paragraphs 27–30" (Revised Exposure draft, 2011 p.21).

Reviewing the empirics, it was found that several actors thought that the proposals in paragraph 17 on contract combinations were too restrictive and precluded combinations of separate contracts, with different customers, although the contracts may be commercially linked which each other (e.g. when a manufacturer sells a good to a distributor, and who then also provides a good or service to the distributor's customer - something that occurs in both the automotive and pharmaceutical industry). Accounting for these contracts separately, as in the proposal, would misrepresent the economics of the transactions, and should instead be considered jointly together, part of a broader arrangement. Thus, it was found that actors called for modification of the guidance to allow for that type of arrangement and to account for it as a broader multi-party relationship, instead as separate contracts. However, interesting enough, it was additionally found that combining the contracts in this way was contrary to other actors views in the automotive industry, who argued that combining those contracts would misrepresent the economics of the transactions. The reasoning was that the additional service represented a sales incentive. Thereby it was argued that, rather than identify it as a separate performance obligation, it should instead be deducted from the transaction price. As Baker and Hayes (1998) have explained, the concept of substance of form has been ambiguously defined, something that has created a shadowy nature to both the meaning and status of the concept, which could lead to differences in practice. The aforementioned issue of determining what the underlying

substance is of an “additional service", could thereby pose as an example of what the authors noted.

Furthermore, other actors argued that if economically linked contract combinations were to be included, it may also require other contracts with *similar* economics to be combined (e.g. credit card reward programs where a credit card company has two separate arrangements, one with the merchant and one with the cardholder). Combining contracts that were economically similar were said to provide a better depiction of the economics. However, it was found that one actor claimed that additional guidance would be required in order to understand how to account for their transactions in such manner. More specifically, clarification on the appropriate treatment of “points” in the credit card reward programmes was sought.

4.2 Amendments by the IASB

In evaluating the perceptions of economic reality, under section 4.1, against the tentative changes proposed before the issuance of IFRS 15, it was found that the IASB has, seemingly, acknowledged the majority of the feedback and proposals, provided by different actors, relating to the standard’s ability to reflect economic reality (see table 3). This could somewhat strengthen the perception of Chastney et al. (referenced in Walton, 1993) and Hines (1988) that a fair presentation mainly is defined by current accounting practice. Overall, it was found that a majority of the troublesome paragraphs mentioned under section 4.1 have been re-discussed and led to subsequent revision of the standard before issuance. Out of the seventeen paragraphs that were identified as troublesome for the reflection of economic reality, only two have been found not being directly addressed by the IASB in the proposals for tentative change. As for the others, they have either been directly revised to evoke a better understanding of its appliance, retained and clarified, or reaffirmed. Interesting to add, however, is that it was found that a majority of the tentative proposals later were re-addressed as troublesome for the reflection of economic reality. In the effective standard, it was found that some tentative changes and proposals from subsequent comment letters were followed through, whereas some were not. In those cases where tentative changes and proposals from comment letters were not followed through, they were either dropped completely or amended in the effective standard, IFRS 15.

	Paragraphs	Application guidance	Tentative change	IFRS 15 (Effective standard)
Core areas				
Performance obligations				
Identification of performance obligations	28-29		Retain the concept of distinct good or service in paragraph 28, but improve the guidelines in the assessment of whether a good or service is distinct by clarifying the criterias in paragraph 28 and 29.	The criteria that a good or service should not be highly dependent on, or highly interrelated with, other promised goods or services, if to be considered distinct: Not included. Does include different indicators, most of them suggested or part of earlier proposal proposals, for when a good or service is distinct or not
Performance obligations satisfied over time	35-36		Retain the criterion in paragraph 35(a). Combine 35(b)(i) and 35(b)(ii) into a single criterion. Link "alternative use" in paragraph 35(b) and paragraph 35(b)(iii). Clarification of "alternative use" and "right to payment for performance completed to date".	In general: In line with the proposed tentative changes. IFRS 15 also includes application guidance to explain the meaning and application of key concepts in the criteria (when to recog.)
Onerous test of performance obligations satisfied over time	86		Not develop new requirements for onerous contracts.	Existing requirements sufficient to account for onerous contracts. Proposed onerous test: dropped
Constraining the cumulative amount of revenue recognized				
Constraining cumulative revenue & reasonably assured	81		Articulation of objective of constraint. Clarification on when an entity meet that objective and how it should be assessed. No defined level of condificene needed. Retain indicators for predictive experience. Refine 82(a). Move of constraint to step 3 of standard. Performance based incentive fees subject to constraint. Explain minimum amount of consideration may be zero.	Wording = simplified; location step 5 --> step 3 in model; the word "confidence" dropped; "likelihood or the magnitude of a revenue reversal" included; the words "experience", "predictive" and "evidence" only included as indicators/factors; "highly probable" included as a confidence threshold needed in the estimate of variable consideration; the term "reasonably assured" dropped
Variable consideration	53		Clarify the meaning of variable consideration.	In line with tentative change
Inclusion and scope of paragraph 85; Licenses and rights to use	85	B34 [IG34]	Paragraph 85 deleted. Licensing of intellectual property subject to paragraph 81-83 as revised. Nature of the promise in a license clarified + added indicators. Clarify the application of the other parts of the model to license arrangements.	Generally in line with tentative changes: Paragraph 85 dropped. Clarification: An entity should only recognize revenue as the subsequent sale or usage occurs and the performance obligation has been satisfied or partially satisfied
Revenue constrainment and measurement of the transaction price	55b		Not directly addressed (i.e more or less retained as in previous proposals). However, indirectly addressed following the tentative amendments in p.81-85.	In line with tentative change

Customer credit risk	68-69		Reaffirm the previous proposals in paragraph 68 & 69.	Collectability threshold has been added
Time value of money	58-59 & 62		Clarify the factors in paragraph 59 of the assessment whether a financing component is significant to a contract. Clarify that interest income, from significant financing component, can be presented as revenue.	The objective of standard separated into an own paragraph and rephrased;The explanation of when an entity shall adjust the promised amount of consideration for effects of time value is rephrased; Clarification of when a significant financing component may existst; New paragraph added, indicating whether a contract not has a financing component.
<u>Miscellaneous</u>				
Repurchase agreements	37	B38 [IG38]-B58 [IG58]	Reaffirmed the proposals for implementation guidance on repurchase agreements.	In line with tentative change
Combination of contracts	17		Not directly addressed. (But clarified that, if the promise to transfer good or services regarded as sales incentive was made in the contract or implied by the circumstances, then account for it as a performance obligation. If the promise is made after the transfer of control to the intermediary, promise would not be a performance obligation)	In line with tentative change

Table 3. Identified proposals for change pertaining to the raised concerns regarding economic reality in table 2, and the result in the effective standard IFRS 15

4.2.1 Performance obligations

One of the specific areas within the proposal for IFRS 15, as mentioned under section 4.1.1, where the presence of economic reality was questioned, was identification of performance obligations. The common feedback that was found from actors were that the paragraphs (28 and 29), as proposed, were too rules-based. As a consequence, actors requested clarification as well as a more explicit approach of when performance obligations should be bundled or not, before issuance of the new standard.

As a response to the raised concerns regarding performance obligations (paragraph 28 & 29, see section 4.1.1.1), it was found that IASB, in the proposals for tentative change, decided to retain the concept of distinct goods or services, but improve the assessment of determining whether a good or service is distinct or not and therefore should be accounted for as a separate performance obligation or bundle. The distinct concept was also going to be improved upon by refining 28(b) and excluding the criteria that the entity has to regularly sell the good or service separately. On the other hand, it was found that it would be replaced with the criteria that a good or service should not be highly dependent on, or highly interrelated with, other promised

goods or services, if to be considered distinct. In contrast to the previous proposal, this new proposed criteria *and* the other, refined, criteria would have to be met to be accounted for as a separate performance obligation. It was also agreed upon that the improvement in assessment of whether a good or service is distinct or not, was going to be supported by various indicators.

However, it is interesting to note, in the context of the aforementioned proposals for change, that e.g. FEI (2013), thereafter deemed the above-mentioned tentative proposals ineffective. In summary, FEI (2013) explained that the new proposal of the criteria, that a good or service should not be highly dependent on, or highly interrelated with, other promised goods or services, if to be considered distinct, would be unnecessarily complex and confusing. The indicators of the distinct criterion, FEI explained, may possibly override the implied principle of the criterion. Hence, as argued by Carmichael (2019), opening opportunities for manipulation, and even biases, in the amount of revenue recognized. To hinder indicators to override the principle, FEI (2013) recommend describing the criterion as "largely separable risks in the context of the contract" and add "highly interrelated" as an indicator.

The re-raised concerns by FEI (2013) do not only indicate that IFRS 15 ability to reflect economic reality, within some crucial areas, was questioned up until issuance, but also shows the complexity in consolidating different perceptions of economic reality into a uniform standard. As explained under the knowledge gap (see section 1.1) and in the constructed framework for our study, the primary goal with IFRS 15 was to provide consistent principles for revenue recognition, regardless of industry or geographic region to achieve greater comparability and consistency (IASB, 2008). An objective that could be depicted as a technical consideration. This could work as a potential explanation for why concerns were re-raised under the proposals for performance obligations, regarding its ability to depict economic reality, as balancing technical considerations and the adverse economic and social consequences that might follow the proposed actions is an increasingly complex process to deal with adequately (Zeff, 1978).

On the other hand, comparing with the effective standard, it was found that it differed from some of the tentative changes mentioned above. The standard is different in the sense that it does not include the criteria that a good or service should not be highly dependent on, or highly interrelated with, other promised goods or services, if to be considered distinct. On the other hand, it is similar in that it does include different indicators, most of them suggested or part of

earlier proposals, for when a good or service is distinct or not. It is also possible to argue that IASB has taken FEI's comments into consideration in the sense that it replaced the "not highly interrelated" criterion for determining whether the good or service is distinct with "[...] the promise to transfer the good or service is distinct within the context of the contract" (IFRS 15, paragraph 27b p.A750), and also decided to keep it as an indicator for when determining whether it is a bundle or not. Thus, it is likely that the provided feedback from FEI had some validity and should hopefully better reflect economic reality in the effective standard.

Important to note, however, as Haggenmüller (2019) also asserted, is that separation of performance obligation still, seemingly, in the effective standard, requires a significant degree of professional judgment to be successfully applied. In previous studies, an increased demand of greater interpretation and judgment skills have been depicted as one of the main disadvantages with IFRS, as it may reduce the reliability and credibility of financial reporting, since e.g. countries have a tendency to succumb to biases and interpret IFRS based on national interests (Alali & Cao, 2010). This might limit the objectiveness of the representation of accounting, hence also the reflection of economic reality. Although this risk still might persist, it may be possible to argue that the gap between actors´ wide-spread perceptions of economic reality and the provided guidance in the effective standard, of how to report for performance obligations, has narrowed. IASB has, seemingly, taken great consideration of actors´ feedback within the area of performance obligations (both under the proposals for tentative change and later in the effective standard). Given that a true and fair view mainly is defined by current accounting practice (Chastney et al., referenced in Walton, 1993), the found result of a great degree of accommodations made to align the perceptions of economic reality by different actors´, would then indicate that economic reality could be reflected to a, more or less, sufficient degree for the area of performance obligations.

4.2.2 Constraining the cumulative amount of revenue recognized

Relating back to the area of constrainment on cumulative recognizable variable revenue (see section 4.1.2), there was a general concern encompassing variable consideration, how performance-based fees should be accounted for, the term reasonably assured and its two underlying criteria, and licensing, rights to use, as well as sales-based royalty. In a short summarization of the feedback found: Performance-based fees were argued to be incorrectly reported for; variable consideration was broadly defined and thereby led to inconsistent interpretations; the term reasonably assured and determining whether an entity's experience was predictive or not were considered confusing and diffuse; and, licensing and rights to use were described as too rules-based and entailed some different issues relating to application.

As for the amendments made, as response to the feedback, it was found that IASB revised the area in several ways. First of, regarding performance-based fees, which was a somewhat peculiar issue in that it was mostly actors from the asset management industry that commented on it, IASB argued that those types of fees should still be subject to the constraint. However, the IASB noted that it would subject to the constraint *as amended*. Thus, it implicitly conveyed that the explicit amendments would be sufficient to mitigate the risk of performance-based fees being incorrectly reported for. Furthermore, the objective of the constraint in the proposals for tentative change excluded the term 'reasonably assured' and was (re-)stated as: "[...] an entity [should not] recognise revenue at an amount that [...] [is] subject to significant revenue reversals [...]"(Staff paper, 2013 p.14). This is especially noteworthy, considering all the feedback that was provided on the usage of "reasonably assured" previously.

It was also clarified that an entity would meet the objective if it had *sufficient* experience or evidence that supported its assessment that the revenue recognized should not be subject to a significant revenue reversal. In conjunction to this, it was stated that the assessment would be qualitative and that there would be no confidence level/threshold to recognize revenue. But, it was indicated that a relatively "high level of confidence" would be necessary for an entity to recognize revenue for variable consideration. Furthermore, the meaning of variable consideration was also clarified, to "[...] indicate that the constraint should apply to a fixed price contract in which there is uncertainty about whether the entity would be entitled to that consideration after satisfying the related performance obligation" (Staff paper, 2013 p.10). Moreover, it was found that the indicators for determining whether an entity's experience or

evidence is predictive, was preliminary retained, to help entities assess whether to recognize revenue based on estimates of variable consideration.

Following these amendments, it was found that several additional comment letters, covering different areas of the tentative decisions aforementioned, were submitted. Similar to the tentative proposals for performance obligations, one of the additional comments was from FEI. In their letter, FEI (2013) highlighted some of the amendments that had tentatively been made in different areas of the proposal and made comments and suggestions on how to improve the revised proposal of the standard, IFRS 15, even further. FEI (2013) noted an inclusion of the notions "no significant revenue reversal" and "high confidence" in the proposal as well as keeping the indicators for "predictive experience". Although considered helpful and being a step in the right direction, it was argued that that the constraint, under the proposed form, was unnecessarily complex and seemed to have multiple conflicting objectives as well. E.g., the core measurement principle of the standard, IFRS 15, as it was proposed, was to recognize revenue in an amount that reflects the consideration *to which the entity expects* to be entitled. But, the proposed revenue constraint (following the tentative decisions) seemed to contradict that principle, thus creating inconsistency in the proposals for the standard - an attribute that was one of IASB's main objectives to eliminate (IASB, 2002).

As a remedy to the aforesaid, FEI (2013 p.3) argued, and even recommended, that the IASB "[specified] a single objective based on the degree of confidence that an entity has in its estimates of variable consideration and the resulting amount of revenue recognized based on those estimates". Additionally, the perceived different objectives in the proposal could be amended to align the core measurement principle of the proposed model and the definition of the transaction price, with this single objective. This would imply, FEI (2013) explained, to recognize revenue in an amount that reflects the consideration to which the entity is *reasonably confident* to be entitled - rather than what the entity expects. In addition to this, several indicators were suggested to be included in the effective standard, to help entities determine whether they had sufficient confidence or not.

Looking at the effective standard, IFRS 15, it can be argued that the area of constraining variable consideration has been very much simplified. The wording in the section is not as complex; the location of the constraint has been changed (step 5 to step 3 - as proposed in tentative changes); the word "confidence" was dropped completely from the standard; the

indicators for determining whether an entity's experience was predictive or not was rephrased to "[f]actors that could increase the likelihood or the magnitude of a revenue reversal […]" (IFRS 15, paragraph B57 p.A757); and the words "experience", "predictive" and "evidence" were only included as indicators/factors that could increase the likelihood or magnitude of a revenue reversal. Also, the term "highly probable" was found included as a confidence threshold needed in the estimate of variable consideration, and the term "reasonably assured" was dropped from the standard. As a consequence of all this, it seems like the objectives in the effective standard, which FEI commented on, are better aligned and thus a more coherent standard has been achieved (i.e. would be probable that economic reality could be better reflected).

On the other hand, the suggestion made by FEI (2013) to rephrase the objective of the standard was disregarded in the effective standard, but became less relevant since the underpinnings of the constrainment on variable consideration was altered by exclusion of different terms and re-phrasement of different paragraphs. It is also probable that the issues concerning "reasonably assured" and its underlying criteria, as well as the issue with the defining variable consideration, have been resolved, or at least mitigated, to a large degree as a consequence of the aforementioned. However, we know that the confidence threshold, in this case "highly probable", was a much-debated subject and opinions were diverse. In this specific instance, nevertheless, it seems like it resolves some of the previous confusions that the actors commented upon, as well as the needed judgment to determine whether an entity had "sufficient" experience and confidence.

4.2.2.1 Licences, rights to use and sales-based royalty

In regards to the concerns raised under section 4.1.2.1, relating to licensing, other right to use and sales-based royalty, the IASB tentatively decided to delete paragraph 85 of the 2011 revised exposure draft and instead rely on the general principle of the constraint on revenue recognized (which was similar to the proposal from one of the actors). IASB further explained that the minimum amount of consideration may in some cases be zero when applying the general principle of the constraint - which was one of the concerns raised in the feedback. Interesting to add, however, is that it can be found that IASB, only a short while after the explanation that the minimum amount of consideration in some cases may be zero, decided to revise the proposal further, specifying that an entity should include a minimum amount of variable consideration in the estimate of the transaction price for all types of contracts (i.e. no

exception was specified - paragraph was 85 excluded - nor was any situation specified where the minimum amount should be zero). Furthermore, it was found in the proposals for tentative change that, the indicators which describes factors outside the entity’s influence, which subsequently determines whether an entity's experience or evidence is (not) predictive, now also included actions of third parties (e.g. customer’s subsequent sales).

As for the application guidance for licencing and rights to use, the proposals for tentative change clarified that “[...] an entity should assess the nature of the promise for the licence before applying the revenue recognition model to a licence arrangement” (Staff paper, 2013, p.30). This assessment was found to be necessary because some licence arrangements represent the promise to transfer a *right*, whereas others represent a promise to provide *access* to the entity's intellectual property (ibid.). In the proposed amendments for the section, it was also found that several indicators for determining the nature of the promise in a licence were added. Compared to the given feedback under section 4.1.2.1, where it was argued that the previous proposal did not consider that economic substance might differ depending on the licence, these changes could be seen as relatively satisfactory to that feedback. Moreover, the decision to add several indicators for determining the nature of the promise in a licence could also be interpreted as a response to the feedback, where it was argued that the previous guidance was too rules-based. Further, the application of the other parts of the model to licence arrangements was also found clarified. As previously argued by several actors, the guidance did not reconcile well with other parts of the proposal which, subsequently, could lead to diversity in practice. The clarification made by the IASB was, therefore, most likely, a response to that feedback and would presumably lead to less confusion and a more consistent application.

However, similar to the other proposals for tentative change, the revised application guidance explained above was further found troublesome as well. According to FEI (2013), it added unnecessary complexity to the standard, as it risked overlapping the guidance on identifying separate performance obligations. Apart from the other raised concerns after the proposals for tentative change, this comment was quite interesting, though, since it seemed like the proposed amendment was a response to previous feedback - i.e. the fact that economic substance can differ based on the nature of the licence. Similar to the argument made under the discussion of tentative changes for performance obligations (see section 4.2.1), this demonstrates the difficulty in unifying different perceptions, of different actors involved in a process. It also strengthens Meyer’s (1976) argument that determining what the economic substance

underlying a particular transaction or event is, could be increasingly hard as it is a matter and degree of opinion in different circumstances (i.e. highly dependent on perceptions of the concept). Additionally, it was also noted by FEI (2013) that, if the "rights versus access" evaluation were retained, it should draft the guidance with the objective of determining whether the nature of the licence is a right or access. To make that assessment, several factors were suggested to be included.

Furthermore, it was also found that several actors commented on the (subsequent) tentative decision to require recognition of a minimum amount of variable consideration, for all contracts, in the estimate of the transaction price - given that the amount would not result in a significant revenue reversal. As indicated earlier, the subject of discussion was a product of the exclusion of the previous proposed paragraph 85 and a tentative decision thereafter to make no distinction between contract types when recognizing a minimum amount of variable consideration (nor was there a specification on when the amount should be zero). This tentative decision was found critiqued by many actors. For instance, Bayer (2013) explained that variable considerations, within the form of sales-based royalties, have significant impact on the revenue line for their type of company, i.e. a company within the pharmaceutical industry. Contracts in their industry, in general, they explained, are profit split arrangements between early developers of a substance and acquirers which has greater financial resources and capacity for further development. Contracts like these could take many years (even a decade) before being resolved, and there is always a chance that the project, which the contract encompasses, gets halted. Thereby, Bayer (2013) argued, it would be inappropriate to record any form av potential value arising from this time of transaction *at the time of entering* into a sales-based royalty arrangement. The uncertainty at the time of recognition would be extremely high, and the recognition of a minimum amount would be very judgmental.

The former was not only the opinion of Bayer (2013), but was seconded by Novartis (2013), La Roche (2013), and GlaxoSmith (2013). Sanofi (2013) was also found to be fully aligned with these comment letters, but noted that this topic was not an industry-specific topic. All actors explained that recognizing revenue in advance, in the manner explained above, was inconsistent with the underlying economics of the transactions and implies a degree of certainty regarding the future, which does not exist. This would, in other words, result in financial reports which do not reflect economic reality.

Related to the effective standard, it looks like IASB was responsive to the aforementioned critique regarding the sales-based royalty promise in exchange for a licence of intellectual property. In the effective standard's application guidance, it states that an entity should only recognize revenue as the subsequent sale or usage occurs and the performance obligation has been satisfied or partially satisfied (IFRS 15, paragraph B63). This change, we interpret, is more likely to reflect the economics of the underlying transactions, as the aforementioned issues with previous (tentative) proposal, seemed to be solved for. Thereby, it also seems like the actors´ aforementioned critique was accommodated. Regarding the application guidance for licensing, and FEI's (2013) feedback, the effective standard has clarified that an entity should consider the requirements related to identifying performance obligations before determining when a licence transfer to a customer (IFRS 15, paragraph B52-62). The reasoning for that, we found, was probably that, when a licence is not distinct, the company should recognize revenue when the bundle is transferred to the customer. If a licence was distinct, however, then the timing aspect has to be considered - which the effective standard seemingly does (IFRS 15, paragraph B56). As a result, it seems like the risk for overlap with identifying separate performance obligations, which FEI (2013) raised concerns about, has been mitigated. Lastly, the effective standard did include some (similar) indicators that FEI (2013) had suggested, for determining the nature of the licence, although not all of them. Also, the objective of the application guidance as proposed by FEI (2013) was not re-drafted.

4.2.3 Customer credit risk

As can be seen in table 2, the tentative changes made for paragraphs 68 and 69 were to reaffirm previous proposals. This would mean that revenue would be measured at the amount of consideration to which the entity is entitled, excluding adjustment for customer credit risk. Additionally, the revenue recognized would not be subject to a collectability threshold (Staff paper, 2013). Thereby the actors' request, under section 4.1.3 of adding a collectability threshold that must be passed before revenue can be recognized, was found neglected in the tentative changes. However, the decision to reaffirm previous proposals, and neglect actors request of a collectability threshold to provide for a more faithful representation, must not necessarily be harmful for the proposed standard's ability to reflect economic reality. The latter can be strengthened by AASB (2012), who after the latest published feedback summary (i.e. before issuance of the effective standard) raised significant concerns regarding the request of a re-introduction of a collectability threshold. According to the AASB (2012), a re-introduction of a collectability threshold for revenue would "be inconsistent with the core principle of the

proposed model that an entity should recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services" (AASB, 2012 p.1).

Interesting to note however under this section, when comparing the proposals for tentative changes, as well as the additional raised concerns by AASB, to the effective standard of IFRS 15, is that a collectability threshold has been added, despite previous suggestions for tentative changes, as well as AASB's dissuasion. In the effective standard, the threshold is set in such a way that it must be *probable* that an entity will collect the consideration from the customer to which it will be entitled via the exchange of goods or services that will be transferred to the customer (IFRS 15, paragraph 9e). The decision of re-introducing a collectability threshold in the effective standard, as requested by a few actors before the proposals for tentative changes, could be seen as an additional example of Chastney et al.'s (referenced in Walton, 1993) argument that the concept of true and fair view, which poses as one of the ground pillars for an appropriate reflection of economic reality, mainly is defined by current accounting practice. Based on the findings, it may be that IASB re-evaluated the potential risk of not including a threshold, since more actors seemingly found it satisfactory for the reflection of economic reality. As explained by Zeff (1978), accounting reports have economic consequences as it influences different interest parties. Thereby, if revenue were to be presented on a gross basis, without a clear link to impairments, there would potentially be a risk that interest parties would not assess the quality of revenue appropriately, which could lead to faulty decisions. Hereby, by accepting the perception of proponents that it would facilitate the assessment of transactions where risks have not adequately transferred to the customer, the potential risk of recognizing revenue inaccurately, which in turn affects interest parties, is reduced.

4.2.4 Time value of money

Regarding the raised concerns identified under section 4.1.4, relating to time value of money, it was found (as seen in table 3) that the factors in paragraph 59, of the assessment whether a financing component is significant to a contract, were clarified in the proposals for tentative change. Also, it was clarified that interest income from a contract including a significant financing component can be presented as revenue. Moreover, a clarification to the practical expedient was added, explaining that it additionally should apply for contracts with a duration of greater than one year, if the period between performance and payment of performance is equal to, or less than one year (Staff paper, 2013).

However, similar to the other core areas that were identified as troublesome for the reflection of economic reality, the proposals for tentative change within the area of time value of money, before issuance of the effective standard, were argued by some as unclear and insufficient. For instance, it was found that FEI (2013), before issuance, still was concerned over the previous issue raised about the practicality of determining whether a contract has a significant financing component or not. In order to further simplify, it was therefore recommended that it ought to be clarified that a significant financing component is not expected to be common in most contracts with customers. As opposed to the proposals for tentative change, it could be required that an entity *not* should account for time value of money in a contract with customers, unless it is readily apparent that a significant financing component is negotiated between the parties entering the contract. Additionally, it was further proposed that a financing component could only be significant if: "(a) the amount of consideration promised in the contract differs significantly from what the cash selling price would be if the customer paid cash at the time of transfer of the promised goods or services, and (b) the difference is due primarily to the intended purpose of financing rather than another purpose, for example the convenience of a customer prepayment or the mitigation of the risk of the counterparty failing to perform their contractual obligations"(FEI, 2013 p.4).

Comparing to the effective standard, some similarities with the previously stated paragraphs, including the tentative amendments, remains. For example, some of the indicators for determining whether a contract contains a financing component and whether it is significant, are similar or identical. The effective standard also included the criterion "[...] customer paid for the goods or services in advance and the timing of the transfer of those goods or services is

at the discretion of the customer" (IFRS 15, paragraph 62a p.A758) to determine whether a contract would *not* have a significant financing component. However, it was also found that a lot in the section differed from the initial proposal, including the tentative changes made subsequently. For instance, the objective of "adjusting for time value" was separated into its own paragraph. The wording was also a bit different in the objective, as well as in the explanation of when an entity shall adjust the promised amount of consideration for effects of time value. These amendments seem to be refinements more than anything else, however. But, refinements have the potential to clarify previous misunderstandings, and should thus not be undermined.

Furthermore, in the effective standard, it was clarified that "[a] significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract" (IFRS 15, paragraph 60 p.A758). In addition, a paragraph which contains factors that indicate whether a contract does not has a significant financing component - which was not included in previous proposals was also added. In that paragraph, it was stated, among other things, that a difference between the promised consideration and cash selling price can arise for reasons *other* than financing (IFRS 15, paragraph 62c). This was one of the critiques previously (see section 4.1.4), which now seems to have been resolved, something that could be depicted as positive for the reflection of economic reality. Moreover, relating back to FEI's (2013) concern in determining whether a contract has a significant financing component (which echoed previous feedback), it seems to have been taken into consideration given the aforementioned changes in the effective standard.

On the other hand, regarding FEI's (2013) recommendations that the standard should clarify that "a significant financing component is not expected to be common in most contracts with customers" and that "an entity should not account for time value of money in a contract with customers, unless it is readily apparent that a significant financing component is negotiated between the parties entering the contract", seem to have been disregarded. The standard states that "[a] significant financing component may exist [*regardless*] of whether the promise of financing is it explicitly stated in the contract or implied [...]" (IFRS 15, paragraph 60 p.A758). The implication of that seems to be minor, though, due to the amendments mentioned above. And if you consider the first recommendation by FEI (2013), you could potentially argue that it has been indirectly resolved by those amendments. As for the two additional proposals for

assessing whether a financing component is significant, they have been accommodated, although not limited to only those two suggestions.

5. Conclusion and further research

In this chapter, the study's research question is answered and broadly discussed. The chapter highlights the most important parts from chapter four, in answering our research question and in trying to serve the purpose of this study. Thereafter, the limitations of this study are presented and suggestions are made for further research.

5.1 Conclusion

As noted in section 1.1, depending on the underlying intentions of the development of a new accounting standard, economic reality might become sacrificed. Not the least, since it is an increasingly complex process for the standard-setter to reach a delicate balancing of technical considerations (e.g. comparability and consistency) and the adverse economic and social consequences that might follow the proposed actions (Zeff, 1978). The purpose of this study has been to critically evaluate the newly issued revenue recognition standard's ability to reflect economic reality. However, as mentioned in the knowledge gap, as there seemingly have existed diverse perceptions, both in theory and practice, of what best reflects economic reality, as well as a non-unified understanding of central accounting concepts such as true and fair view and economic substance over legal form (Hines, 1988; Walton, 1993; Alexander, 1993; Baker & Hayes, 1998; Ciocan, 2019), different actors wide-spread perceptions of the proposals´ (for IFRS 15) ability to reflect economic reality have been examined, and then compared to how it has been accommodated by the IASB, both during the development and in the effective standard, in order to draw some kind of conclusion of IFRS 15 ability to reflect economic reality. The reason for this approach is due to the fact that different actors have played a central role in the development of the standard, as well as the depiction of economic reality is described as contingent on accounting practices (Hines, 1988).

Overall, the empirical material in this study has shown that the four most distinguishable areas of critique, relating to the reflection of economic reality in the proposals for IFRS 15, were performance obligations, constraining the cumulative amount of revenue recognized, customer credit risk, and time value of money. Also, repurchase agreements and combination of contracts were considered to be equally important areas of critique, despite their discreteness compared to the four more extensive areas. Although these were five different areas of critique, with differences in content, they shared two similarities in the characteristic of the feedback they received. In several cases, the proposals were permeated with both/either interpretational issues

or from an inappropriate amount of needed “assessment and judgment” in applying the standard as proposed. This imposed a threat for the reflection of economic reality, as an increased confusion, without clear guidance of how to interpret the proposals, might lead to new opportunities for manipulation and hence hinder the “objectivness” of accounting.

By examining how IASB has accommodated the different perceptions of economic reality within the areas identified as troublesome, it could be found that certain areas were questioned up until the issuance of the effective standard, whereas others were resolved more easily during the development process. For instance, areas such as combination of contracts, repurchase agreements, variable consideration and onerous test of performance obligations satisfied over time, that initially were depicted as troublesome, seemed to be areas were actors and IASB, in general, were aligned after the proposals for tentative change. On the other hand, areas such as identification of performance obligations, constraining cumulatitative revenue, licences and rights to use (part of the area constraining the cumulative amount), customer credit risk and time value of money, were much debated and characterized by actors having different perceptions of how the standard should be constructed and how it best can purport economic reality.

In this study, IASB has seemingly been attentive, to some degree, to all the areas of feedback identified, and made either direct or indirect tentative proposals as a response. In some cases, as noted earlier, the alignment between actors was more noticeable. But in other cases, it was not. When the perceptions of economic reality seemed to differ between actors, e.g. in contract combinations or application guidance for licencing and rights to use, IASB sought in most cases to find a middle ground. But in other instances, as with e.g. customer credit risk (collectability threshold) or licences and rights to use (sales-based royalty after exc. of paragraph 85), IASB decided to either defy what was being suggested from different actors, or re-considered and included/adjusted what was demanded. The fact that a collectability threshold was added in the effective standard (see section 4.2.3), after firstly been decided to exclude according to the tentative proposals, is perceived as indicative of the delicate balance between technical considerations and the economic consequences the suggested actions has (Zeff, 1978). There was a general agreement among actors about the previous proposals concerning this area, but nevertheless IASB reconsidered its proposal of no threshold, to subsequently include a threshold in the effective standard. This decision could be depicted as an indication of IASB’s consideration of economic consequences, and could also be understood

as an example of Chastney et al.'s (referenced in Walton, 1993) argument that the concept of true and fair view, which poses as one of the ground pillars for an appropriate reflection of economic reality, mainly is defined by current accounting practice.

Moreover, it was also clear that paragraphs and application guidance that were deemed too rules-based by actors were heavily amended or excluded in its entirety (e.g. paragraph 85 and its appurtenant application guidance). However, this would not come as an surprise as too rules-based criteria, generally is atypical for IFRS and also poses for dysfunctional financial reporting behavior (Agoglia et al., 2011; Psaros and Trotman, 2004; Benson et al., 2006).

Altogether, the findings in this study have shown the complexity in consolidating different perceptions of economic reality into a uniform standard. Different types of actors, from different countries, as well as IASB itself, seem to not always be aligned, as presented above, and is subsequently indicative of the difficulty in satisfyingly construct a coherent standard. Different degrees of accommodations seemed to have been prevalent during the development process, and in some instances, IASB decided on its own to make a decision, not in line with some of the actors. Furthermore, it is also believed that this study is indicative of the difficulty of understanding what the meaning is of accounting concepts such as economic substance and fair presentation, (presented in chapter 3). In some cases in the empirical material, it did not seem be a question of terminology per se, but a question of e.g. what the underlying substance of a transaction actually *is*. This is something that strengthens Meyer's (1976) argument that it could be a matter and degree of opinion, including different perceptions, in different circumstances, when determining what the economic substance is.

Given that accounting for economic reality is a philosophical problem and a subset of a wider social reality constructed by humans (Lee, 2006), it is, however, difficult to determine IFRS 15 ability to reflect economic reality. But, based on the findings, IASB has, seemingly, done a good job in consolidating different perceptions of economic reality to construct a standard that provides for information to be represented faithfully. This could indicate that economic reality would be reflected to a, more or less, sufficient degree, since it has not been disregarded in any significant or obvious way as a concept. On the other hand, economic reality is highly dependent on perceptions, and is frequently a subject of change. Thereby, what is agreed upon in present time, must not necessarily be the case in the future. As described by Hines (1988, p.252), "[h]aving the full picture - a true and fair view of something - depends on people

deciding that they have the full picture”. In other words, there are unknown unknowns, which could become prevalent, subsequent to the implementation of IFRS 15, that potentially would be detrimental for the reflection of economic reality.

5.2 Limitations

Although, this study has offered a unique perspective on the development process of IFRS 15 and accounting concepts, certain limitations will exist and will subsequently determine how the results could be interpreted and/or used in other studies. This study has relied on feedback that has been obviously related to the depiction of economic reality, and thus a specific set of areas in the new revenue recognition standard, IFRS 15. But, there could be other relevant areas in the new standard, that was not captured in this study due to not being commented on or being commented on, but not relating to economic reality. Moreover, as noted above, this study does not capture the actors´ perceptions subsequent to the implementation of the effective standard, IFRS 15, which could have revealed new issues relating to economic reality. These limitations should be considered before any inferences are made based on the study’s results.

5.3 Further research

As concluded earlier, what is depicted as optimal for the reflection of economic reality in the present time, must not necessarily be the case in the future. As the most recent material that has been available regarding actors perception of economic reality is right before issuance, it would be interesting to further evaluate the standard, perhaps with a backdrop in the post-implementation review that is set to be issued in the near future, subsequent its implementation. Also, a more comprehensive study could be conducted by examining how different types of contracts have been affected by the implementation of the IFRS 15, and what that has meant for the presentation of accounting information. Furthermore, studies could also be conducted, similar to this one, covering other development processes of standards and how different perceptions of economic reality have been accommodated.

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Appendix

Appendix 1. Sample test of comment letters summarized in feedback summary (May, 2012)

Area	Actors	General feedback
Performance obligations	Barnad. P (January, 2012) RELATED (January, 2012) Accounting Standards Board of Japan (March, 2012) Barclays (March. 2012) Dell (March, 2012) EADS (March, 2012) Ebay (March, 2012) Grant Thornton International (March, 2012) Kenichi Akiba (March, 2012) KEPPEL CORPORATION LIMITED (March, 2012) Infosys Technologies. Combination of contracts, (March, 2012) Manish Jajodia (March, 2012) MTN GROUP LIMITED (March, 2012) National Accounting Standards Board of Russia (March, 2012) Nestle S.A (March, 2012) Redhat (March, 2012) Reznick group (March, 2012) RSM International (March, 2012) Textron Inc (March, 2012) The Danish Assurance Institution (March, 2012) The Volkswagen Group (March, 2012) The World Bank (March, 2012) Wales Audit office (March, 2012) Wells Fargo and Company (March, 2012) Connor Group (April, 2012) International Organisation of Securities Commissions (April, 2012) London Society of Chartered Accountants (April, 2012) The Hundred Group (April, 2012)	Actor were sceptical to the idea of performing an onerous test at performance level - should be at contract level or higher. Some of them though that the test should be excluded, whereas others though it could be revised and part of the new standard. Difficulty in assessing "alternative use" when determining whether a performance obligation is satisfied over time and revenue can be Many actors were unsure of the proposals for how to an entity should bundle goods or services into one performance obligation, or if they should be distinct from each other (i.e. several performance obligations). Especially for certain contracts.
Constraining cumulative revenue	Barclays (March. 2012) Capital Group Companies (March, 2012) Chrysler Group (March, 2012). Deutsche Bank (March, 2012) EADS (March, 2012) Grant Thornton International (March, 2012) KEPPEL CORPORATION LIMITED (March, 2012) Manish Jajodia (March, 2012) National Accounting Standards Board of Russia (March, 2012) Qualcomm (March, 2012) RSM International (March, 2012) SanDisk Corporation (March, 2012) The Danish Assurance Institution (March, 2012) The Volkswagen Group (March, 2012) The World Bank (March, 2012) Wales Audit office (March, 2012) American Express (April, 2012) Connor Group (April, 2012) The Hundred Group (April, 2012)	The terms "reasonably assured" was argued to be loosely defined, confusing, and ambiguous. Applying the constraint, as proposed, to performance-based fees, yields inadequate results that will not represent the underlying economics. The indicators for determining whether an experience is predictive or not, was considered to be inadequate and needed to be revised/to add additional indicators. Paragraph 85 was considered by some to be too rules based.

Customer credit risk	RELATED (January, 2012) Parent bread (February, 2012) Deutsche Bank (March, 2012) EADS (March, 2012) Ebay (March, 2012) Grant Thornton International (March, 2012) KEPPEL CORPORATION LIMITED (March, 2012) Reznick group (March, 2012) Connor Group (April, 2012)	Most of the actors seemed to agree with the proposal of reporting revenue separate from impairment losses. However, many did not agree with the proposal of reporting impairment losses adjacent to revenue as it would potentially be misleading.
Time value of money	Chrysler Group (March, 2012) Grant Thornton International (March, 2012) Dell (March, 2012) EADS (March, 2012) LIMITED (March, 2012) International Business KEPPEL CORPORATION Machines (March, 2012) Connor Group (April, 2012)	There was general agreement about the underlying intention of the proposal. But, actors argued that current proposal was somewhat ambiguous in terms of determining when a contract has a significant financing component. Also, some types of business contracts, actors argued, were more difficult to apply the time-value of money proposal to.
Miscellaneous		
Repurchase agreements	Chrysler Group (March, 2012).	"We believe that the Proposed Standard would require different revenue recognition for economically similar transactions where a manufacturer sells a vehicle to a commercial customer for use during a specified period and the manufacturer either agrees to pay the difference between the resale price and a guaranteed value, or pays the guaranteed value in exchange for the return of the vehicle, which is then resold" (Chrysler Group, 2012 p.4).
Combination of contracts	Wells Fargo and Company (March, 2012)	"The proposed guidance related to customer loyalty programs may inappropriately alter the timing of recognition and presentation of interchange revenue" (Well Fargo and Company, 2012, p.1)

Source: IFRS. (2020). Revised Exposure Draft and comment letters - Revenue from Contracts with Customers.