

# IFRS 15: Impact in the Italian Listed Telecommunications Companies

Mattei, G.<sup>1\*</sup>; Paoloni, N.<sup>2</sup>;

<sup>1</sup>Business Studies Department, Roma Tre University

Via Silvio D'Amico 77, Rome, 00145, Italy. [giorgia.mattei@uniroma3.it](mailto:giorgia.mattei@uniroma3.it)

<sup>2</sup>Engineering Department, Roma Tre University

Via Vito Volterra 62, Rome, 00146, Italy. [niccolo.paoloni@uniroma3.it](mailto:niccolo.paoloni@uniroma3.it)

## Abstract

Considering that both revenues are an ideal component to examine as it is the largest earnings component for firms and that from 1st January 2018 became mandatory adopt IFRS 15 that discipline “revenues from contracts with clients” is interesting to understand if Italian listed companies provide information about the potential impact of this new standard. The present study focuses the attention to the telecommunications industry that is considered one of the most involved by the adoption of IFRS 15.

The methodology used to carry out the research is a content analysis.

In line with the expectations of authors, the study concludes that in the Italian Telecommunications listed companies exist a direct correlation between the potential impact of IFRS 15 and the quantity and quality information provide in the annual reports elaborated for the two years prior to adopting the new standard.

**Keywords:** Telecommunications companies, Disclosures, IFRS 15, Stakeholder theory; revenues

## Introduction

From 1 January 2018, all entities IFRSs adopter, have to start to use a new standard, as IFRS 15, “Revenue from contracts with customers”.

This principle it is considered as ones of the most important standard elaborate since rewrite the accounting rules for recognition and measurement of an item that is present in the financial statement of all company, regardless of the sector in which it operates. Revenues are considered as an ideal component to examine as it is the largest earnings component for most firms (Stubben, 2010).

Moreover, revenues are considered an important measure of an entity’s performance because they are used both by investors and from others to make the decision about investments (Tong, 2014). The impact of the adoption of IFRS may have a significant effect on the financial statements of many entities as the amount of revenues and contract costs and/or the timing of their recognition may differ significantly from current practice, considering also, that this standard require some of

the additional disclosures<sup>1</sup>. Furthermore, at the same time, some regulators stressed the importance of entities to provide information in the disclosures about indications and expectations that can get off from the adoption of IFRS 15.

Looking at the indications provided in the Public Statement “Issues for consideration in implementing IFRS 15 Revenue from Contracts with Customers”, published in 20 July 2016 from ESMA<sup>2</sup>, the present study is aimed to verify if, in the annual financial report elaborated for 2016 and 2017, the companies including in the sample have provided a minimum level of information, if they gave more than require or if they didn't consider these guidelines. To do this analysis it was decided to consider only the Telecommunications Italian listed companies because, as it is already asserted by the “Big-Four<sup>3</sup>”, the entities that are considered inside this industry will be more impacted by the implementation of the new principles than others, so it can be assumed that these companies have given more attention than others to this topic.

The methodology used to carry out this research it was a content analysis.

Thanks to the findings of the analysis it will be possible to confirm or deny the hypothesis that consider the Telecommunications companies more sensitive to the issue of the introduction of the new IFRS 15 because they will undergo a major change from the adoption of the new accounting principle.

Henceforth, the paper is organized as follows. Section 2 discusses the concepts of provisions contained in IFRS 15. Section 3 explains the methodological issues. Section 4 presents the evidences derived from the content analysis. Section 5 concludes with final reflections and lesson learned.

## **Background**

### **Summary of IFRS 15**

The new standard is designed to improve globally the financial reporting of revenue, which previously often resulted in different financial accounting for economically similar revenue transactions under IFRS and GAAP (Bloom & Kamm, 2014).

The aim of the IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contracts with a customer (IFRS 15:1).

To achieve the objective, an entity has to recognize the revenues from the contracts with clients to depict the transfer of promised goods or services to customers at an amount that reflects the expectation of the entity in exchange for those goods or services (IFRS 15:2).

By introducing the IFRS 15, the determination of revenue requires an estimate procedure, which in turn requires an evaluation of different components that may not bot always be simple to identify and measurable (Holzmann & Munter, 2015; Bianchi & Ballarin, 2016). When applying

---

<sup>1</sup>[http://www.ey.com/Publication/vwLUAssets/IFRS\\_Developments,\\_Issue\\_126:\\_Are\\_you\\_ready\\_to\\_quantify\\_the\\_effect\\_of\\_adopting\\_IFRS\\_15/\\$File/Devel126-Revrec-disclosure-survey-May2017.pdf](http://www.ey.com/Publication/vwLUAssets/IFRS_Developments,_Issue_126:_Are_you_ready_to_quantify_the_effect_of_adopting_IFRS_15/$File/Devel126-Revrec-disclosure-survey-May2017.pdf)

<sup>2</sup> European Securities and Markets Authority

<sup>3</sup> DELOITTE <https://www.iasplus.com/en/publications/global/guides/a-guide-to-ifs-15/file>

PWC <https://www.pwc.com/us/en/cfodirect/publications/in-depth/revenue-606-implementation-communications-industry.html>

KPMG <https://home.kpmg.com/content/dam/kpmg/xx/pdf/2016/09/revenue-for-telecoms-issues-in-depth-2016.pdf>

EY <https://www.ey.com/Publication/vwLUAssets/ey-the-new-revenue-recognition-standard-telecommunications/%24FILE/ey-the-new-revenue-recognition-standard-telecommunications.pdf>

this new standard, an entity shall consider the terms of the contract and all relevant facts and circumstances. It is possible to apply the IFRS 15 considering the similar characteristics and in similar circumstances (IFRS 15:3). The focus is to different contracts with similar features: the entity may, therefore, treat the portfolio as a single contract provided that the effects deriving from this choice do not differ substantially from the effects that would arise in case of separate treatment of the contracts in the portfolio.

The IFRS 15 came into force on the 1 January 2018 and replaced IAS 11 - Customs works; IAS 18 - Revenues; IFRIC 13 - Customer loyalty programs; IFRIC 15 - Agreements for the construction of buildings; IFRIC 18 - Sales of business by customers; SIC 31 - Revenues - Barter transactions including advertising services. Those contracts whose accounting treatment is governed by other standards are excluded.

An entity is required to follow the five main steps, as:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations;
5. Recognize revenue when (or as) the entity satisfies a performance obligation (Munter, 2016).

This IFRS 15 applies contract-based revenue reporting as contrast to other IFRSs, such as IAS 41 Agriculture which is activity-based income reporting.

Another essential feature of this new IFRS is the concept of “performance obligation<sup>4</sup>” embodied in a contract with a customer to provide goods and services in exchange for consideration (Lim et al., 2015).

The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. When determining the transaction price, an entity shall consider the effects of all of the following: variable consideration; constraining estimates of variable consideration; the existence of a significant financing component in the contract; non-cash consideration and consideration payable to a customer. The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis (with some limited exceptions related to allocating of discounts and allocating consideration that includes variable amounts).

With reference to the Telecommunications industries is possible to analyze the steps for each one.

### **IFRS 15 applied at Telecommunication’s companies**

In order for a contract to be defined in scope, it must be stipulated with a customer who, in return for payment, receives goods or services as the result of the entity’s ordinary activity. All the contracts that provide for the exchange (including onerous exchange) of assets deriving from the extraordinary activity of the company (e.g. sale of assets) will not be regulated by IFRS 15, and the contract may even be partially included in the IFRS 15, providing both the service and the supply of equipment. Regarding the Telecommunication’s companies, it is important highlight that IFRS 15 could have a strong impact regarding (Ballarin, 2017):

---

<sup>4</sup> A performance obligation is defined as “a promise in a contract with a customer to transfer a good or service to the customer”.

- The identification of different components that are inside the same contract;
- The treatment of a contract that provides for the right of withdrawal;
- Management of contractual changes;
- The capitalization of costs support to obtain the contract;
- The adjustments to take into account the time value of money.

In the following looks at the practical application of the standard using five steps<sup>5</sup> model of IFRS 15 revenue recognition with special attention to telecommunications industry.

#### Step 1 Identify contracts with customers

The new standard provides for the existence of the contract if this is legally enforceable, i.e. if all the following criteria are met:

- obtaining payment is considered probable;
- the goods and services and payment terms are identifiable;
- there is commercial substance;
- is approved and the parties have agreed to fulfill the related obligations.

#### Step 2 Identification of performance obligations

At this stage the entity must define whether the goods and services provided represent separate performance obligations (Ballarin, 2017). The most offered goods and services are: equipment (e.g. wireless devices, modems, routers, tablets, etc.); wired services (pay per view services, premium or basic services); internet services; wireless services; fixed telephone services; installation and activation of devices; support service; various incentives (gift cards, free goods or services); guarantees.

#### Step 3 Setting the transaction price

The peculiarities of the contractual terms imply special attention in determining the price of the transaction. In particular, the contract may implicitly or explicitly provide that the customer commits to the purchase of at least a minimum level of service or a minimum level of payments, which cannot be reduced except through the payment of penalties.

Along with the services offer, at the beginning of the contract the entity often provides additional devices or services at a discounted price.

Furthermore, during the contract, the customer may request extras (e.g. additional gigabytes) by paying a higher price than the contract minimum.

Therefore the problem of the actual price of the transaction arises. In this sense two approaches can be recognized:

- the contractual minimum: the transaction price is equal to the contractual minimum and the rights to obtain additional services, at a higher price than the contractual minimum, are considered as options that provide a material right, therefore the selling price is used. This method involves fewer implications when and if the client subsequently decides to opt for the minimum contract.
- the contractual services. The price of the transaction is equal to the price of the services initially subscribed by the customer. Any subsequent changes will be accounted for as contractual changes. However, this method involves greater implications in the event that the customer later decides to opt for the minimum contract.

<sup>5</sup> PWC <https://inform.pwc.com/?action=informContent&id=1449262206139404>

DELOITTE <https://www2.deloitte.com/content/dam/Deloitte/in/Documents/technology-media-telecommunications/in-tmt-telecommunications-spotlight-noexp.pdf>

KPMG <https://home.kpmg.com/content/dam/kpmg/pdf/2016/05/IFRS-practice-issues-revenue.pdf>

EY <https://www.ey.com/Publication/vwLUAssets/EY-revenue-from-contracts-with-customers/%24FILE/EY-revenue-from-contracts-with-customers.pdf>

#### Step 4: Allocation of the transaction price to the performance obligations

At the start of the contract the entity must estimate the stand-alone price for each performance obligation. To make this estimate, the entity must first check whether there is an observable price on the market for that good / service, otherwise proceed to estimate the price (the principle does not specify that the price must be reliably estimated).

In this sector most of the prices of goods and services are observable on the market, therefore the problem of their estimation would not arise (this is especially true for devices). It is also possible to observe different prices on the market by consumer category (e.g. customer or company) or by geographical location of the customer.

#### Step 5: recognition of revenues

According to the new principle, the moment of revenues recognition could change: as with the percentage of completion contracts, where it could be deferred to the time of completion of the task (for example for the construction of networks or facilities destined to become owned by the customer); while with other contracts the exact opposite could happen (the recognition of the revenues could happen over time).

### **Methodology**

Among the Italian listed companies, those belonging to the telecommunications sector were selected.

Between all industries, the choice to analyze the telecommunications companies arise from the considerations done by the Big-Four; in fact, these, in the study carried out in relation to the forecast of the impact that IFRS 15 will have in the various sectors, are unanimous in considering that telecommunications will be subject to greater changes than the others<sup>6</sup>.

The methodology used for this work is a content analysis, defines by some scholars (i.e. Krippendorff, 1983:37) as «[...] a research technique for making replicable and valid inference from texts to the context in which they are used». Other scholars (see, i.e. Berelson, 1952) defines content analysis as a research technique used to provide a systematic and quantitative objective description of the content of a communication. Following both definitions, a content analysis approach has been used in the present work by authors.

In the Italian stock exchange, there are 7 companies that belong to the telecommunications industries. For each of these, it was analyzed the disclosure contained in the annual reports elaborated for the years 2016 and 2017 and each annual report was found on the website of the company.

As it is suggest from the literature (Carney, 1971; Lindeman, 1983), after having made this first step concerning the choice of the sample and the type of document to be analyzed, it is necessary to move on to the second phase concerning the choice of the measuring unit to determine the space

---

6

- a) KPMG (2016, May), "Revenue - Issues in depth", available at [www.kpmg.com](http://www.kpmg.com).
- b) Ernst & Young (2016, April), "Revenue from contracts with customers, A summary of IFRS 15 and its effects", available at [www.ey.com](http://www.ey.com).
- c) In this case the papers of each sector were analyzed and the relative judgment was taken from the analysis of each. The key element to arrive at the aforesaid judgment was the level of risk of error associated with the steps of the IFRS 15 model.
- d) PriceWaterhouseCoopers (2014, June), "IFRS 15: implementation challenges", available at from [www.pwc.com](http://www.pwc.com).

occupied in the document by each informative category. About this, in the present work it was decided to use “word” as the measuring unit.

The third step concern the choice of the informative categories within which to trace the information sought in the text. To help the authors to identify the informative categories, it was used the considerations raised from ESMA publication. In fact, after identifying the information category, which is "Information about IFRS 15", were identified the information' sub-categories, determined in relation to the different years analyzed (2016 and 2017). That are:

1. companies provided relevant and specific information in relation to the project for the implementation of IFRS 15 in 2016;
2. companies have progressively provided more relevant and specific information as the IFRS 15 implementation project progresses (2017).

Considering that the information contained in the disclosure is a complex multi-faceted concept (Beattie et al., 2004), the information was analyzed in two different ways that are (Teodori & Veneziani, 2013): i) expression methods; ii) time.

Regarding the first point (expression methods) it was decided to distinguish the information between qualitative or narrative and quantitative.

Regarding the second point (nature of information) it was decided to identify the information that discuss about the actual situation differentiating that by others that trait the possible future impact for the companies.

In the following paragraph are show the findings generated by the analysis carried out.

### **Findings**

With the content analysis, it is possible to find that 86,70% of the sample discuss IFRS 15 both on 2016 and 2017. This means that only one company (Vetrya SpA) out of seven does not deal with it. All of the companies that debate about this new standard (Deutsche Telekom AG, Orange SA, Retelit SpA, Telecom Italia SpA, Telefonica SA and Tiscali SpA) talk about it only in terms of quality in 2016; in 2017, 4 out of 6 (Deutsche Telekom AG, Orange SA, Retelit SpA, Telefonica SA) also provide information about the quantitative aspect. Even if 66.67% of the companies belonging to the sample provided, in 2017, to give quantitative information, the number of words reserved for this last aspect is still not relevant. In fact, out of a total of words dedicated to IFRS 15 used by the companies of the sample equal to 4.924, only 12.50% (i.e. 616 words) explains in quantitative terms the adoption of the new principle, while the remaining 87.5% of the words used (i.e. 4.308 words) narratively discuss this issue. It is important to highlight that, on the total 616 words used to discuss IFRS 15 in quantitative terms, 396 (64,30%) they have been used by a single company, which is Deutsche Telekom AG.

This shows how with the approach of the mandatory adoption of the new accounting standard, companies give greater importance to the information to be provided in the disclosures.

To confirm this, another element that has been analyzed, that is, it was observed if the companies provided the greater relevance and greater detail of the information provided. Regarding this, all companies that are inside the sample have provided more and greater detail information in 2017 than in 2016.

Furthermore, in 2016 all companies spoke about the new principle in a paragraph of the disclosure, in 2017 Deutsche Telekom AG deals with this topic in two paragraphs.

## Conclusions, limitations and future projects

After the study carried out it is possible to conclude that the Italian listed companies belonging to the Telecommunications sector, in general, have shown attention to the new accounting standard IFRS 15 which is obligatorily adopted by the IFRS' compliant companies from 1 January 2018. This result is in line with the expectations of authors because, as it is already speech, Telecommunications will be one of the industries that will be impacted more than other form the IFRS 15 adoption, considering the specific of typology of contracts stipulated in this sector.

So the hypothesis that started from the consideration that the telecommunications companies would provide information even before using IFRS 15 because they are part of one of the industries that will be most affected by its adoption, is verified.

Analyzing the annual reports of the years 2016 and 2017 publicly available, it is noted that, with the exception of one out of seven companies in the sample, all provide information on the new accounting standard.

Taking, again, the recommendations provided by ESMA, it is also noted that with the approach of the new principle coming into force, companies have given greater importance and provided a greater detail to the information on the new standard.

The information that can be found in the documents is, in all the cases analyzed, more detailed from a qualitative point of view with respect to the quantitative aspect.

This shows that no Italian listed company belonging to the indigent sector has tried to voluntarily apply the accounting principle in advance of the mandatory adoption date; conversely, companies that had done so could also quantify the impact that IFRS 15 has on the financial statements of individual companies.

This is a preliminary study and have some limits. For example, the intention of the authors is to do the same analyses considering others industries to verify if this item could be considered one of the drivers that determine the quality and quantitative information provided by the companies about the adoption of IFRS 15. If this could be verifiable, it will be also possible to assert that there will be some sectors where the new accounting principle will influence more than others.

The next years we will understand if the entities will have the same impact that they estimated.

## References

- Stubben, S. R. (2010). Discretionary revenues as a measure of earnings management. *The accounting review*, 85(2), 695-717.
- Tong, T. L. (2014). A Review of IFRS 15 Revenue from Contracts with Customers.
- Khamis, A. M. (2016). Perception of Preparers and Auditors on New Revenue Recognition Standard (IFRS 15): Evidence From Egypt. *Jurnal Dinamika Akuntansi dan Bisnis*, 3(2), 1-18.
- Steele, C. A. (2012). The Convergence Of Us Gaap And Ifrs: Revenue Recognition. *Honors Theses*, 1- 87.
- Bohusova, H. & Nerudova, D. (2009). Us Gaap And Ifrs Convergence In The Area Of Revenue. *Economics & Management*, Retrieved March 2, 12- 19.
- ESMA (2017). Report, Enforcement and Regulatory Activities of Accounting Enforcers in 2017.
- Bloom, R., & Kamm, J. (2014). Revenue recognition: how we got here and where it will take us. *Financial Executive*, 30(3), 48-53.

- Holzmann, O. J., & Munter, P. (2015). Challenges in Achieving Convergence Between US GAAP and IFRS—The Case of the Revenue Recognition Standard. *Journal of Corporate Accounting & Finance*, 26(6), 101-106.
- Bianchi, S. & Ballarin, F. (2016). IFRS 15: la transizione al nuovo standard. *Amministrazione & Finanza*, 8(9), 17-23.
- Munter P., (2016). The New Revenue Recognition Standard: Implications for Healthcare Companies. *Management Accounting*, Vol.17, N. 2
- Lim, Y., Devi, S. S., & Mahzan, N. (2015). Perception of Auditors and Preparers on IFRS 15: Evidence from Malaysia. *Advanced Science Letters*, 21(6), 1781-1785.
- Ballarin F. (2017). IFRS 15: implicazioni per gli operatori nelle telecomunicazioni. *Amministrazione & Finanza*, 17, 7-11
- Krippendorff, K. (1983). *Analisi del contenuto: Introduzione metodologica*. ERI.
- Berelson, B. (1952). *Content Analysis in Communications Research*. New York: Hafner.
- Carney, T. F. (1971). Content analysis: A review essay. In *Historical Methods Newsletter*, 4(2), 52-61.
- Lindenmann, W. K. (1983). Content analysis: A resurgent communication research technique that represents a wave of the future: The move toward a second dimension of interpretation and analysis. *Public Relations Journal*, 24-27.
- Beattie, V., McInnes, B., & Fearnley, S. (2004, September). A methodology for analysing and evaluating narratives in annual reports: a comprehensive descriptive profile and metrics for disclosure quality attributes. In *Accounting forum* (Vol. 28, No. 3, pp. 205-236). Elsevier.
- Teodori, C., Veneziani M. (2013). *L'evoluzione della disclosure nella sezione narrativa: l'impatto dei principi contabili internazionali e del processo di armonizzazione*, Giappichelli, Torino.