THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 21, ISSUE 2(34), 2021

REVENUE DISCLOSURES IN FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS 15 „REVENUE FROM CONTRACTS WITH CUSTOMERS"

Nicolai JIERI
"Ştefan cel Mare" University of Suceava, Romania
jierinicolai@gmail.com

Simona-Maria TANASĂ (BRÎNZARU)
"Ştefan cel Mare" University of Suceava, Romania
tanasa_simona19@yahoo.com

Veronica GROSU
"Ştefan cel Mare" University of Suceava, Romania
veronica.grosu@usm.ro

Svetlana MIHAILĂ
Academy of Economic Studies of Moldova, Republic of Moldova
sv_mihaila@yahoo.com

Received 15 June 2021; Accepted 25 November 2021

Abstract:

Each economic entity is entitled and, at the same time, obliged to monitor its assets that are exposed to a series of flows, which directly contribute to the achievement of the primary objective - profit generation. Financial statements are the basic element that diagnoses the state of economic "health" of an entity, respectively that this assessment is correct, accurate and transparent - those responsible for preparing financial statements must comply with certain rules, instructions, policies, so that this report to generate maximum utility to users, such as shareholders, investors, society, state, etc. In the context of reporting entities in accordance with International Financial Reporting Standards, it is important to note that there is both a general standard for the preparation and presentation of financial statements and identifiable information on the minimum required to disclose specific areas depending on the nature of the economic element. IFRS 15 "Revenue from Contracts with Customers" is a relatively new standard and comes with radical provisions for some industries, in terms of revenue recognition-assessment and details on revenue disclosure in the integrated set of financial statements, both on the side of the Profit and Loss Statements, as well as in separate notes intended strictly for income.

Key words: principles, reporting, information disclosure, standards, revenue.

JEL classification: M40, M41.

I. INTRODUCTION

Revenue and its financial-accounting bookkeeping shall be significant for at least the following reasons:

a) is a homogeneous instrument for measuring the entity's performance;
b) is the key element reported by all entities;
c) serves as a central focus area for auditors and regulators.

One of the most current and significant topics in the context of IFRS for reporting entities is the implementation of IFRS 15 "Revenues from Contracts with Customers".

In addition to the requirements for recognition, measurement of revenue according to the mentioned standard, notable changes were also made on the disclosure side of the financial statements, hence the basic objective of the research - to emphasize the most significant aspects of reporting in the financial statements, but also to give some examples, so as to ensure the facilitation of the way in which revenue is detailed in the financial statements.

The research represents a correlation between quantitative and qualitative aspects, therefore they are outlined by the need to detail the revenue to obtain the maximum utility from the financial statements, but also the involvement of delimitation criteria, which come as a correlation connecting the economic nature of revenue and values made of them.

The purpose of the presentation of financial information obligation is for the company to provide relevant information to the stakeholders which might be in statements of profit and loss, in cash flows and of course in the notes of the financial statements, all this information spread along company's financial statements is very useful in taking the decisions, therefore it should be transparent, reasonable, relevant at least.

A company is entailed to present, beside other streams of incomes, revenue recognized from contracts with customers — which means source of incomes within the scope of the standard — and any impairment losses recognized on receivables or contractual assets arising from contracts with customers. If a company chooses either the practical expediency of not adjusting the transaction price for a significant financing component or the practical expedient of not capitalizing the costs incurred in obtaining a contract, then the entity disclose that fact.

The company is not required to disclose revenue under IFRS 15 in a separate line in the profit or loss statement, this stream of revenue might be presented separately with others sources of incomes, but the company should do it in other disclosures, ie notes of financial statements, in the end the company has choice where to present the revenues under IFRS 15, it is important to do somewhere in financial statements.

The standard includes disclosure requirements regarding the disaggregation of revenue, contractual balances, performance obligations, significant judgments, and assets recognized for obtaining or fulfilling a contract, which is also highlighted in the figure below:

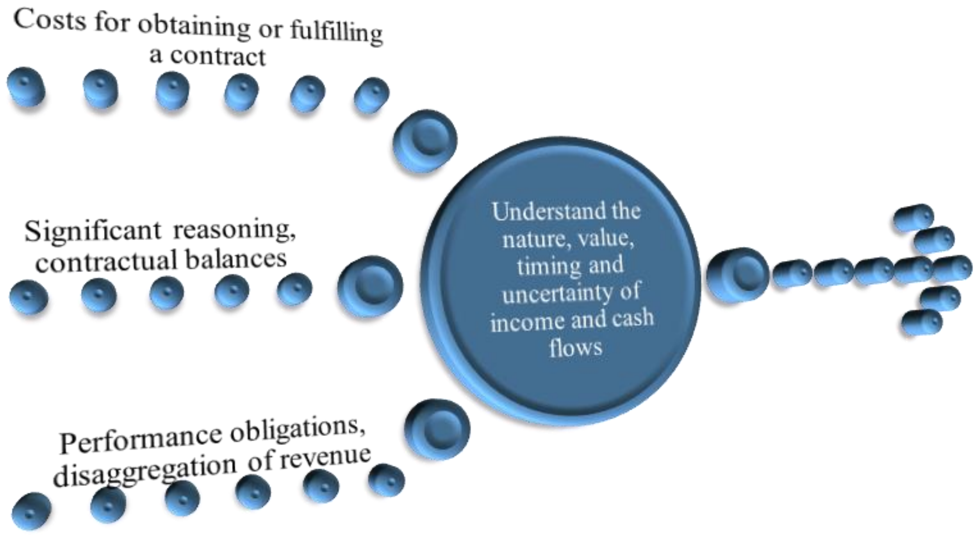

Figure 1. Basic elements in revenue presentation in the financial statements
Source: Elaborated by the author

We all know that the utility of financial information is crucial, the most valuable report is still financial statements. The needs of stakeholders regarding the financial information of a company depends from a case to case, for example for the investors would be important to understand and identify the streams of revenues clearly, the financial institutions instead, would be very interested in the cash inflows from revenues, where sometimes could be difficult to lead, because the revenue recognition has a complex approach to be recorded in accounting and the process of transformation of revenue in cash might be very laborious, and maybe involvement of financial specialist would be needed with appropriate knowledge not only in financial, but also in the industry where the company operates, because from the past knowledge we are sure that revenue recognition under IFRS 15 could have distinct behavior in several industries.

In the following, the author will undergo some of the elements mentioned in figure 1, being exemplified to facilitate the implementation process for those responsible.

II. REVENUE DISAGGREGATION

When disclosing revenue in the financial statements, economic entities must apply a set of criteria according to their activities, like those in Figure 2:

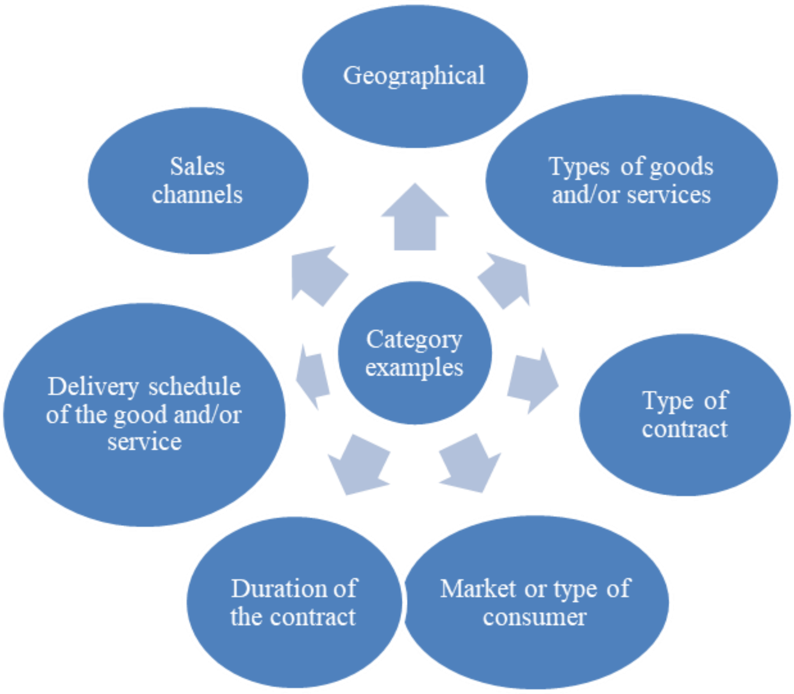

Figure 2. Criteria for revenue presentation in the financial statements
Source: Elaborated by the author

It should be mentioned that the disclosure of revenue in the financial statements does not have a clear structure, it varies depending on the company profile and the needs of information users.

A company also reveals the relationship between disaggregated revenue and segment disclosures of the entity. In electing the structure of presentation, a company is taking into consideration how revenues are divided into:

a. presentations besides the financial statements: e.g. profit and loss statement, annual deliverables, or reports for investors;

b. disclosures which are prepared specifically for management decision-making process, usually these are internal reports and must be performed in line with management's needs;

c. other disclosures using the same base information as for reports mentioned above, which are at stakeholders availability for analysis and making decisions.

In the following, the author will exemplify how to disaggregate revenue according to the profile of the economic entity.

Situation no. 1
ALFA PLC presents the following streams in its financial statements: manufacturing goods, logistics, and energy. When ALFA PLC performes its presentations for investors, it divides revenue on primary geographic markets, major product lines, and the time of revenue recognition - ie the separation of goods transferred at a given time and services transferred over time.

Based on its analysis, ALFA PLC determines that the categories used in the investor presentations can be used for the disclosure requirement. The following table illustrates the disaggregation of the primary geographic market, the main product line, and the revenue recognition schedule. It includes a reconciliation showing how disaggregated revenue relate to the consumer, logistics, and energy product segments. An example of a revenue disclosure for that entity is presented in the table below:

Table no.1. Revenue disclosure in the financial statements of ALFA PLC

mil EUR

Section	Manufacturing goods	Logistics	Energy	TOTAL
Primary markets				
EUROPE	570	2,100	3,400	**6,070**
ASIA	320	450	370	**1,140**
NORTH AMERICA	290	310	-	**600**
TOTAL	**1,180**	**2,860**	**3,770**	**7,810**
The main types of goods/services				
Office supplies	380			**380**
Appliances	550			**550**
Clothing	250			**250**
Motorcycles		730		**730**
Cars		2,130		**2,130**
Solar panels			1,230	**1,230**
Power plants			2,540	**2,540**
TOTAL	**1,180**	**2,860**	**3,770**	**7,810**
Revenue recognition calendar				
Goods delivered at a given time	1,180	2,860	1,100	**5,140**
Services delivered for a period			2,670	**2,670**
TOTAL	**1,180**	**2,860**	**3,770**	**7,810**

Source: Elaborated by the author

It is very important to notice that the IFRS 15 and its amendments from its appearance and subsequently is providing several example of disclosures of revenue recognized under IFRS 15, however the company itself is in position to decide about the type of disclosures of revenues in financial statements. In standards there is always specified the minimum mandatory disclosures, but it doesn’t say how deep the company should go, it of course depends of profile of the company and categories of stakeholders which are users of the set of financial statements.

Aggregation and disaggregation of information in the financial statements are both available as a concept. But most likely to be used is disaggregation, because the entity aims to record accounting facts using less common criteria, meaning that if it is operational revenue, then it will be recorded under the same group of accounts, it will be very rare when operational revenue will be divided at the level of records in accounting because it will be time consuming and of course more expensive in terms of costs of accounting. Instead, as a process, after all accounting records are performed the financial department would extract all the data and will try grouping by several criteria, which could be regional sales, using also information from sales department, type of incomes, where again could be used information from other related departments as sales, technical, logistical and so on. The disclosures of revenues are more then accounting records, it will always involve non accounting staff, but which hold the critical information regarding streams of activity of company.

We should keep in mind that there are not maximum disclosure which could be done in terms of revenues, the IFRS 15 is offering only the minimum required, but taking into consideration that nowadays the business is very distinctive from one to other, the industry knowledge is required in financial department. The financial statements are not only numbers, its are also the mirror of company's activity which help to put the numbers on the right place, giving the possibility to stakeholders to read the company's profile, financial position, financial performance at the several levels of aggregation, further taking the decisions.

III. THE NEED TO DISCLOSE CONTRACTUAL CLAUSES

An entity is required to disclose the following:

- opening and closing balances of contract assets, contractual liabilities and receivables from contracts with customers (unless otherwise disclosed or disclosed);
- the amount of revenue recognized in the current period that was included in the balance of the liabilities of the opening contract;
- the amount of income recognized in the current period from the performance obligations fulfilled (or partially fulfilled) in the previous periods: e.g. changes in the transaction price;
- an explanation of how the entity's contracts and typical payment terms will affect its balances of contractual assets and liabilities; and
- an explanation of significant changes in the balances of contractual assets and liabilities, which should include both qualitative and quantitative information, such as:
  - ✓ changes arising from business combinations;
  - ✓ cumulative adjustments to recover revenue (and the corresponding contractual balance) resulting from a change in the measure of progress, a change in the estimate of the transaction price or a change in the contract;
  - ✓ depreciation of a contractual asset; or
  - ✓ a change in the time frame for a right consideration to become unconditional (reclassified to a claim) or for an obligation to be fulfilled (recognition of income arising from a contractual debt)

The need to disclose information in financial statements comes from their usefulness to information users. If the entity's revenue is recognized and presented in accordance with IFRS 15, then its applicability derives from the notion of „contract", the author pointed out in previous research the essential elements of compliance of the revenue accounting policy under the new standard [1]. Regarding the disclosure of the contractual clauses, the author comes up with an example that relates to the necessity of disclosing the change in the transaction price. To disclose the amount of revenue recognized in the current period that relates to performance obligations that were fulfilled (or partially fulfilled) in a previous period, as well as cumulative revenue recovery adjustments affecting the corresponding contractual asset or liability, it is possible that the entity needs to monitor separately the effects of changes in the transaction price.

Situation no. 2

For example, the same entity ALFA PLC concludes a contract containing a single performance obligation that is fulfilled over time. The contract price includes 3,000 fixed considerations plus up to 1,000 variable considerations based on manufacturing objectives. At the end of year 1, the contract is completed by 40%, and ALFA PLC estimates that the total variable value will be 400. At the end of year 2, the contract is 95% completed, and ALFA estimates that the total variable value will be 1,100.

1. After the first year of activity, the entity ALFA PLC recognizes (40% of the complete contract):

***** *Estimated value of the contract >>>*

- The fixed part - 3.000 considerations

- The variable part - 1.000 considerations
TOTAL- 4.000 considerations

** Revenue recognized after the first year >>>*
- The fixed part - 1.350 considerations (3.000 x 40%)
- The variable part - 400 considerations (1.000 x 40%)
TOTAL- 1.750 considerations

2. After the second year of activity, the entity ALFA PLC recognizes (95% of the complete contract):
******* *Estimated value of the contract >>>*
- The fixed part - 3.000 considerations
- The variable part - 1.100 considerations
TOTAL- 4.000 considerations

** Cumulative revenue for two years>>>*
- The fixed part - 2.850 considerations (3.000 x 95%)
- The variable part - 1.045 considerations (1.100 x 95%)
TOTAL- 3.895 considerations

** Decrease with recognized revenue in the first year >>>*
- The fixed part - (1.350) considerations
- The variable part - (400) considerations
TOTAL- (1.750) considerations

** Revenue recognized in the second year >>>*
- The fixed part - 1.500 considerations (2.850 – 1.350)
- The variable part - 645 considerations (1.045 - 400)
TOTAL- 2.145 considerations

In the financial statements for year 2, ALFA PLC presents the number of revenue recognized in year 2 as a result of the change in the transaction price. As the transaction price increased by 100 (1,100 - 1,000) and the contract was completed by 40% at the end of year 1, the amount to be presented as revenue recognized in the reporting period from a performance obligation partially fulfilled in a previous period is of 40 (100 × 40%).

IV. PERFORMANCE OBLIGATIONS

An entity shall provide the following information about its performance obligations (IFRS 15 "Revenue from Contracts with Customers"):

- when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service) including when performance obligations are satisfied in a billand-hold arrangement significant payment conditions: e.g. if the contract has a significant financing component, the equivalent value is variable and the variable equivalent value is constrained;
- significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained;
- obligations for returns, refunds and other similar obligations;
- types of guarantees and related obligations; and
- the total amount of the transaction price allocated to performance obligations that are unmet (or partially unsatisfied) at the reporting date.

The entity shall also provide either a quantitative explanation (using time bands) or a qualitative explanation of when that amount is expected to be recognized as income.

As a practical instrument, an entity is not required to disclose the transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations if:

- the contract has an expected initial duration of one year or less;
- the entity applies the practical revenue recognition opportunity to the amount to which it has the right to invoice, which corresponds directly to the value for the customer of the performance of the entity completed so far - e.g. a service contract in which the entity invoices a fixed hourly amount.

The entity also discloses whether it applies the practical opportunity and whether any consideration in contracts with customers is not included in the transaction price - e.g. if the amount is limited and therefore not included in the presentation.

II. CONCLUSIONS

The purpose of the article is to come up with a vision for disclosing income in the financial statements. In addition to key reports like Balance Sheet, Profit and Loss Account, etc., an entity must present detailed values of either financial position or performance under another structure so that the needs of information users are met. IFRS 15 "Revenue from Contracts with Customers" came with both revenue recognition principles and certain revenue disclosure cases.

This article has highlighted the most common criteria for disclosing revenue, but it is clearly not limited to them. From the situations presented by the author derives the advantage of presenting the disaggregated revenue, which is absolutely of interest to potential investors, financial institutions, management, etc. In addition to revenue disclosure requirements, the standard also suggests possible exceptions. The companies are very distinctive nowadays, and being from the same industry, and having the same core activity, the detailed business operations could be very different from each to other, for example if the two companies with the same business have different incoterms conditions, then disclosures of revenues could have distinctive approach, if the market is external, internal, then again disclosures would look differently. So, we should keep in mind that the set of IFRS financial statements are prepared not only based on standards, but also company's profile, the management is in place to decide the extent of disclosures in order to meet the stakeholders expectations.

BIBLIOGRAPHY

1. Article „Necesitatea implementării IFRS 15 "Venituri din contracte cu clienţii" si prevederile-cheie ale acestuia", authors: Veronica Grosu, Svetlana Mihaila, Nicolai Jieri, published in Collections of Scientific Articles at the conference INTEGRAREA EUROPEANĂ: ASPECTE ECONOMICO-JURIDICE
2. „IFRS 15- Illustrative Disclousres ", Available on: https://home.kpmg/xx/en/home/services/audit/international-financial-reporting-standards/ifrs-illustrative-financial-statements/ifrs15-revenue.html
3. „IFRS 15 Revenue Disclosures Examples". Available on: https://annualreporting.info/ifrs-15-revenue-disclosures-examples/
4. „IFRS 15: Disclosure". Available on: https://ifrscommunity.com/knowledge-base/ifrs-15-disclosure/
5. IFRS 15 "Revenue from Contracts with Customers". Available on: https://www.iasplus.com/en/standards/ifrs/ifrs15;
6. International Financial Reporting Standards. Available on: https://www.ifrs.org/;
7. Revenue from Contracts with Customers. A guide to IFRS 15. Available on: https://www.iasplus.com/en/publications/global/guides/a-guide-to-ifrs-15/file